GROUPE MTY GROUP

Management's Discussion and Analysis
For the three-months ended February 28, 2019

General

This Management's Discussion and Analysis of the financial position and financial performance ("MD&A") of MTY Food Group Inc. ("MTY") is supplementary information and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the period ended February 28, 2019 and the audited consolidated financial statements and accompanying notes for the fiscal year ended November 30, 2018.

In the MD&A, MTY Food Group Inc., MTY, or the Company, designates, as the case may be, MTY Food Group Inc. and its Subsidiaries, or MTY Food Group Inc., or one of its subsidiaries.

The disclosures and values in this MD&A, unless otherwise noted, were prepared in accordance with International Financial Reporting Standards (IFRS) and with current issued and adopted interpretations applied to fiscal years beginning on or after December 1, 2018.

This MD&A was prepared as of April 10, 2019. Supplementary information about MTY, including its latest annual and quarterly reports, and press releases, is available on SEDAR's website at www.sedar.com and on www.mtygroup.com.

Forward looking statements and use of estimates

This MD&A and, in particular, but without limitation, the sections of this MD&A entitled Outlook, Same-Store Sales, Contingent Liabilities and Subsequent Event, contain forward-looking statements. These forward-looking statements include, but are not limited to, statements relating to certain aspects of the business outlook of the Company during the course of 2019. Forward-looking statements also include any other statements that do not refer to independently verifiable historical facts. A statement made is forward-looking when it uses what is known and expected today to make a statement about the future. Forward-looking statements may include words such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target and will. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as at April 10, 2019 and, accordingly, are subject to change after such date. Except as may be required by Canadian securities laws, the Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Forward-looking statements, by their very nature, are subject to inherent risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results or events could differ materially from the expectations expressed in or implied by such forward-looking statements and that the business outlook, objectives, plans and strategic priorities may not be achieved. As a result, the Company cannot guarantee that any forward-looking statement will materialize and readers are cautioned not to place undue reliance on these forward-looking statements. Forward-looking statements are provided in this MD&A for the purpose of giving information about management's current strategic priorities, expectations and plans and allowing investors and others to get a better understanding of the business outlook and operating environment. Readers are cautioned, however, that such information may not be appropriate for other purposes.

Forward-looking statements made in this MD&A are based on a number of assumptions that are believed to be reasonable on April 10, 2019. Refer, in particular, to the section of this MD&A entitled Risks and Uncertainties for a description of certain key economic, market and operational assumptions the Company has used in making forward-looking statements contained in this MD&A. If the assumptions turn out to be inaccurate, the actual results could be materially different from what is expected.

In preparing the unaudited condensed interim consolidated financial statements in accordance with IFRS and the MD&A, management must exercise judgment when applying accounting policies and use assumptions and estimates that have an impact on the amounts of assets, liabilities, sales and expenses reported and information on contingent liabilities and contingent assets provided.

Unless otherwise indicated in this MD&A, the strategic priorities, business outlooks and assumptions described in the previous MD&A remain substantially unchanged.

Important risk factors that could cause actual results or events to differ materially from those expressed in or implied by the above-mentioned forward-looking statements and other forward-looking statements included in this MD&A include, but are not limited to: the intensity of competitive activity, and the resulting impact on the ability to attract customers' disposable income; the Company's ability to secure advantageous locations and renew existing leases at sustainable rates; the arrival of foreign concepts, the ability to attract new franchisees; changes in customer tastes, demographic trends and in the attractiveness of concepts, traffic patterns, occupancy cost and occupancy level of malls and office towers; general economic and financial market conditions, the level of consumer confidence and spending, and the demand for, and prices of, the products; the ability to implement strategies and plans in order to produce the expected benefits; events affecting the ability of third-party suppliers to provide essential products and services; labour availability and cost; stock market volatility; volatility in foreign exchange rates or borrowing rates; foodborne illness; operational constraints and the event of the occurrence of epidemics, pandemics and other health risks.

These and other risk factors that could cause actual results or events to differ materially from the expectations expressed in or implied by these forward-looking statements are discussed in this MD&A.

Readers are cautioned that the risks described above are not the only ones that could impact the Company. Additional risks and uncertainties not currently known or that are currently deemed to be immaterial may also have a material adverse effect on the business, financial condition or results of operations.

Except as otherwise indicated by the Company, forward-looking statements do not reflect the potential impact of any non-recurring or other special items or of any dispositions, monetizations, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after April 10, 2019. The financial impact of these transactions and non-recurring and other special items can be complex and depend on the facts particular to each of them. The Company therefore cannot describe the expected impact in a meaningful way or in the same way that present known risks affecting our business.

Compliance with International Financial Reporting Standards

Unless otherwise indicated, the financial information presented below, including tabular amounts, is prepared in accordance with International Financial Reporting Standards ("IFRS"). MTY uses earnings before interest, taxes, depreciation and amortization ("EBITDA"), because this measure enables management to assess the Company's operational performance.

The Company also discloses same-store sales growth, which are defined as comparative sales generated by stores that have been open for at least thirteen months or that have been acquired more than thirteen months ago. Same store sales growth provides information on the comparative performance of the restaurants in our network from one period to the next.

Similarly, the Company uses system sales to evaluate the size and performance of MTY's network, as well as to indicate its income-generation potential. System sales include the sales of existing restaurants, of the ones that have closed or have opened during the period, as well as the sales of new concepts acquired from the closing date of the transaction and forward.

These measures are widely accepted financial indicators but are not a measurement determined in accordance with IFRS and may not be comparable to those presented by other companies. These non-IFRS measures are intended to provide additional information about the performance of MTY and should not be considered in isolation or as a substitute for measure of performance prepared in accordance with IFRS.

The Company uses these measures to evaluate the performance of the business as they reflect its ongoing operations. Management believes that certain investors and analysts use EBITDA to measure a company's ability to meet payment obligations or as a common measurement to value companies in the industry. Similarly, same-store sales growth and system sales provide additional information to investors about the performance of the network that is not available under IFRS. Both measures are components in the determination of short-term incentive compensation for some employees.

Highlights of significant events during the three-month period

Acquisition of Casa Grecque

On December 10, 2018, the Company completed its acquisition of most of the assets of Casa Grecque for a total consideration of $22.0 million, of which $20.9 million was financed from MTY's cash on hand and existing credit facilities, while $0.2 million in net liabilities was assumed and $1.3 million was held back.

Restatement of comparatives

Effective December 1, 2018, the Company implemented IFRS 15, Revenue from contracts with customers. Comparative figures provided for each quarter of the year ended November 30, 2018 have been restated to reflect the adoption of this accounting standard. The adjustments to the condensed interim consolidated statements of financial position and income statement as a result of the adoption of IFRS 15 are discussed further in the *Changes in accounting policies* section.

Core business

MTY franchises and operates quick service and casual dining restaurants under the following banners: Tiki-Ming, Sukiyaki, La Crémière, Au Vieux Duluth Express, Panini Pizza Pasta, Villa Madina, Cultures, Thaï Express, Vanellis, Kim Chi, "TCBY", Sushi Shop, Koya Japan, Vie & Nam, Tandori, O'Burger, Tutti Frutti, Taco Time, Country Style, Buns Master, Valentine, Jugo Juice, Mr. Sub, Koryo Korean Barbeque, Mr. Souvlaki, Sushi Go, Mucho Burrito, Extreme Pita, PurBlendz, ThaïZone, Madisons New York Grill & Bar, Café Dépôt, Muffin Plus, Sushi-Man, Fabrika, Van Houtte, Manchu Wok, Wasabi Grill & Noodle, Tosto, Big Smoke Burger, Cold Stone Creamery, Blimpie, Surf City Squeeze, The Great Steak & Potato Company, NrGize Lifestyle Café, Samurai Sam's Teriyaki Grill, Frullati Café & Bakery, Rollerz, Johnnie`s New York Pizzeria, Ranch One, America's Taco Shop, Cereality, Tasti D-Lite, Planet Smoothie, Maui Wowi, Pinkberry, Baja Fresh Mexican Grill, La Salsa Fresh Mexican Grill, La Diperie, Steak Frites St-Paul, Giorgio Ristorante, The Works Gourmet Burger Bistro, Houston Avenue Bar & Grill and Industria Pizzeria + Bar, Dagwoods Sandwiches and Salads, The Counter Custom Burgers, Built Custom Burgers, Baton Rouge, Pizza Delight, Scores, Toujours Mikes, Ben & Florentine, Grabbagreen, Timothy's World Coffee, Mmmuffins, SweetFrog and Casa Grecque.

As at February 28, 2019, MTY had 5,941 locations in operation, of which 5,859 were franchised or under operator agreements and the remaining 82 locations were operated by MTY.

MTY's locations can be found in: i) mall and office tower food courts and shopping malls; ii) street front; and, iii) non-traditional format within airports, petroleum retailers, convenience stores, cinemas, amusement parks, in other venues or retailers shared sites, hospitals, universities and food-truck carts. The street front locations are mostly made up of the Country Style, La Crémière, Sushi Shop, Taco Time, Tutti Frutti, Valentine, Mr. Sub, ThaïZone, Extreme Pita, Mucho Burrito, Madisons, Houston Avenue Bar & Grill, Industria Pizzeria + Bar, Steak Frites St-Paul, Giorgio Ristorante, The Works Gourmet Burger Bistro, Blimpie, Cold Stone Creamery, Baja Fresh Mexican Grill, The Counter Custom Burgers, Built Custom Burgers, Baton Rouge, Scores, Pizza Delight, Toujours Mikes, Ben & Florentine and Grabbagreen. La Crémière, "TCBY", La Diperie and SweetFrog operate primarily from April to September and the other banners generally operate year-round.

MTY has developed several quick service restaurant concepts: Tiki-Ming (Chinese cuisine), was its first banner, followed by Sukiyaki (a Japanese delight), Franx Supreme (hot dog/hamburger), Panini Pizza Pasta, Chick'n'Chick, Caferama, Carrefour Oriental, Villa Madina, Kim Chi, Vie & Nam, Tandori, O'Burger and Tosto.

Other banners added through acquisitions include:

Brand	Acquisition year	% ownership	# of franchised locations	# of corporate locations
Fontaine Santé/Veggirama	1999	100%	18	—
La Crémière	2001	100%	71	3
Croissant Plus	2002	100%	18	2
Cultures	2003	100%	24	—
Thaï Express	May 2004	100%	6	—

Brand	Acquisition year	% ownership	# of franchised locations	# of corporate locations
Mrs. Vanelli's	June 2004	100%	103	—
TCBY – Canadian master franchise right	September 2005	100%	91	—
Yogen Früz™ exclusive master franchise rights in Canada[1]	April 2006	100%	152	—
Sushi Shop	September 2006	100%	42	5
Koya Japan	October 2006	100%	24	—
Sushi Shop – existing franchise locations	September 2007	100%	—	15
Tutti Frutti	September 2008	100%	29	—
Taco Time – Canadian master franchise rights	October 2008	100%	117	—
Country Style Food Services Holdings Inc.	May 2009	100%	475	5
Groupe Valentine inc.	September 2010	100%	86	9
Jugo Juice	August 2011	100%	134	2
Mr. Submarine	November 2011	100%	338	—
Koryo Korean BBQ	November 2011	100%	19	1
Mr. Souvlaki	September 2012	100%	14	—
SushiGo	June 2013	100%	3	2
Extreme Pita, PurBlendz and Mucho Burrito ("Extreme Brandz")	September 2013	100%	300 - 34 of which in the United States	5
ThaïZone	September 2013 March 2015	80% + 20%	25 and 3 mobile restaurants	—
Madisons	July 2014 September 2018	90% + 10%	14	—
Café Dépôt, Muffin Plus, Sushi-Man and Fabrika	October 2014	100%	88	13
Van Houtte Café Bistros – perpetual franchising license	November 2014	100%	51	1
Manchu Wok, Wasabi Grill & Noodle and SenseAsian	December 2014	100%	115	17
Big Smoke Burger	September 2015 September 2016	60% + 40%	13	4
Kahala Brands Ltd - Cold Stone Creamery, Blimpie, Taco Time, Surf City Squeeze, The Great Steak & Potato Company, NrGize Lifestyle Café, Samurai Sam's Teriyaki Grill, Frullati Café & Bakery, Rollerz, Johnnie`s New York Pizzeria, Ranch One, America's Taco Shop, Cereality, Tasti D-Lite, Planet Smoothie, Maui Wowi and Pinkberry	July 2016	100%	2,839	40
BF Acquisition Holdings, LLC – Baja Fresh Mexican Grill and La Salsa Fresh Mexican Grill	October 2016	100%	167	16
La Diperie	December 2016	60%	5	—
Steak Frites St-Paul and Giorgio Ristorante	May 2017 September 2018	83.25% + 9.25%	15	—

[1] The Yogen Früz™ exclusive master franchise rights in Canada were disposed of on February 1st, 2017.

Brand	Acquisition year	% ownership	# of franchised locations	# of corporate locations
The Works Gourmet Burger Bistro	June 2017	100%	23	4
Houston Avenue Bar & Grill and Industria Pizzeria + Bar	June 2017	80%	12	—
Dagwoods Sandwiches and Salads	September 2017	100%	20	2
The Counter Custom Burgers	December 2017	100%	36	3
Built Custom Burgers	December 2017	100%	5	—
Imvescor Restaurant Group - Baton Rouge, Pizza Delight, Scores, Toujours Mikes, and Ben & Florentine	March 2018	100%	253	8
Grabbagreen	March 2018	100%	26	1
Timothy's World Coffee and Mmmuffins - perpetual franchising license	April 2018	100%	32	7
SweetFrog Premium Frozen Yogurt	September 2018	100%	331	—
Casa Grecque	December 2018	100%	31	—

MTY also has an exclusive area development agreement with Restaurant Au Vieux Duluth to develop and sub-franchise Au Vieux Duluth Express quick-service restaurants in the Provinces of Ontario and Quebec.

Revenues from franchise locations are generated from royalty fees, promotional fund revenue, franchise fees, sales of turnkey projects, rent, sign rental, supplier contributions, gift card breakage and program fees and sales of other goods and services, including those generated by the distribution centres that serves primarily the Valentine and Casa Grecque franchisees. Operating expenses related to franchising include salaries, general and administrative costs associated with existing and new franchisees, expenses in the development of new markets, costs of setting up turnkey projects, rent, supplies, finished products and equipment sold.

Revenues from corporate-owned locations include sales generated from corporate-owned locations. Corporate owned location expenses include the costs incurred to operate corporate owned locations.

MTY generates revenues from the food processing businesses discussed herein. The two plants produce various products that range from ingredients and ready to eat food sold to restaurants or other food processing plants to prepared food sold in retail stores. The plants generate most of their revenues selling their products to distributors, retailers and franchisees. The Company also generates revenues from the sale of retail products under various brand names which are sold at various retailers.

MTY also has two distribution centers that generate revenues from distribution of goods primarily to Valentine and Casa Grecque franchisees.

Description of recent acquisitions

On December 10, 2018, the Company completed its acquisition of most of the assets of Casa Grecque for a total consideration of $22.0 million, of which $20.9 million was financed from MTY's cash on hand and existing credit facilities, while $0.2 million in net liabilities was assumed and $1.3 million was held back.

On September 25, 2018, the Company announced that it had completed the acquisition of substantially all of the assets of SweetFrog Premium Frozen Yogurt for $41.5 million (US$ 32.1 million). Of this total, $37.4 million (US$ 28.9 million) was paid on closing. At closing, there were 323 franchised/licensed locations in the US and 8 located internationally.

On September 7, 2018, the Company acquired the remaining 10% non-controlling interest of 8825726 Canada Inc. (Madison's) for a cash consideration of $1.1 million.

On April 4, 2018, one of the Company's wholly owned subsidiaries acquired the assets of Timothy's World Coffee® and Mmmuffins®. The total consideration amounted to $1.3 million, of which $1.2 million was paid on closing. At closing, there were 39 locations in operation in Canada.

On March 15, 2018, one of the Company's wholly owned subsidiaries acquired the assets of Grabbagreen®. The total consideration amounted to $3.4 million (US$ 2.6 million), of which $3.1 million (US$2.4 million) was paid on closing. At closing, there were 27 locations in operation in the United States.

On March 1, 2018, the Company, through the merger of a wholly owned subsidiary with Imvescor Restaurant Group Inc. ("IRG"), acquired all the outstanding shares of IRG. The total consideration for the transaction was $250.8 million, of which $53.1 million was settled in cash and the remaining in shares. At closing IRG operated 5 brands in Canada and had 261 locations in operation.

On December 1, 2017, the Company announced that it had completed the acquisition of the limited liability company interests in CB Franchise Systems LLC and Built Franchise Systems LLC. The purchase price was $30.0 million (US$ 23.5 million) of which $28.3 million (US$ 22.2 million) was settled in cash. At closing 41 franchised and 3 corporately owned restaurants were in operation. The network has locations in the United States of America, Canada, Ghana, Ireland, Japan, Mexico, Saudi Arabia and the United Kingdom.

Summary of quarterly financial information

	Quarters ended							
(in thousands $, except EPS)	**May 2017(2)**	**August 2017(2)**	**November 2017(2)**	**February 2018**	**May 2018**	**August 2018**	**November 2018**	**February 2019**
Revenue	$69,962	$72,372	$69,733	$75,489	$105,741	$106,691	$125,195	$107,297
EBITDA(1)	$24,595	$25,576	$27,219	$19,368	$35,502	$36,987	$32,994	$28,376
Net income attributable to owners	$16,033	$12,035	$19,424	$44,276	$17,955	$20,305	$13,240	$14,748
Total comprehensive income (loss) attributable to owners	$20,145	($14,344)	$29,138	$42,630	$22,378	$23,393	$21,007	$10,657
Earnings per share	$0.75	$0.56	$0.91	$2.07	$0.71	$0.81	$0.53	$0.59
Earnings per diluted share	$0.75	$0.56	$0.91	$2.07	$0.71	$0.82	$0.53	$0.58

(1) EBITDA (income before income taxes, interest, depreciation and amortization) is not an earnings measure recognized by IFRS and therefore may not be comparable to similar measures presented by other companies. EBITDA is defined as operating revenues less operating expenses. See reconciliation of EBITDA to Income before taxes on page 11.

(2) Figures have not been restated to reflect the adoption of IFRS 15. Refer to Changes in accounting policies for further details.

Segment note disclosure

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

Revenue

During the first three months of the 2019 fiscal year, the Company's total revenue increased to $107.3 million, from $75.5 million a year earlier. Revenues for the two segments of business are broken down as follows:

Segment	Subdivision	February 28, 2019 ($ millions)	February 28, 2018 [(1)] ($ millions)	Variation
Canada	Franchise operation	32.4	23.5	38%
	Corporate stores	7.6	5.9	30%
	Food processing, distribution and retail	21.5	5.3	308%
	Promotional funds	10.4	6.0	74%
	Intercompany transactions	(0.5)	(0.7)	N/A
Total Canada		71.4	40.0	79%
USA & International	Franchise operation	24.5	22.6	8%
	Corporate stores	3.7	5.8	(36%)
	Food processing, distribution and retail	1.1	0.8	30%
	Promotional funds	6.7	6.4	4%
	Intercompany transactions	(0.1)	(0.1)	N/A
Total USA/International		35.9	35.5	1%
Total operating revenues		**107.3**	**75.5**	**42%**

(1) Amount have been restated to reflect IFRS 15 retroactive change in accounting policies. Please refer to note 3 of the February 28, 2019 unaudited condensed interim consolidated financial statement for further details.

Canada revenue analysis:

As is shown in the table above, revenue from franchise locations in Canada increased by 38%. Several factors contributed to the variation, as listed below:

	$ millions
Revenues, first quarter of 2018	23.5
Increase in recurring revenue streams	0.4
Increase in initial franchise fees, renewal fees and transfer fees	0.2
Decrease in turnkey, sales of material to franchisees and rent revenues	(0.6)
Increase due to the acquisitions	8.4
Other non-material variations	0.5
Revenues, first quarter of 2019	32.4

Revenue from corporate-owned locations increased by 30% to $7.6 million during the period. The increase is mainly due to sales from the 8 corporate IRG restaurants acquired at the beginning of the second quarter of 2018.

Food processing, distribution and retail revenues tripled in 2019, mainly due to the acquisition of IRG which added over $11.2 million in retail sales as well as the acquisition of Casa Grecque where the combined distribution and food processing sales were $4.6 million.

Revenue from promotional funds received increased mostly as a result of the acquisition of IRG.

USA/International revenue analysis:

As is shown in the table in the previous page, revenue from franchise locations in the US increased by 8%. Several factors contributed to the variation, as listed below:

	$ millions
Revenues, first quarter of 2018	22.6
Increase in recurring revenue streams	0.3
Decrease in initial franchise fees, renewal fees and transfer fees	(0.1)
Decrease due to the sale of material and services to franchisees	(0.4)
Increase due to gift card breakage income	0.1
Increase due to acquisitions	1.1
Impact of variation in foreign exchange rates	1.2
Other non-material differences	(0.3)
Revenues, first quarter of 2019	24.5

Revenue from corporate-owned locations decreased by 36%, to $3.7 million during the period due to a decrease in the number of corporate locations.

Cost of sales and other operating expenses
During the three-month period ended February 28, 2019, operating expenses increased by 41% to $78.9 million, up from $56.1 million a year ago. Operating expenses for the two business segments were incurred as follows:

Segment	Subdivision	February 28, 2019 ($ millions)	February 28, 2018 ($ millions)	Variation
Canada	Franchise operation	15.3	10.6	45%
	Corporate stores	8.5	5.9	42%
	Food processing, distribution and retail	19.5	4.7	316%
	Promotional funds	10.4	6.0	74%
	Intercompany transactions	(0.6)	(0.8)	N/A
Total Canada		53.1	26.4	101%
USA & International	Franchise operation	14.7	15.6	(5%)
	Corporate stores	4.4	7.7	(43%)
	Promotional funds	6.7	6.4	4%
	Intercompany transactions	—	—	N/A
Total USA/International		25.8	29.7	(13%)
Total cost of sales and other operating expenses		**78.9**	**56.1**	**41%**

Canada cost of sales and other operating expenses analysis:

Expenses from franchise operations increased by $4.7 million or 45% when compared to first quarter of 2018. Excluding the impact from the acquisition of IRG and Casa Grecque, expenses from franchise operations decreased compared to the same period in 2018. The decrease results from a decrease in professional fees, lease termination costs, and rent and a decrease in the number of turnkey projects which fluctuated in line with the associated revenues.

The variation of expenses from the corporate stores and food processing, distribution and retail activities were both tightly correlated to the related revenues.

USA/International cost of sales and other operating expenses analysis:

During the three-month period ended February 28, 2019, the Company's expenses from US franchise operations decreased by $0.9 million or 5% when compared to the same period last year. The decrease predominantly results from a decrease in professional fees as well as royalties paid to master franchisees. The decrease in royalties paid is the result of the buy back of certain territories.

Corporate stores costs decreased 43% for the first quarter compared to the same period last year. The variation of expenses from the corporate stores was correlated to the related revenues.

Earnings before interest, taxes, depreciation and amortization (EBITDA)

Three-month period ended February 28, 2019			
(In millions $)	Canada	USA & International	Total
Revenues	71.4	35.9	107.3
Expenses	53.1	25.8	78.9
EBITDA[(1)]	18.3	10.1	28.4
EBITDA as a % of Revenue	26%	28%	26%

Three-month period ended February 28, 2018			
(In millions $)	Canada	USA & International	Total
Revenues	40.0	35.5	75.5
Expenses	26.4	29.7	56.1
EBITDA[(1)]	13.6	5.8	19.4
EBITDA as a % of Revenue	34%	16%	26%

[(1)] EBITDA (income before income taxes, interest, depreciation and amortization) is not an earnings measure recognized by IFRS and therefore may not be comparable to similar measures presented by other companies. EBITDA is defined as operating revenues less operating expenses. See reconciliation of EBITDA to Income before taxes on page 11.

Below is a summary of performance segmented by product/service:

Three-month period ended February 28, 2019						
(In millions $)	Franchise	Corporate	Processing, distribution and retail	Promotional funds	Intercompany transactions	Total
Revenues	56.9	11.3	22.6	17.1	(0.6)	107.3
Expenses	30.0	12.9	19.5	17.1	(0.6)	78.9
EBITDA[1]	26.9	(1.6)	3.1	—	—	28.4
EBITDA as a % of Revenue	47%	N/A	14%	N/A	N/A	26%

(In millions $)	Franchise	Corporate	Processing, distribution and retail	Promotional funds	Intercompany transactions	Total
	Three-month period ended February 28, 2018					
Revenues	46.1	11.7	6.1	12.4	(0.8)	75.5
Expenses	26.2	13.6	4.7	12.4	(0.8)	56.1
EBITDA[1]	19.9	(1.9)	1.4	—	—	19.4
EBITDA as a % of Revenue	43%	N/A	23%	N/A	N/A	26%

(1) EBITDA (income before income taxes, interest, depreciation and amortization) is not an earnings measure recognized by IFRS and therefore may not be comparable to similar measures presented by other companies. EBITDA is defined as operating revenues less operating expenses. See reconciliation of EBITDA to Income before taxes on page 11.

Several factors contributed to the variation, as listed below:

(In millions $)	Canada	USA & International	Total
EBITDA, first quarter of 2018	13.6	5.8	19.4
Increase in recurring revenue streams	0.4	0.3	0.7
Variance due to change in corporate store EBITDA	(0.9)	1.2	0.3
Variance in initial franchise fees, renewal fees and transfer fees	0.2	(0.1)	0.1
Increase due to the sale of material and services to franchisees	—	0.8	0.8
Increase due to acquisitions	5.7	1.1	6.8
Impact of variation in foreign exchange rates	—	0.6	0.6
Other non-material differences	(0.7)	0.4	(0.3)
EBITDA, first quarter of 2019	18.3	10.1	28.4

Total EBITDA for the three-month period ended February 28, 2019 was $28.4 million, an increase of 47% compared to the same period last year. Canada contributed 65% of total EBITDA and 53% of the total increase in EBITDA, mainly owing to the acquisitions realized in 2018. The acquisition of Imvescor Restaurant Group, which contributed $4.8 million of the growth in EBITDA, was the largest contributor.

The USA & International EBITDA grew by 74% mainly as a result of the 2018 acquisitions as well as the sale and closure of some unprofitable corporate stores. Foreign exchange fluctuations had minimal impact year over year.

Net income

For the three-month period ended February 28, 2019, net income attributable to owners decreased to $14.7 million or $0.59 per share ($0.58 per diluted share) compared to $44.3 million or $2.07 per share ($2.07 per diluted share) for the same period last year.

The results were favorably impacted last year as it was a recovery by an adjustment in the prospective income tax rate for the United States used to calculate the deferred income taxes in the first quarter of 2018. Excluding the impact of this non-recurring adjustment, net income attributable to owners would have been $8.8 million in 2018, or $0.41 per share ($0.41 per diluted share).

Calculation of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

(in thousands $)	**Period ended February 28, 2019**	**Period ended February 28, 2018**
Income before taxes	19,186	11,341
Depreciation – property, plant and equipment	739	536
Amortization – intangible assets	6,551	5,062
Interest on long-term debt	3,142	2,447
Unrealized and realized foreign exchange (gain) loss	(8)	40
Interest income	(165)	(145)
Gain on disposal of property, plant and equipment and intangible assets	(73)	(9)
(Gain) loss on revaluation of financial liabilities recorded at fair value through profit and loss	(996)	96
EBITDA	**28,376**	**19,368**

Other income and charges
Amortization of intangible assets increased as a result of the 2018 acquisitions and the intangibles added as part of the purchase price.

Contractual obligations and long-term debt

The obligations pertaining to the long-term debt and the minimum rentals for the leases that are not subleased are as follows:

For the period of *(In thousands $)*	Long-term debt[(1)]	Net lease commitments	Total contractual obligations
12 months ending February 2020	7,635	10,702	18,337
12 months ending February 2021	6,240	9,651	15,891
12 months ending February 2022	268,282	9,119	277,401
12 months ending February 2023	4,913	8,141	13,054
12 months ending February 2024	8	5,662	5,670
Balance of commitments due after 2024	22	21,143	21,165
	287,100	**64,418**	**351,518**

(1) Amounts shown represent the total amount payable at maturity and are therefore undiscounted. For total commitments, please refer to the February 28, 2019 unaudited condensed interim consolidated financial statements.

Long-term debt includes interest-bearing loans related to acquisitions, promissory notes, minority put options, non-interest-bearing holdbacks on acquisitions and non-interest-bearing contract cancellation fees.

Liquidity and capital resources

As of February 28, 2019, the amount held in cash totaled $40.4 million, an increase of $8.1 million since the end of the 2018 fiscal period. The increase is primarily explained by earnings from new acquisitions and timing of cash payments.

During the three-month period ended February 28, 2019, the Company paid $4.3 million in dividends to its shareholders. This had no significant impact on the cash position of the Company as a result of strong cash flows generated by operations.

During the first quarter of 2019, cash flows generated by operating activities were $26.8 million, compared to $13.7 million for the same period of 2018. Excluding the variation in non-cash working capital items, income taxes and interest paid, operations generated $28.7 million in cash flows, compared to $19.6 million in 2018, which represents an increase of 46% year over year. The increase is mostly due to the increase in EBITDA detailed above. Total operating cash flows represented 94% of EBITDA during the first quarter of 2019 versus 71% in 2018.

The revolving credit facility has an authorized amount of $500,000 (November 30, 2018 - $500,000), of which $264.7 million was drawn at February 28, 2019 (November 30, 2018 - $256.1 million).

The facility has the following financial covenants:

- The Debt to EBITDA ratio must be less than 3.00:1.00.
- The interest and rent coverage ratio must be at 2.00:1.00 at all times.

The credit agreement also contains various limitations on distributions and on the usage of the proceeds from the disposal of assets which are not expected to impact the Company during the term of the credit agreement.

The revolving facility is repayable without penalty with the balance due on the date of maturity July 21, 2021.

At quarter end, the Company was in compliance with the covenants of the credit agreement.

Financial position

Inventories increased from $4.0 million at the end of the 2018 fiscal year to $6.9 million at the end of the first quarter of 2019. The increase is due to the acquisition of Casa Grecque and its distribution and food processing center during the first quarter of 2019.

Intangible assets decreased by $10.9 million. The decrease is due to the quarterly amortization as well as an impact of foreign exchange variations.

Goodwill increased during the quarter by $16.9 million as a result of the acquisition of Casa Grecque. The Company has not completed its fair value assessment of the intangibles assets and goodwill acquired from this acquisition. Consequently, part of the fair value adjustments, mainly relating to franchise rights, trademark and deferred income tax, related to this acquisition are included in goodwill in the preliminary fair value assessment of the assets acquired.

Provisions, which are composed of litigation and dispute, closed store and gift card provisions, increased to $94.0 million as at February 28, 2019 from $90.0 million as at November 30, 2018. The increase is mainly due to the gift card liability which fluctuated as a result of the holiday period.

Long-term debt increased by $9.0 million. The increase is attributable to the additional funds required for the acquisition of Casa Grecque as well as its associated holdback. This was partially offset by repayments made during the quarter.

Further details on the above statement of financial position items can be found in the notes to the February 28, 2019 unaudited condensed interim consolidated financial statements.

Capital stock

As at April 10, 2019, the Company had 25,169,778 shares outstanding.

Location information

MTY's locations can be found in: i) food courts and shopping malls; ii) street front; and iii) non-traditional format within petroleum retailers, convenience stores, cinemas, amusement parks, in other venues or retailer shared sites, hospitals, universities and airports. The non-traditional locations are typically smaller in size, require lower investment and generate lower revenue than the shopping malls, food courts and street front locations.

	Number of locations	
	February 28, 2019	February 28, 2018
Franchises, beginning of the period	**5,919**	5,402
Corporate owned, beginning of period		
Canada	**42**	29
United States	**23**	38
Total, beginning of the period	**5,984**	5,469
Opened during the period	**60**	61
Closed during the period	**(134)**	(152)
Acquired during the period	**31**	44
Total, end of the period	**5,941**	5,422
Franchises, end of the period	**5,859**	5,343
Corporate owned, end of the period		
Canada	**59**	36
United States	**23**	43
Total, end of the period	**5,941**	5,422

Excluding the acquisition of Casa Grecque, the Company's network opened 60 locations (21 in Canada, 19 in the United States and 20 International) and closed 134 locations (34 in Canada, 82 in the United States and 18 International) during the first three months of 2019.

The net reduction of 74 results from a multitude of factors, which include landlords redeveloping their properties, competitive pressures, leases expiring, and closure of underperforming stores.

The Frozen Treats and Sandwiches and Coffee categories have contributed to the largest part of the decline; during the quarter the Sandwiches and Coffee category remained the most challenging with a net reduction of 28 while the Frozen Treats category had a negative 29 locations. The frozen Treats decline was mainly due to seasonality.

The chart below provides the breakdown of MTY's locations and system sales by type:

Location type	% of location count		% of system sales Three-month ended	
	February 28		**February 28**	
	2019	2018	**2019**	2018
Shopping mall & office tower food courts	22%	23%	23%	28%
Street front	56%	48%	64%	56%
Non-traditional format	22%	29%	13%	16%

The geographical breakdown of MTY's locations and system sales consists of:

Geographical location	% of location count		% of system sales Three-month ended	
	February 28		February 28	
	2019	2018	**2019**	2018
Ontario	15%	17%	14%	15%
Quebec & Eastern Canada	21%	18%	32%	20%
Western Canada	9%	10%	9%	11%
California	8%	8%	10%	13%
Rest of the United States	38%	38%	29%	33%
International	9%	9%	6%	8%

In the United States, only the state of California exceeds 10% of the total system sales. Florida is the second largest contributor to the network's sales with 4%.

The West Coast of the United States contributes 19% of the Company's system sales (47% of the sales realized in the United States), while the states bordering the Atlantic represent 12% of the Company's system sales (29% of the sales realized in the United States).

During the first quarter of 2019, casual dining concepts generated approximately 19% of system sales (up from 3% in 2018); this proportion has gone up following several acquisitions in the Casual Dining segment in the last two years. Recent acquisitions in the casual dining segment represent 17% of total sales. Quick Service locations currently represent 60% of the network's sales, down from 72% in 2018, and fast casual locations represent the balance.

System wide sales

During the three-month period ended February 28, 2019, MTY's network generated $687.8 million in sales, an increase of 27% compared to sales generated in the prior year. The increase is distributed as follows:

(millions of $)	Sales
Reported sales – first quarter of 2018	541.5
Net increase in sales generated by concepts acquired during the last 15 months	136.2
Net increase resulting from stores opened or closed in the last 15 months	3.9
Decrease in same store sales growth	(7.4)
Cumulative impact of foreign exchange variation	16.4
Other non-material variations	(2.8)
Reported sales – first quarter of 2019	687.8

During the first quarter of 2019, system sales totaled $687.8 million, compared to $541.5 million during 2018. The acquisitions realized during 2018 and 2019 were the main drivers for the growth in system sales. The weakening Canadian dollar resulted in a favorable variation of $16.4 million in reported sales, while the net impact of stores opened and closed in the past 15 months was a $7.5 million increase in system sales.

Cold Stone Creamery is the only concept that currently represents more than 10% of system sales, generating approximately 18% of the total sales of MTY's network during the period. Thai Express, Taco Time and Baja Fresh Mexican Grill are the second, third and fourth largest concepts in terms of system sales, generating less than 10% each of the network's sales.

System wide sales include sales for corporate and franchise locations and exclude sales realized by the distribution centers, by the food processing plants and by the retail division. System sales are converted from the currency in which they are generated into Canadian dollars for presentation purposes; they are therefore subject to variations in foreign exchange rates.

Same store sales

During the period ended February 28, 2019, same store sales decreased by 1.4% over the same period last year.

Same store sales growth was broken down as follows in MTY's main regions:

Region	Period ended February 28, 2019
Canada	+0.0%
United States	-2.3%
International	-9.2%
Total	-1.4%

During the first quarter of 2019, same store sales for Canadian locations increased slightly and has now been positive for the last six quarters. Ontario continues to show positive same store sales growth. British Columbia also continues on the momentum gained last year and posted positive results of over 8%. Alberta had a fourth consecutive positive same store sales quarter, while Saskatchewan saw a turnaround and gained momentum in 2019 with a slightly positive quarter.

The United States saw a major decline as a result of adverse weather. The West Coast, which represents 47% of total US system sales, suffered from extreme colds which resulted in a 4% decline. California saw the biggest drop in same store sales with over 5% year-over-year sales drop. This drop was partially offset by improvements in same store sales on the East Coast.

International same store sales decrease by 9.2% mostly as a result of decreases in the middle east and Asia.

During the first quarter of 2019, the concepts acquired in the Imvescor transaction posted a positive same store sales growth of 0.2%, led by Ben & Florentine and Mikes which posted strong performances. Those figures are excluded from the information presented above as MTY has not owned those networks for more than 12 months yet.

For 2019, management expects competition in both the Canadian and US markets to intensify further from a price, product, experience and delivery to end customer points of view. Restaurants are facing more and more competition for food dollars coming from various sources including retail stores "grab and go" and "meal kit deliveries" types of offering.

Although consumer confidence and the current economic environment seem favorable at the moment, volatility in the price of commodities and currencies have a very material impact on employment rates and disposable income for MTY's customers, resulting in uncertainty with respect to the future.

Stock options

During the period, there was no change to stock options. As at February 28, 2019 there were 200,000 options outstanding and none that are exercisable.

Subsequent Events

Acquisition of South St. Burger

On March 21, 2019, the Company announced that one of its wholly-owned subsidiaries has acquired most of the assets of South Street Burger for at total consideration of approximately $5.1 million. A total of approximately $4.1 million was paid on closing, financed from MTY's cash on hand and existing credit facilities, while $0.2 million in net liabilities was assumed and $0.8 million was held back.

Seasonality

Results of operations for any interim period are not necessarily indicative of the results of operations for the full year. The Company expects that seasonality will be a material factor in the quarterly variation of its results. During January and February sales are historically lower than average due to weather conditions. Sales are historically above average during May to August; given the addition of Cold Stone Creamery, which is now MTY's largest concept and which is also extremely seasonal, this pattern is expected to be more important in the future. This is generally as a result of higher traffic in the street front locations, higher sales from seasonal locations only operating during the summer months and higher sales from shopping centre locations. Sales for shopping mall locations are also higher than average in December during the holiday shopping period.

Contingent Liabilities

The Company is involved in legal claims associated with its current business activities. The Company's estimate of the outcome of these claims is disclosed in note 15 of the consolidated financial statements as at November 30, 2018 and no material change occurred in the first three months of 2019. The timing of the outflows, if any, is out of the control of the Company and is as a result undetermined at the moment.

Risks and uncertainties

Despite the fact that the Company has various numbers of concepts, diversified in type of locations and geographies across Canada and the United States, the performance of the Company is also influenced by changes in demographic trends, traffic patterns, occupancy level of malls and office towers and the type, number, and location of competing restaurants. In addition, factors such as innovation, increased food costs, labour and benefits costs, occupancy costs and the availability of experienced management and hourly employees may adversely affect the Company. Changing consumer preferences and discretionary spending patterns could oblige the Company to modify or discontinue concepts and/or menus and could result in a reduction of revenue and operating income. Even if the Company was able to compete successfully with other restaurant companies with similar concepts, it may be forced to make changes in one or more of its concepts in order to respond to changes in consumer tastes or dining patterns. If the Company changes a concept, it may lose additional customers who do not prefer the new concept and menu, and it may not be able to attract a sufficient new customer base to produce the revenue needed to make the concept profitable. Similarly, the Company may have different or additional competitors for its intended customers as a result of such a concept change and may not be able to successfully compete against such competitors. The Company's success also depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce customer traffic or impose practical limits on pricing, either of which could reduce revenue and operating income.

The growth of MTY is dependent on maintaining the current franchise system which is subject to the renewal of existing leases at sustainable rates, MTY's ability to continue to expand by obtaining acceptable store sites and lease terms, obtaining qualified franchisees, increasing comparable store sales and completing acquisitions. The time, energy and resources involved in the integration of the acquired businesses into the MTY system and culture could also have an impact on MTY's results.

Off-balance sheet arrangement

MTY has no off-balance sheet arrangements.

Related party transactions

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

Compensation of key management personnel

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

(In thousands $)	**February 28, 2019**	February 28, 2018
	$	$
Short-term benefits	**790**	384
Share based payment	**171**	155
Board member fees	**18**	12
Total remuneration of key management personnel	**979**	551

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

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

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

(In thousands $)	**February 28, 2019**	February 28, 2018
	$	$
Short-term benefits	**112**	184
Share based payment	**5**	8
Consulting services	**18**	—
Total remuneration of individuals related to key management personnel	**135**	192

Future accounting changes

A number of new standards, interpretations and amendments to existing standards were issued by the International Accounting Standard Board ("IASB") that are not yet effective for the period ended February 28, 2019, and have not been applied in preparing the unaudited condensed interim consolidated financial statements.

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

Standard	**Issue date**	**Effective date for the Company**	**Impact**
IFRS 3 Business Combinations	October 2018	December 1, 2020	In assessment
IFRS 16 Leases	January 2016	December 1, 2019	In assessment
IFRIC 23 Uncertainty Over Income Tax Treatments	June 2017	December 1 2019	In assessment

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

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

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

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

Changes in accounting policies

Policies applicable beginning December 1, 2018

These financial statements have been prepared using the same accounting policies as those presented in the Company's audited annual consolidated financial statements for the year ended November 30, 2018, except as described below.

IFRS 9 – Financial Instruments

Beginning on December 1, 2018, the Company adopted IFRS 9 – *Financial Instruments*, issued in July 2014 and the related consequential amendments to IFRS 7 - *Financial Instruments: Disclosures*. IFRS 9 introduces new requirements for the classification of financial assets based on the business model used by an entity to manage financial assets and the characteristics of the contractual cash flows of those financial assets. IFRS 9 provides three classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL), replacing previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

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

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

IFRS 9 Transitional Adjustments

As a result of the Company electing not to restate comparative figures, the information presented in the consolidated financial statements for the prior year does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented in the current period under IFRS 9. As such, comparative figures have been reported in accordance with the accounting policies described in the Company's audited annual consolidated financial statements. The adoption of this standard had no material impact on the consolidated financial statements of the Company.

The following table summarized the change in classification

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

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

Financial instruments

Classification of financial assets

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

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

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

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

Effective interest method

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

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

Impairment of financial assets

On adoption of IFRS 9, the Company is required to assess the ECL associated with financial assets measured at amortized cost. ECL is calculated as the product of the probability of default, exposure at default and loss given default over the remaining expected life of the loans and discounted to the reporting date. The ECL model also incorporates forward-looking information, which increases the degree of judgment required as to how changes in macro-economic factors will affect ECL.

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

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

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

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

Derecognition of financial assets

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

Derecognition of financial liabilities

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

Classification of financial liabilities

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

IFRS 15 – Revenue from contracts with customers

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

On December 1, 2018, the Company adopted IFRS 15 using the retrospective transition method with the cumulative effect of initially applying the standard recognized at the date of initial application (December 1, 2017). Prior year comparatives have been restated.

The adoption of the new standard had the following impacts:

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

Promotional funds: Under the previous guidance, the Company did not reflect promotional funds collected from franchisees and the related promotional expenditures in the consolidated statements of income. Under the new standard, the promotional funds collected, and the related expenditures are reported on a gross basis in the consolidated statements of income. To the extent that promotional funds received exceed the related promotional expenditures, the excess contributions will be recorded in accounts payable and accrued liabilities.

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

Gift cards: There is a change for some of the gift card programs which were being accounted for based on the remote likelihood of a gift card being redeemed. Following the adoption of the new standard, all of the gift card programs now record expected breakage income proportionately as gift cards are redeemed.

Restaurant construction and renovation: Restaurant construction and renovation revenue was previously recognized by reference to the stage of completion of the contract activity; under the new standard, the criteria for recognizing revenue over time are not met, and therefore, the Company now recognizes the revenue for these services at a point in time, when the construction and renovation is completed.

Impact on the financial statements

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

Condensed interim consolidated statement of income	**Three months ended February 28, 2018**		
(In thousands $)	**As previously reported $**	IFRS 15 Adjustments $	**As restated $**
Revenues	**63,715**	11,774	**75,489**
Operating expenses	**43,803**	12,318	**56,121**
Income before taxes	**11,885**	(544)	**11,341**
Income tax expense (recovery)			
Deferred	**(39,988)**	512	**(39,476)**
Net income	**45,381**	(1,056)	**44,325**
Income per share – basic & diluted	**2.12**	(0.05)	**2.07**

Condensed interim consolidated statement of comprehensive income *(In thousands $)*	**Three months ended February 28, 2018**		
	As previously reported **$**	IFRS 15 Adjustments $	**As restated** **$**
Unrealized loss on translation of foreign operations	**(1,284)**	(166)	**(1,450)**
Total comprehensive income	**43,901**	(1,222)	**42,679**

Consolidated statement of financial position	**As at November 30, 2018**		
(In thousands $)	**As previously reported** **$**	IFRS 15 adjustments $	**As restated** **$**
Assets			
Current assets			
Accounts receivable	**49,168**	803	**49,971**
Inventories	**3,574**	455	**4,029**
Prepaid expenses and deposits (1)	**7,291**	624	**7,915**
Contract cost asset	**—**	3,717	**3,717**
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	**68,700**	(888)	**67,812**
Deferred revenue and deposits	**20,122**	662	**20,784**
Deferred revenue and deposits	**705**	32,680	**33,385**
Deferred income taxes	**119,464**	(7,078)	**112,386**
Reserves	**1,245**	(133)	**1,112**
Retained earnings	**315,985**	(19,644)	**296,341**

(1) Relates to short-term portion of contract costs assets.

Consolidated statement of financial position	**As at December 1, 2017**		
(In thousands $)	**As previously reported**	IFRS 15 adjustments	**As restated**
	$	$	**$**
Assets			
Current assets			
Accounts receivable	**34,151**	1,414	**35,565**
Inventories	**3,281**	312	**3,593**
Prepaid expenses and deposits	**5,461**	440	**5,901**
Contract cost asset	**—**	2,062	**2,062**
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	**57,555**	(608)	**56,947**
Deferred revenue and deposits	**20,844**	(1,356)	**19,488**
Deferred revenue	**1,946**	29,905	**31,851**
Deferred income taxes	**116,931**	(6,917)	**110,014**
Reserves	**(13,113)**	44	**(13,069)**
Retained earnings	**232,192**	(16,840)	**215,352**

The Company's accounting policies are summarized below:

Revenue from franchise locations

i) Royalties are based either on a percentage of gross sales as reported by the franchisees or on a fixed monthly fee. They are recognized on an accrual basis in accordance with the substance of the relevant agreement, as they are earned.

ii) Promotional fund contributions are based on a percentage of gross sales as reported by the franchisees. Corresponding promotional fund transfers to the promotional funds are reported separately and included in accounts payable and accrued liabilities. The Company is not entitled to retain these promotional fund payments received and is obligated to transfer these funds to be used solely for use in promotional and marketing-related costs for specific restaurant banners. The Company sometimes charges a fee for the administration of the promotional funds.

iii) Initial franchise fees are recognized on a straight-line basis over the term of the franchise agreement as the performance obligation relating to franchise rights is fulfilled. Amortization begins once the restaurant has opened.

iv) Upfront fees related to master license agreements are recognized over the term of the master license agreements on a straight-line basis.

v) Renewal fees and transfer fees are recognized on a straight-line basis over the term of the related franchise agreement.

vi) Restaurant construction and renovation revenue is recognized when the construction and renovation is completed.

vii) The Company earns rent revenue on certain leases it holds and sign rental revenue. Rental income is recognized on a straight-line basis over the term of the relevant lease in accordance with IAS 17 Leases.

viii) The Company recognizes breakage income proportionately as each gift card is redeemed, based on the historical redemption pattern of the gift cards. The Company also charges various program fees to its franchisees as gift cards are redeemed. Notably, this does not apply to gift card liabilities assumed in a business acquisition, which are accounted for at fair value at acquisition date.

ix) The Company receives considerations from certain suppliers. Fees are generally earned based on the value of purchases during the period. Agreements that contain an initial upfront fee, in addition to ongoing fees, are recognized on a straight-line basis over the term of the respective agreement. Supplier contributions are recognized as revenue as they are earned and are recorded in franchising revenue.

Revenue from food processing, distribution and retail

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

Revenue from corporate-owned locations

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

IFRIC 22 – Foreign Currency Transaction and Advance Consideration

In December 2016, the IASB issued IFRIC 22 which provides an interpretation on how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity pays or receives consideration in advance for foreign currency-denominated contracts. The date of the transaction determines the exchange rate to be used on initial recognition of the related asset, expense or income. This Interpretation provides guidance for when a single payment or receipt is made, as well as for situations where multiple payments or receipts are made and aims to reduce diversity in practice. These interpretations did not have a significant impact on the Company's financial statements.

Economic environment risk

The business of the Company is dependent upon numerous aspects of a healthy general economic environment, from strong consumer spending to provide sales revenue, to available credit to finance the franchisees and the Company. In light of recent upheaval in economic, credit and capital markets, the Company's performance and market price may be adversely affected. The Company's current planning assumptions forecast that the quick service restaurant industry will be impacted by the current economic recession in the provinces in which it operates. However, management is of the opinion that the current economic situation will not have a major impact on the Company due to the following reasons: 1) the Company has strong cash flows; 2) quick service restaurants represent an affordable dining out option for consumers in an economic slowdown.

Financial instruments and financial risk exposure

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

The classification, carrying value and fair value of financial instruments are as follows:

	February 28, 2019		November 30, 2018	
(In thousands $)	**Carrying amount**	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
Financial assets				
Loans receivable	**7,157**	**7,157**	8,104	8,104
Financial liabilities				
Long-term debt[1]	**276,093**	**278,567**	266,087	268,954

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

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is established based on market information available at the date of the consolidated statement of financial position. In the absence of an active market for a financial instrument, the Company uses the valuation methods described below to determine the fair value of the instrument. To make the assumptions required by certain valuation models, the Company relies mainly on external, readily observable market inputs. Assumptions or inputs that are not based on observable market data are used in the absence of external data. These assumptions or factors represent management's best estimates of the assumptions or factors that would be used by market participants for these instruments. The credit risk of the counterparty and the Company's own credit risk have been taken into account in estimating the fair value of all financial assets and financial liabilities, including derivatives.

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

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

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

Promissory notes

The Company issued as part of its consideration for the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar promissory notes to the vendors and the minority shareholders of 10220396 Canada Inc. These promissory notes are subject to earn out provisions, which are based on future earnings. These promissory notes are repayable in October 2019 and June 2022. These promissory notes have been recorded at fair value and are remeasured on a recurring basis. Of the $5.9 million promissory note, $3.3 million is subject to an earn-out provision.

A discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Company, with respect to these promissory notes. These notes are subject to significant unobservable inputs such as discount rates and projected revenues and EBITDA. An increase or decrease by 1% in the discount rates used would have an impact of $0.1 million on the fair value, as at February 28, 2019 (November 30, 2018 – $0.1 million).

A fair value re-measurement gain of $1.1 million was recorded for these promissory notes for the period ended February 28, 2019 (February 28, 2018 – $nil).

Obligations to repurchase non-controlling interests

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

A fair value remeasurement gain of $0.1 million for the three-month period ended February 28, 2019 (2018 - $nil) was recorded for this non-controlling interest obligation.

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

A discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Company with respect to this obligation. The non-controlling interest buyback obligation is subject to significant unobservable inputs such as a discount rate and projected EBITDA. An increase or decrease by 1% in the discount rates used would have an impact of $0.1 million on the carrying amount as at February 28, 2019 (November 30, 2018 - $0.1 million).

A fair value re-measurement loss of $0.2 million (2018 - $0.1 million) was recorded for this non-controlling interest obligation.

Fair value hierarchy

(In thousands $)	Level 3	
	February 28, 2019	**November 30, 2018**
Financial liabilities		
Promissory notes related to the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	**5,895**	7,034
Non-controlling interest buyback options	**2,638**	2,495
Financial Liabilities	**8,533**	9,529

Liquidity risk

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

As at February 28, 2019, the Company had an authorized revolving credit facility for which the available amount may not exceed $500.0 million to ensure that sufficient funds are available to meet its financial requirements. The terms and conditions related to this revolving credit facility is described in note 14 of the consolidated financial statements as at November 30, 2018.

The following are the contractual maturities of financial liabilities as at February 28, 2019

(In thousands $)	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	12 to 24 months	Thereafter
	$	$	$	$	$	$
Accounts payable and accrued liabilities	**66,960**	**66,960**	**66,960**	**—**	**—**	**—**
Long-term debt	**284,626**	**287,100**	**1,986**	**5,649**	**6,240**	**273,225**
Interest on long-term debt (1)	**n/a**	**23,535**	**4,869**	**4,869**	**9,739**	**4,058**
	351,586	**377,595**	**73,815**	**10,518**	**15,979**	**277,283**

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

Outlook

In the very short term, management's primary focus will be striving to produce positive same store sales while alleviating some of the financial pressure on its franchise partners by optimizing processes and sourcing products at prices that are stable and competitive. Innovation, quality of food and of customer service in each of our outlets and maximizing the value offered to our customers are going to be main areas of focus for the coming year.

Management will also focus on the integration of the recently acquired brands. Following the closing of those acquisitions, MTY is well-positioned to expand in Canada and in the United States, including growing its existing Canadian brands into the United States.

The restaurant industry will remain challenging in the future, and management believes that the focus on the food offering, innovation, consistency and store design will give MTY's restaurants a stronger position to face challenges. Given this difficult competitive context in which more restaurants compete for a finite amount of consumer dollars, each concept needs to preserve and improve the relevance of its offer to consumers.

Management will maintain its focus on maximizing shareholder value by adding new locations of some of its existing concepts and remains committed to seek potential acquisitions to increase its market share.

Controls and Procedures

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with the securities regulatory authorities are recorded, processed, summarized and reported in a timely fashion. The disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in such reports is then accumulated and communicated to the Company's management to ensure timely decisions regarding required disclosure. Management regularly reviews disclosure controls and procedures; however, they cannot provide an absolute level of assurance because of the inherent limitations in control systems to prevent or detect all misstatements due to error or fraud.

The Company's Chief Executive Officer and the Chief Financial Officer have concluded that the design of the disclosure controls and procedures ("DC&P") as at February 28, 2019 provide reasonable assurance that significant information relevant to the Company, including that of its subsidiaries, is reported to them during the preparation of disclosure documents.

Internal controls over financial reporting

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining internal controls over financial reporting. The Company's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Over the course of 2018, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's internal controls over financial reporting were not effective due to the identification of a material weakness related to controls over the accounting for non-routine and complex transactions, including accounting for purchase price allocations in respect of business acquisitions. The Company's review process did not sufficiently prevent or detect errors in the data inputs used or in the calculation of fair value. This control weakness lead to the correction of a preliminary purchase price. In the third quarter of 2018, the board of directors, Chief Executive Officer, and Chief Financial Officer implemented processes that significant purchase price allocations will be reviewed by a third-party expert to ensure the accuracy of the fair value of assets acquired and liabilities assumed in a business acquisition.

Since these changes, no purchase price allocations have been fully initiated and completed as at February 28, 2019, which would allow the Company to test the control. Management has added resources and tools in the internal audit department to test and assess the control environment in the existing and newly acquired businesses. Material weaknesses cannot be considered remediated until the remedial controls operate for a sufficient period of time and management has concluded through testing, that these controls are operating effectively.

Notwithstanding the outstanding assessment regarding the remediation actions as described above, the Chief Executive Officer and the Chief Financial Officer, together with Management have concluded the financial statements included in this report present fairly in all material respects its financial position, results of operations, capital position and cash flows for the periods presented in accordance with IFRS.

The Chief Executive Officer and the Chief Financial Officer, together with Management, have concluded after having conducted an evaluation and to the best of their knowledge that, as at February 28, 2019, other than the material weakness mentioned above, no change in the Company's internal controls over financial reporting occurred that could have materially affected or is reasonably likely to materially affect the Company's internal controls over financial reporting.

Limitations of Controls and Procedures

Management, including the President and Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the reality judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Limitation on scope of design

The Company's management, with the participation of its President and Chief Executive Officer and Chief Financial Officer, has limited the scope of the design of the Company's disclosure controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures and internal controls over financial reporting of the recently acquired operations:

Percentage of MTY Food Group Inc.	Company's assets	Current assets	Non-current assets	Current Liabilities	Long-term liabilities	Revenues	Net earnings
SweetFrog	4%	0%	4%	2%	1%	1%	7%
Casa Grecque	2%	5%	2%	1%	0%	5%	5%
Timothy's World Coffee and Mmmuffins	0%	0%	0%	0%	0%	1%	1%
Grabbagreen	0%	0%	0%	0%	0%	0%	1%

The Company's management, with the participation of its President and Chief Executive Officer and Chief Financial Officer, has limited the scope of the design of the Company's disclosure controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures and internal controls over financial reporting of certain special purpose entities ("SPEs") on which the Company has the ability to exercise *de facto* control and which have as a result been consolidated in the Company's consolidated financial statements. For the period ended February 28, 2019, these SPEs represent 0% of the Company's current assets, 0% of its non-current assets, 0% of the Company's current liabilities, 0% of long-term liabilities, 1% of the Company's revenues and 0% of the Company's net earnings.

"*Eric Lefebvre*"

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Eric Lefebvre, CPA, CA, MBA
Chief Executive Officer

"Renee St-Onge"

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Renee St-Onge, CPA, CA
Chief Financial Officer