Management's Discussion and Analysis
For the three-months ended February 29, 2020
Key highlights

- **EBITDA [1] of $41.0 million, up 45% compared to Q1 2019**
- **Organic EBITDA [1] growth of 6% compared to Q1 2019**
- **Favorable impact from IFRS16 of $2.5 million compared to Q1 2019; EBITDA [1] excluding IFRS 16 would have been $38.5 million, up 36% compared to Q1 2019**
- **Free cash flows [1] of $30.7 million, up 23% compared to Q1 2019**
- **Net income attributable to shareholders increased 29% to $19.0 million or $0.76 per share**
- **Store count of 7,300 compared to 5,941 in Q1 2019**
- **Consolidated same store sales [1] growth of +2.1%; Canada, USA and International were respectively +1.6%, +4.3% and -5.7%**
- **System sales [1] of $999.5 million, up 45% compared to Q1 2019**
- **Repurchased and cancelled 181,044 shares for a total consideration of $9.7 million in Q1-2020**
- **Cash on hand of $56.8 million at February 29, 2020**
- **Acquisition of Turtle Jack's joint venture in December 2019**
- **Announced measures to minimize the impact of COVID-19 on its franchisees, adjustments to its operations to preserve liquidities and temporary suspension of dividend**

(1) *See section "Definition of non-GAAP measures" found in the Supplemental Information section for definition.*

Management's Discussion and Analysis
For the three-months ended February 29, 2020

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 condensed interim consolidated financial statements for the period ended February 29, 2020 and the audited consolidated financial statements and accompanying notes for the fiscal year ended November 30, 2019.

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 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, 2019.

This MD&A was prepared as of April 30, 2020. Supplementary information about MTY, including its latest annual and quarterly reports, and press releases, is available on SEDAR's website at www.sedar.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 2020. 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 30, 2020 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. In addition, the impact of Covid-19 on operational, cash flow and financial condition of the industry in which the Company operates and on the Company itself continues to evolve and any forward looking information set forth herein with respect to such matters is subject to change and actual impact may differ from expectations in a material way.

Forward-looking statements made in this MD&A are based on a number of assumptions that are believed to be reasonable on April 30, 2020. 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 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 duration and impact of the COVID-19 pandemic, its impact on the ability to re-open locations as well as on consumer demand upon re-opening and its amcro-economic impact; 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, government orders 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 30, 2020. 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.

CORE BUSINESS

Founded in 1979 MTY franchises and operates quick service and casual dining restaurants. MTY aims to be the franchisor of choice in North America and offers the market a range of offering through its many brands. MTY currently operates 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 and SweetFrog, Casa Grecque, South Street Burger, Papa Murphy's, Yuzu Sushi, Allô! Mon Coco, La Boite Verte, Eat Pure, Turtle Jack's Muskoka Grill, COOP Wicked Chicken and Frat's Cucina.

As at February 29, 2020, MTY had 7,300 locations in operation, of which 7,140 were franchised or under operator agreements, 23 are operated through the joint venture and the remaining 137 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, grocery stores, and food-truck carts.

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

Details on other banners added through acquisitions can be found in the supplemental section of this MD&A.

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, franchise fees, sales of turnkey projects, rent, sign rental, supplier contributions, gift card breakage and program fees and sales of other goods and services. 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.

Promotional funds contributions are based on a percentage of gross sales as reported by the franchisees. 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.

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. The Company also generates revenue from its distribution centers that serves primarily the Valentine and Casa Grecque franchisees.

ADOPTION OF NEW ACCOUNTING STANDARD

In January 2016, the International Accounting Standards Board ("IASB") issued IFRS 16 Leases ("IFRS 16"). The standard 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 right-of-use assets and lease liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low-value assets). Lease-related expenses previously recorded in operating expenses, primarily as occupancy costs will be recorded as depreciation on the right-of-use assets and a finance charge from unwinding the discount on the lease liabilities. Lease-related revenues previously recorded in rental revenue will be recorded as finance income. IFRS 16 will also change the presentation of cash flows relating to leases in the Company's consolidated statements of cash flows, but it does not cause a difference in the amount of cash transferred between the parties of a lease. Although the standard did not change the accounting for most lessors significantly, it does change the manner in which intermediate lessor determine the classification of sublease arrangements between operating and finance leases. Under IFRS 16, this assessment is determined relative to whether the sublease transfers significant risks and rewards of the right-of-use asset.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15. The guidance allows for either a full retrospective or modified retrospective transition method. The Company has selected to apply the modified retrospective transition method. Further, the Company has selected to apply the practical expedients to (i) grandfather the assessment of which transactions are leases; (ii) the use of the provision for onerous leases as an alternative to performing an impairment review; (iii) recognition exemption of short-term and low value leases; and (iv) the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The financial statements reflect the application of IFRS 16 beginning in fiscal 2020, while the financial statements for prior periods were prepared under the guidance of the previous standard. For further information, please see section "Changes in accounting policies" further in this MD&A.

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. Definitions of all non-GAAP measures can be found in the supplemental information section of this MD&A. The non-GAAP measures used within the context of this MD&A do not have a standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Non-GAAP measures provide investors with a supplemental measure of the operating performance and financial position and thus highlight trends in the core business that may not otherwise be apparent when relying solely on GAAP measures.

Same store sales growth is used to provide information on the comparative performance of the restaurants in the 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.

HIGHLIGHTS OF SIGNIFICANT EVENTS

Covid-19

In December 2019, a novel strain of coronavirus was reported to have surfaced in China, later to be renamed Covid-19. The spread of this virus caused business disruption beginning in March 2020, due to the closure or modified operating hours in certain restaurants, and traffic decline in Canada, the USA and Internationally. Although some disruption was seen overseas during the Company's first quarter, these were not deemed to have a material impact. MTY's overall international system sales represent 4% of total system sales and the disruptions encountered during the first quarter were limited to a few of the countries in this territory.

Further while the disruption is currently expected to be temporary, there is uncertainty around the duration of the pandemic, its medium to longer term impact on the economy and the rules that will apply to MTY's restaurants as sheltering measures are gradually removed. Continuous efforts are made around the world at an attempt to stop the spread of this virus. The impact of the virus and the efforts to stop it impact MTY and some of its franchisees materially. For further information on this, please see "subsequent events" sections of this MD&A.

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

On December 3, 2019, one of the Company's wholly owned subsidiaries completed its acquisition of a 70% interest in a joint venture that acquired Turtle Jack's Muskoka Grill, COOP Wicked Chicken and Frat's Cucina (together "Tortoise Group"), three casual dining concepts operating in the province of Ontario, for a consideration of $27.9 million, which includes a deferred contingent consideration amounting to $6.0 million, an obligation for the premium to repurchase its partner in a joint venture of $2.8 million and cash consideration of $19.1 million. . The Company has recorded its interest as a long-term receivable. The Company has guaranteed liabilities of the joint venture amounting to $7.0 million, which are payable to Tortoise Group, upon the repurchase of the 30 % joint venture partner. At closing, there was 20 franchised restaurants in operation and 3 corporate-owned stores.

Acquisition of Papa Murphy

On May 23, 2019, the Company, through the merger of a wholly-owned US subsidiary with Papa Murphy's Inc. ("PM"), acquired all the outstanding shares of PM. The total consideration for the transaction was $255.2 million. At closing, PM operated 1,301 franchised and 103 corporate-owned stores in the U.S., Canada and United Arab Emirates.

DESCRIPTION OF RECENT ACQUISITIONS

On December 3, 2019, one of the Company's wholly owned subsidiaries completed its acquisition of a 70% interest in a joint venture that acquired Turtle Jack's Muskoka Grill, COOP Wicked Chicken and Frat's Cucina (together "Tortoise Group"), three casual dining concepts operating in the province of Ontario, for a consideration of $27.9 million, which includes a deferred contingent consideration amounting to $6.0 million, an obligation for the premium to repurchase its partner in a joint venture of $2.8 million and cash consideration of $19.1 million. The Company has recorded its interest as a long-term receivable. The Company has guaranteed liabilities of the joint venture amounting to $7.0 million, which are payable to Tortoise Group, upon the repurchase of the 30 % joint venture partner. At closing, there was 20 franchised restaurants in operation and 3 corporate-owned stores.

On July 19, 2019, the Company's Canadian operations completed its acquisition of the assets of Allô! Mon Coco for a total consideration of $30.7 million. A total of approximately $24.1 million was paid on closing, financed from MTY's cash on hand and existing credit facility, while $0.2 million in net liability was assumed and $7.1 million was held back in the form of contingent consideration and holdbacks. At closing, there was 40 franchised restaurants in operation.

On July 15, 2019, the Company's Canadian operations completed its acquisition of the assets of Yuzu Sushi for a total consideration of $27.6 million. A total of approximately $25.4 million was paid on closing, financed from MTY's cash on hand and existing credit facility and $2.2 million was held back in the form of contingent consideration. At closing, there was 129 franchised restaurants in operation.

On May 23, 2019, the Company, through the merger of a wholly-owned US subsidiary with Papa Murphy's Holdings Inc. ("PM"), acquired all the outstanding shares of PM. The total consideration for the transaction was $255.2 million. At closing, PM operated 1,301 franchised and 103 corporate-owned stores in the U.S., Canada and United Arab Emirates.

On March 21, 2019 the Company acquired the assets of South Street Burger for a total consideration of approximately $4.9 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 $0.7 million was held back. At closing, there were 24 franchised restaurants and 13 corporate restaurants in operation.

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.

SUMMARY OF QUARTERLY FINANCIAL INFORMATION

	Quarters ended							
(in thousands $, except system sales, # of locations & EPS)	**May 2018 (1)**	**August 2018 (1)**	**November 2018 (1)**	**February 2019 (1)**	**May 2019 (1)**	**August 2019 (1)**	**November 2019 (1)**	**February 2020**
System sales(2 & 3)	744.7	787.9	706.4	687.8	832.3	1,076.2	1,023.5	$999.5
Same-store sales(2)	(0.0%)	0.1%	(1.3%)	(1.4%)	0.6%	0.3%	1.5%	2.1%
# of locations	5,734	5,690	5,984	5,941	7,345	7,441	7,373	7,300
Revenue	$107,363	$113,006	$116,488	$107,297	$130,584	$163,057	$150,004	$150,780
EBITDA(2)	$33,730	$38,759	$32,994	$28,376	$34,145	$41,847	$43,027	$41,037
Normalized EBITDA (2)	$34,350	$38,876	$33,062	$28,376	$38,182	$42,077	$43,027	$41,037
Net income attributable to owners	$16,183	$22,077	$13,240	$14,748	$19,337	$22,902	$20,688	$19,008
Total comprehensive income (loss) attributable to owners	$20,489	$25,407	$20,801	$10,657	$32,476	$10,469	$22,887	$26,476
Earnings per share	$0.64	$0.88	$0.53	$0.59	$0.76	$0.91	$0.83	$0.76
Earnings per diluted share	$0.64	$0.88	$0.53	$0.58	$0.76	$0.91	$0.83	$0.76
Free cash flows(2)	$23,883	$27,733	$27,458	$24,914	$21,767	$26,680	$43,577	$30,738

(1) *Excludes impact of IFRS 16*
(2) *See section "Definition of non-GAAP measures" found in the Supplemental Information section for definition.*
(3) *In millions $*

SEGMENT NOTE DISCLOSURE

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

RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIOD ENDED FEBRUARY 29, 2020

Revenue

During the first quarter of 2020, the Company's total revenue increased to $150.8 million, from $107.3 million a year earlier. Revenues for the two segments of business are broken down as follows:

Segment	Subdivision	February 29, 2020 ($ millions)	February 28, 2019 ($ millions)	Variation
Canada	Franchise operation	36.7	32.4	13%
	Corporate stores	8.4	7.6	10%
	Food processing, distribution and retail	26.0	21.5	21%
	Promotional funds	10.7	10.4	3%
	Intercompany transactions	(0.6)	(0.5)	N/A
Total Canada		81.2	71.4	14%
USA & International	Franchise operation	39.2	24.5	60%
	Corporate stores	15.1	3.7	305%
	Food processing, distribution and retail	1.2	1.1	6%
	Promotional funds	14.7	6.7	121%
	Intercompany transactions	(0.6)	(0.1)	N/A
Total USA/International		69.6	35.9	94%
Total operating revenues		**150.8**	**107.3**	**41%**

Canada revenue analysis:

Revenues from franchise locations in Canada increased by 13%. Several factors contributed to the variation, as listed below:

	$ millions
Revenues, first quarter of 2019	32.4
Increase in recurring revenue streams	1.4
Increase in initial franchise fees, renewal fees and transfer fees	0.3
Increase in turnkey, sales of material to franchisees and rent revenues	0.6
Decrease due to gift card breakage income	(0.1)
Decrease due to impact of IFRS 16 on rent revenue	(0.2)
Increase due to the acquisitions	2.9
Other non-material variations	(0.6)
Revenues, first quarter of 2020	36.7

Revenue from corporate-owned locations increased by 10% to $8.4 million during the quarter. The increase is mainly attributable to the addition of 13 corporate owned restaurants through the acquisition of South Street Burger at the beginning of the second quarter of last year.

Food processing, distribution and retail revenues increased by 21% mainly as the results of the launch of new products in our retail division as well as expansion into new provinces.

USA/International revenue analysis:

Revenues from franchise locations in the US increased by 60%. Several factors contributed to the variation, as listed below:

	$ millions
Revenues, first quarter of 2019	24.5
Increase in recurring revenue streams	1.2
Increase in initial franchise fees, renewal fees and transfer fees	0.1
Increase due to the sale of material and services to franchisees	0.2
Increase due to acquisitions	13.8
Impact of variation in foreign exchange rates	(0.3)
Other non-material differences	(0.3)
Revenues, first quarter of 2020	39.2

The increase of $11.4 million in corporate owned location revenues is mainly due to the impact of corporate stores purchased through the acquisition of Papa Murphy's. This accounts for $11.2 million or 98% of the increase.

The increase in promotional funds of $8.0 million is also due to the acquisition of Papa Murphy's.

Cost of sales and other operating expenses

During the first quarter of 2020, operating expenses increased by 39% to $110.1 million, up from $78.9 million a year ago. Operating expenses for the two business segments were incurred as follows:

Segment	**Subdivision**	**February 29, 2020 ($ millions)**	**February 28, 2019 ($ millions)**	**Variation**
Canada	Franchise operation	16.9	15.3	10%
	Corporate stores	8.2	8.5	(3%)
	Food processing, distribution and retail	23.4	19.5	20%
	Promotional funds	10.7	10.4	3%
	Intercompany transactions	(0.6)	(0.6)	N/A
Total Canada		58.6	53.1	10%
USA & International	Franchise operation	22.5	14.7	52%
	Corporate stores	14.9	4.4	239%
	Promotional funds	14.7	6.7	121%
	Intercompany transactions	(0.6)	—	N/A
Total USA/International		51.5	25.8	99%
Total cost of sales and other operating expenses		**110.1**	**78.9**	**39%**

Canada cost of sales and other operating expenses analysis:

Cost of sales and other operating expenses from franchise locations in Canada increased by $1.6 million or 10%. Several factors contributed to the variation, as listed below:

	$ millions
Cost of sales and other operating expenses, first quarter of 2019	15.3
Increase in recurring expenses	0.4
Increase in cost of sale of material and services to franchisees	0.4
Increase due to acquisitions	1.4
Decrease due to impact of IFRS 16 on rent revenue	(0.8)
Increase due to impact of IFRS 16 on impairment of lease receivables	0.6
Other non-material differences	(0.4)
Cost of sales and other operating expenses, first quarter of 2020	16.9

Excluding the impact of IFRS 16, operating expenses would have increased to $17.1 million or 12%.

Corporate store operating expense was positively impacted by $0.9 million due to IFRS 16. Removing the rent expense IFRS 16 adjustment, corporate store expenses would have been $9.1 million, an increase of 7% compared to prior year. This increase is aligned with the increase in revenues mentioned above and is attributable to the addition of 13 corporate owned restaurants through the acquisition of South Street Burger at the beginning of the second quarter of last year.

The variation of expenses from the food processing, distribution and retail as well as promotional funds expenses activities were tightly correlated to the related revenues.

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

Cost of sales and other operating expenses from franchise locations in the USA/International increased by $7.8 million or 52%. Several factors contributed to the variation, as listed below:

	$ millions
Cost of sales and other operating expenses, first quarter of 2019	14.7
Increase in recurring expenses	2.1
Increase due to acquisitions	6.9
Decrease due to impact of IFRS 16 on rent revenue	(1.2)
Increase due to impact of IFRS 16 on impairment of lease receivables	0.2
Impact of variation in foreign exchange rates	(0.2)
Cost of sales and other operating expenses, first quarter of 2020	22.5

Excluding the impact of IFRS 16, operating expenses would have increased by $8.8M. Of this increase, Papa Murphy's accounts for 78% of the increase. Royalty expense, professional fees and wage expense all contribute to the increase in recurring expenses.

Corporate store operating expense was positively impacted by $0.6 million due to IFRS 16. Removing the rent expense IFRS 16 adjustment, corporate store expenses would have been $15.5 million, an increase of 252% compared to prior year. This increase is aligned with the increase in revenues mentioned above and is attributable to the addition of Papa Murphy's corporate stores acquired in the second quarter of 2019.

The variations from promotional funds fluctuated in correlation to the related revenues.

Earnings before interest, taxes, depreciation and amortization (EBITDA) (1)

Three-month period ended February 29, 2020			
(In millions $)	Canada	USA & International	Total
Revenues	81.2	69.6	150.8
Expenses	58.6	51.5	110.1
Net profit in joint venture	0.3	—	0.3
EBITDA	22.9	18.1	41.0
EBITDA as a % of Revenue	28%	26%	27%

Three-month period ended February 29, 2019			
(In millions $)	Canada	USA & International	Total
Revenues	71.4	35.9	107.3
Expenses	53.1	25.8	78.9
EBITDA	18.3	10.1	28.4
EBITDA as a % of Revenue	26%	28%	26%

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

Three-month period ended February 29, 2020						
(In millions $)	Franchise	Corporate	Processing, distribution and retail	Promotional funds	Intercompany transactions	Total
Revenues	75.9	23.5	27.2	25.4	(1.2)	150.8
Expenses	39.4	23.1	23.4	25.4	(1.2)	110.1
Net profit in joint venture	0.3	—	—	—	—	0.3
EBITDA	36.8	0.4	3.8	—	—	41.0
EBITDA as a % of Revenue	48%	2%	14%	N/A	N/A	27%

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	26.9	(1.6)	3.1	—	—	28.4
EBITDA as a % of Revenue	47%	N/A	14%	N/A	N/A	26%

(1) *See section "Definition of non-GAAP measures" found in the Supplemental Information section for definition.*

Several factors contributed to the variation, as listed below:

(In millions $)	Canada	USA & International	Total
EBITDA (1), first quarter of 2019	18.3	10.1	28.4
Variance in recurring revenues and expenses	0.5	(0.9)	(0.4)
Variance due to change in corporate store EBITDA	0.4	0.1	0.5
Variance in initial franchise fees, renewal fees and transfer fees	0.3	0.1	0.4
Variance due to the sale of material and services	1.2	0.3	1.5
Variance due to acquisitions	1.3	7.0	8.3
Variance due to impact of IFRS 16 on rent revenue & expense	1.5	1.8	3.3
Variance due to impact of IFRS 16 on impairment of lease receivables	(0.6)	(0.2)	(0.8)
Variance due to net impact of joint venture	0.3	—	0.3
Impact of variation in foreign exchange rates	—	(0.1)	(0.1)
Other non-material differences	(0.3)	(0.1)	(0.4)
EBITDA (1), first quarter of 2020	22.9	18.1	41.0

(1) *See section "Definition of non-GAAP measures" found in the Supplemental Information section for definition.*

Total EBITDA the three-month period ended February 29, 2020 was $41.0 million, an increase of 45% compared to the same period last year. Excluding the impact of IFRS 16, EBITDA for the first quarter would have been $22.2 million and $16.4 million in Canada and the USA respectively. The total EBITDA excluding IFRS 16 of $38.5 million would have been an increase of 36% compared to prior year. The 2019 acquisitions accounted for 81% of the total increase.

Excluding the impacts of IFRS 16, the Company had an increase of $1.6 million, or 6% year-over-year adjusted organic EBITDA growth.

Excluding IFRS 16, Canada contributed to 57% of total EBITDA and 38% of the total increase. During the quarter, acquisitions contributed to $1.3 million of the increase or 35% of the increase in Canada while sales of material and services accounted for 32%. The increase in material and service EBITDA was driven by the increase in the retail program. This was partially offset by a decrease in sale of goods to franchisees.

The USA & International EBITDA grew by 79% mainly as a result of the acquisition of Papa Murphy's. Papa Murphy's contributed to 88% of the total growth. Excluding the impact of IFRS 16, the USA and International would have had an EBITDA increase of $6.4 million or 63%. This again was all driven by the acquisition of Papa Murph's and partially offset by a slight increase recurring fees and wages.

Net income

For the three-month quarter ended February 29, 2020, net income attributable to owners increased to $19.1 million or $0.76 per share ($0.76 per diluted share) compared to $14.8 million or $0.59 per share ($0.58 per diluted share) last year. The increase is mostly due to the acquisitions from the past 15 months.

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

	Period ended February 29, 2020	**Period ended February 28, 2019**
Income before taxes	24,140	19,186
Depreciation – property, plant and equipment and right-of-use assets	3,841	739
Amortization – intangible assets	7,155	6,551
Interest on long-term debt	5,178	3,142
Net interest expense on leases	602	—
Impairment charge on right-of-use assets	227	—
Unrealized and realized foreign exchange (gain) loss	100	(8)
Interest income	(182)	(165)
Gain on disposal of property, plant and equipment and intangible assets	173	(73)
(Gain) loss on revaluation of financial liabilities recorded at fair value through profit and loss	(197)	(996)
EBITDA	**41,037**	**28,376**

(1) *See section "Definition of non-GAAP measures" found in the Supplemental Information section for definition.*

Other income and charges

Depreciation of property, plant and equipment and right-of-use assets increased by $3.1 million as a result of the addition of right-of-use assets associated with IRFS 16. Amortization of intangible assets increased as a result of the 2019 acquisitions mostly driven by the Papa Murphy's acquisition.

The acquisition of 70% of Turtle Jack's Muskoka Grill, COOP Wicked Chicken and Frat's Cucina, is being accounted for as a joint venture and MTY therefore presents its net profit only on its condensed interim consolidated statement of income. The joint venture is being accounted for under the equity method and the Company's percentage share of the profits or losses and movements in other comprehensive income of the company are being recorded as a separate line but is included in the EBITDA numbers presented above.

Under the new IFRS 16 standard, MTY must now record net interest expenses on leases, depreciation on right-of-use assets, impairment charge on right-of-use assets and loss on the re-recognition of lease liabilities. Since MTY applied a modified retrospective approach on transition, the 2019 results have not been restated. For further guidance on this, please refer to *changes in accounting policies* section of this MD&A.

CONTRACTUAL OBLIGATIONS

The obligations pertaining to the long-term debt and the minimum net rentals for the leases are as follows:

(in millions $)	0 – 6 Months	6 – 12 Months	12 – 24 Months	24 – 36 Months	36 – 48 Months	48 – 60 Months	Thereafter
	$	$	$	$	$	$	$
Trade payable and accrued liabilities	97.8	—	—	—	—	—	—
Long-term debt (1)	2.1	0.7	11.3	548.4	—	—	—
Interest on long-term debt (2)	9.3	9.3	18.6	10.8	—	—	—
Net lease liabilities	6.7	6.8	13.9	12.3	10.5	8.8	32.2
Total contractual obligations	**115.9**	**16.8**	**43.8**	**571.5**	**10.5**	**8.8**	**32.2**

(1) *Amounts shown represent the total amount payable at maturity and are therefore undiscounted. For total commitments, please refer to the February 29, 2020 interim condensed consolidated financial statements. Long-term debt includes interest-bearing loans related to acquisitions, promissory notes, contingent consideration on acquisitions, minority put options, non-interest-bearing holdbacks on acquisitions and non-interest-bearing contract cancellation fees.*

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

LIQUIDITY AND CAPITAL RESOURCES

As of February 29, 2020, the amount held in cash totaled $56.8 million, an increase of $6.1 million since the end of the 2019 fiscal period.

During the first quarter of 2020, MTY paid $4.6 million in dividends to its shareholders. The Company also repurchased and cancelled 181,044 (2019 – nil) of its shares for $9.7 million through its normal course issuer bid.

During the three-month period ended February 29, 2020, cash flows generated by operating activities were $31.0 million, compared to $26.8 million in 2019. Excluding the variation in non-cash working capital items, income taxes and interest paid, operations generated $41.1 million in cash flows, compared to $28.7 million in 2019, which represents an increase of 43% year over year. The increase is mostly due to the increase in EBITDA detailed above.

The revolving credit facility has an authorized amount of $700.0 million (November 30, 2019 – $700.0 million), of which $532.0 million was drawn at February 29, 2020 (November 30, 2019 – $518.9 million).

Although MTY had a strong quarter, it is expected that at least the second and third quarter cash flows will be at a decline due to the current COVID-19 outbreak. Starting in March, MTY has taken measures to offset the expected decrease in revenues and related cash inflows by implementing temporary cost and cash spending reduction measures such as temporary lay offs and upper management wage reductions, the postponement of rent payments as well as the suspension of the quarterly dividend payment. MTY is also working closely with business partners such as franchisees, landlords, financial institutions and vendors, to limit the impacts on the Company’s liquidity. Further discussion on the expected impact of COVID-19 can be found in the subsequent event section of this MD&A.

The facility has the following financial covenants:

- The Debt-to-EBITDA ratio must be less than 4.00:1.00 after the consummation of an acquisition in excess of $150.0 million for a period of twelve months after acquisition; 3.50:1.00 at any time thereafter.
- 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 September 23, 2022.

At quarter end, the Company was in compliance with the covenants of the credit agreement. However, the Company may not be in compliance with its covenants as of the second quarter. This will happen only if the company is unsuccessful with its negotiations with its lender to amend the credit facilities and modify the financial ratios, which is unlikely as at the date of the finalization of the financial statements.

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, grocery stores, cinemas, amusement parks, in other venues or retailers 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:

	Number of locations	
	February 29, 2020	February 28, 2019
Franchises, beginning of the period	**7,229**	5,919
Corporate owned, beginning of period		
Canada	**50**	42
United States	**94**	23
Total, beginning of the period	**7,373**	5,984
Opened during the period	**53**	60
Closed during the period	**(149)**	(134)
Acquired during the period	**—**	31
Joint venture acquired during the period	**23**	—
Total, end of the period	**7,300**	5,941
Franchises, end of the period	**7,140**	5,859
Corporate owned, end of the period		
Canada	**45**	59
United States	**92**	23
Joint Venture	**23**	—
Total, end of the period	**7,300**	5,941

The Company's network opened 53 locations (27 in Canada, 17 in the United States and 9 International) for the first quarter of 2020.

During the first quarter of 2020, the Company's network closed 149 locations (61 in Canada, 72 in the United States and 16 International). Of the locations closed during the quarter, 53% were located on street front, 19% in malls and office towers and 28% in other non-traditional formats.

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

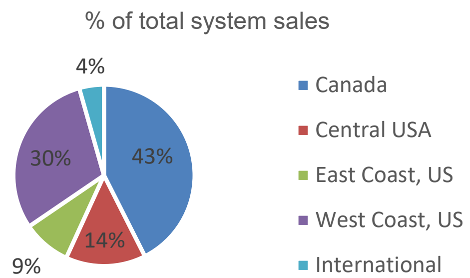
	% of location count		% of system sales Three-month ended	
Location type	**February 29, 2020**	February 28 2019	**February 29, 2020**	February 28 2019
Shopping mall & office tower food courts	16%	22%	15%	23%
Street front	63%	56%	75%	64%
Non-traditional format	21%	22%	10%	13%

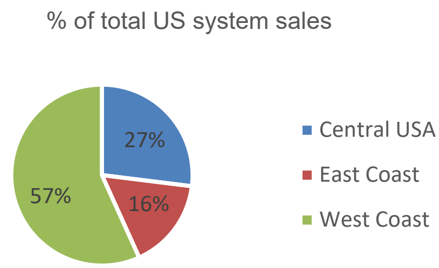
The geographical breakdown of MTY's locations and system sales is as follows:

	% of location count		% of system sales Three-month ended	
Geographical location	**February 29, 2020**	February 28 2019	**February 29, 2020**	February 28 2019
Canada	39%	45%	43%	55%
United States	54%	46%	53%	39%
International	7%	9%	4%	6%

In the United States, only the state of California exceeds 10% of the total system sales for the year. Washington and Oregon are the second and third largest contributor to the network's sales with just under 10% for Washington and 8% in Oregon.

The geographical distribution of system sales is as follows:





The breakdown by the types of concepts for the system sales is as follows:

Concept Type	% of location count		% system sales	
	February 29, 2020	February 28 2019	**February 29, 2020**	February 28 2019
Quick Service Restaurant (QSR)	**83%**	84%	**68%**	59%
Fast Casual	**10%**	9%	**12%**	15%
Casual Dining	**7%**	7%	**20%**	26%

System wide sales

During the three-month period ended February 29, 2020, MTY's network generated $999.5 million in sales, an increase of 45.3% compared to sales generated in the prior year. The increase is distributed as follows:

The increase is distributed as follows:

(millions of $)	Sales
Reported sales – first quarter of 2019	687.8
Net increase in sales generated by concepts acquired during the last 15 months	308.7
Net decrease resulting from stores opened or closed in the last 15 months	(4.7)
Increase in same store sales growth	11.4
Cumulative impact of foreign exchange variation	(3.2)
Other non-material variations	(0.5)
Reported sales – first quarter of 2020	999.5

The acquisitions realized during 2019 and 2020 were the main drivers of the growth in system sales, representing 99.0% to the total increase. A stronger Canadian dollar relative to the US dollar partially offset the increase and resulted in an unfavorable variation of $3.2 million in reported sales.

Net organic change in system sales, described as the movement in system sales excluding recent acquisitions and foreign exchange variations, for the three-month period ended February 29, 2019 increased by $6.2 million. Most of the variance in organic system sales for the three-month period was caused by favorable same store sales results of $11.4 million, which was partially offset by the unfavorable impact of store closures.

Papa Murphy's and Cold Stone Creamery are the only concepts that currently represents more than 10% of system sales, generating approximately 26% and 13% respectively of the total sales of MTY's network during the quarter. For the quarter, Thai Express, Taco Time and Baja Fresh Mexican Grill are the third, fourth and fifth largest concepts in terms of systems sales, generating less than 10% each of the network's sales.

System wide sales include sales for corporate and franchise locations and excludes 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 the presentation purposes; they are therefore subject to variations in foreign exchange rates.

Same Store Sales

During the period ended February 29, 2020 same store sales grew by 2.1% over last year, benefitting from strong tail winds for some of our major brands as well as the additional day resulting from the leap year. Same store sales growth was broken down as follows in MTY's main regions:

Region	Period ended February 29, 2020
Canada	1.6%
United States	4.3%
International	(5.7%)
Total	2.1%

During the first quarter of 2020, same store sales for Canadian locations continued to be positive with an increase of 1.6%. This is now been the tenth positive quarter for Canada. Quebec, the Western provinces and the Maritimes continued their upward trend with positive same store sales growths of 2.9%, 0.6% and 3.5% respectively for the quarter compared to prior year. Ontario had a slight decline of 0.8% during the quarter mostly due to weakness in mall sales. This was partially offset by an increase in street sales.

The United States had first quarter positive same store sales of 4.3%. The West Coast, which represents 57% of total US system sales, had growth of 2.6% for the quarter. The East Coast continued to see growth with a 5.5% increase.

International same store sales decreased by 5.4% during the quarter. The middle east and Asia continue to contribute to the majority of the decline.

During the quarter, the newly acquired Papa Murphy's brand posted a negative 2.4% same store sales for franchised locations and negative 1.2% for corporate stores. Those figures are excluded from the information presented above as MTY has not owned this network for more than 12 months yet.

With the outbreak of Covid-19 in Canada and the United States in March of 2020, Management expects all system sales to be materially impacted for the second and third quarter, with the exception of Papa Murphy's locations which are faring better than average. Although the Company had great momentum these past few quarters, current world events will have a drastic impact on both system and same store sales in the coming quarters. The severity of the impact and the return to normal operations will depend mostly on the duration of the disruption and assistance received from governments, financial institutions, landlords and business partners.

CAPITAL STOCK INFORMATION

Stock options

As at February 29, 2020 there were 400,000 options outstanding and 22,222 that are exercisable.

Share Trading

MTY's stock is traded on the Toronto Stock Exchange under the ticker symbol "MTY". From December 1, 2019 to February 29, 2020, MTY's share price fluctuated between $49.77 and $61.37. During the same period, 3.0 million shares were traded on the Toronto Stock Exchange. On February 29, 2020, MTY's shares closed at $51.28.

Capital stock

The Company's outstanding share capital is comprised of common shares. An unlimited number of common shares are authorized.

As at April 30, 2020, the Company's issued and outstanding capital stock consisted of 24,890,191 shares (25,071,235 as at November 30, 2019) and 400,000 issued and outstanding stock options (400,000 as at November 30, 2019). During the quarter, MTY purchased 56,829 shares for cancellation through its normal course issuer bid program. As at April 30, 2020, issued and outstanding capital stock consisted of 24,706,461 shares and 400,000 stock options.

Normal Course issuer Bid Program

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

During the three-months ended February 29,2020, the Company repurchased and cancelled a total of 181,044 (2019 – nil) common shares under the current NCIB, at a weighted average price of $53.36 per common share, for a total consideration of $9,660 (2019 – nil). An excess of $7,415 (2019 – nil) of the shares' repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums.

SUBSEQUENT EVENTS

Covid-19

In December 2019, a novel strain of coronavirus was reported to have surfaced in China, later to be renamed COVID-19. The spread of this virus caused business disruption subsequent to the first quarter of 2020, beginning in March 2020, due to the closure or modified operating hours in certain restaurants, and traffic decline in Canada, the USA and internationally. Although some disruption was seen overseas during the Company's first quarter, these were not deemed to have a material impact. The Company's overall international system sales represent 4% of total system sales and the disruptions encountered during the first quarter were only in a few of the countries internationally.

Further, while the disruption is currently expected to be temporary, there is uncertainty around the duration. Continuous efforts are being made around the world at an attempt to stop the spread of this virus. The efforts to stop the virus impact the Company and its franchise network materially. Therefore, while we expect this matter to negatively impact the Company's results, the related medium to longer term financial impact cannot be reasonably estimated at this time. While the Company cannot forecast its financial impact, it expects the following categories on its interim consolidated statement of financial position to be impacted in the second quarter:

- Expected credit losses on accounts receivable, loans receivable and lease receivable
- Expected credit losses on lease guarantees
- There will be a trigger for impairment testing of franchise rights, trademarks:
    - As previously disclosed as at November 30, 2019, a change of 1% in discounts rates in the US would result in an additional impairment of one brand representing 0.7% of the total carrying value of the franchise rights and trademarks in that CGU. A change of 1% in discounts rates in Canada would result in an impairment of two brands representing 1.6% of the total carrying value of franchise rights and trademarks in that CGU.
- There will be a trigger for impairment testing of goodwill:
    - As previously disclosed as at November 30, 2019, for the US business segment, the recoverable amount of goodwill for all of the brands excluding Papa Murphy's would be breakeven using a discount rate of 8.9%, and 10.4% for Papa Murphy's. Moreover, in Canada the recoverable amount of goodwill for the CGU would be breakeven using a discount rate of 14.9%.
- Provisions for closed stores, and related litigations and disputes
- Fair value adjustment on the $100,000 credit facility interest rate swap
- Changes to lease liability

Because of the anticipated decrease in revenues, the Company is taking cost control measures both internally and by working with business partners. As well, the Company has already taken some cost cutting measures in March and April by temporarily reducing its workforce across Canada and the USA by means of temporary lay offs and upper management wage reductions.

Management estimates that anticipated liquidities and forecasted cash flows will be sufficient to meet the Company's obligations, commitments and budgeted expenditures for the next 12 months. However, the Company has certain existing financial ratios to meet with respect to its credit facilities, which it may not be in compliance with as of the second quarter. The Company is in negotiations with its lenders to amend the credit facilities and modify the relevant financial ratios and has no reasonable basis to believe that such negotiations will not result in the required amendments.

The severity of the impact will depend on multiple factors, including the following:

- Duration of the disruption in business
- Nature and timeline regarding the ability to re-open closed locations
- Effective March 16, 2020, duration of the royalty and ad fund deferral the Company is granting to its franchisee network and the capability of franchisees to resume normal payment of royalties in the future
- Government subsidies to franchisees and corporations
- Possible increases in the number of permanent closures
- Landlord concessions
- Interest rate fluctuations

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 continue to be a factor in the quarterly variation of its results. For example, the Frozen treat category, which is a significant category in the US market, varies significantly during the winter season as a result of weather conditions. This risk is offset by other brands which have better performance during winter seasons such as the newly acquired Papa Murphy's which does better during winter months. Although the Company is trying to offset this risk, it still expects seasonality and weather conditions to be a factor in the quarterly variation of its results. Sales have been historically above average during May to August due to its frozen treat category and its increasing percentage in street front locations. The Company expects that this seasonality will be somewhat offset by the sale of the take-and-bake pizza's at Papa Murphy's which usually sells better when the temperature is cooler. Sales for shopping mall locations are also higher than average in December during the holiday shopping period.

OFF-BALANCE SHEET ARRANGEMENTS

MTY has no off-balance sheet arrangements.

Contingent Liabilities

The Company is involved in legal claims associated with its current business activities. The timing of the outflows, if any, is out of the control of the Company and is as a result undetermined at the moment. Contingent liabilities are disclosed as provisions on the interim consolidated statement of financial position.

Included in provisions are the following amounts:

(In thousands $)	**February 29, 2020**	November 30, 2019
	$	$
Litigations, disputes and other contingencies	**9,884**	11,474
Closed stores	**740**	1,947
	10,624	13,421

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

The payables related to closed stores mainly represent amounts that are expected to be disbursed to exit leases of underperforming or closed stores. The negotiations with the various stakeholders are typically short in duration and are expected to be settled within a few months following the recognition of the provision.

The provisions also varied in part due to foreign exchange fluctuations related to the US subsidiaries.

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 29, 2020**	February 28, 2019
	$	$
Short-term benefits	**737**	790
Share based payment	**268**	171
Board member fees	**19**	18
Total remuneration of key management personnel	**1,024**	979

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 trends.

Given its widely held share base, the Company does not have an ultimate controlling party; its most important shareholder is its Chair of the Board of Directors, who controls 19.6% 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 29, 2020**	February 28, 2019
	$	$
Short-term benefits	**131**	112
Share based payment	**6**	5
Consulting services	**—**	18
Total remuneration of individuals related to key management personnel	**137**	135

The Company has entered into a consulting agreement with one of its joint venture associates to perform corporate business development and management consulting services and paid less than $0.1 million for the three-month period ended February 29, 2020 (February 28, 2019 - nil) in consulting fees for the period

CHANGES IN ACCOUNTING POLICIES

Policies applicable beginning December 1, 2019

Impact of the application of IFRS 16 – Leases

On December 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach. The Company has not restated the comparatives for the 2019 financial year as permitted under the specific transitional provisions in the standard. The impact from the new leasing standard is therefore recognized in the opening balance sheet on December 1, 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. The standard 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. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and corresponding lease liability at the commencement of all leases (subject to limited exceptions for short-term leases and leases of low-value assets). Lease-related expenses previously recorded in operating expenses, primarily as occupancy costs will be recorded as depreciation on the right-of-use assets and a finance charge from unwinding the discount on the lease liabilities. When the Company is the lessor, lease-related revenues previously recorded in rental revenue will be recorded as finance income. IFRS 16 will also change the presentation of cash flows relating to leases in the Company's consolidated statements of cash flows, but it does not cause a difference in the amount of cash transferred between the parties of a lease. Although the standard did not change the accounting for most lessors significantly, it does change the manner in which the intermediate lessor determines the classification of sublease arrangements between operating and finance leases. Under IFRS 16, this assessment is determined relative to whether the sublease transfers significant risks and rewards of the right-of-use asset.

In applying IFRS 16 for the first time, the Company has elected to use the following practical expedients permitted by the standard:

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

The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

Impact on lessee accounting

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), the Company;

- recognized right-of-use assets and lease liabilities in the consolidated statements of financial position, initially measured at the present value of future lease payments;
- recognized depreciation of right-of-use assets and interest on lease liabilities in the consolidated statements of income; and
- separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36, Impairment of Assets. This replaces the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Company has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within operating expenses, primarily as occupancy costs in the consolidated statements of income.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of December 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on December 1, 2019 was 2.749%.

The following table reconciles the operating lease commitments as at November 30, 2019 to the opening balance of lease liabilities as at December 1, 2019:

(in thousands $)	$
Operating lease commitments disclosed as at November 30, 2019	**648,445**
Discounted using the Company's incremental borrowing rate at December 1, 2019	(52,507)
Short-term leases and low-value leases	(16,228)
Adjustments as a result of a different treatment of extension and termination options	34,478
Other	(3,109)
Lease liabilities recognized as at December 1, 2019	**611,079**

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments and impairment relating to that lease recognized in the consolidated statements of financial position as at December 1, 2019.

Impact on lessor accounting

As a lessor, leases are still classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. When the Company enters into a sublease arrangement as an intermediate lessor, the Company accounts for the head lease and the sublease as two separate contracts. The Company is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

For finance subleases, the Company derecognizes the right-of-use asset relating to the head lease that is transferred to the sublessee and recognizes a finance lease receivable in the sublease. Any difference between the right-of-use asset and finance lease receivable is recognized as a gain or loss in the consolidated statements of income. As the intermediate lessor, the Company retains the lease liability on the head lease in its consolidated statement of financial position. During the term of the sublease, the Company recognizes both finance income on the sublease and interest expenses on the head lease.

As a result of this change, the Company has reclassified most of its sublease arrangements as finance leases. As required by IFRS 9, an allowance for expected credit loss has been recognized on the finance lease receivables.

Financial impact of initial application of IFRS 16

The following table summarizes the adjustments to opening balances resulting from the initial adoption of IFRS 16:

(in thousands $)	As previously reported under IAS 17 November 30, 2019	IFRS 16 transition adjustments	December 1, 2019
	$	$	**$**
Assets			
Current assets			
Finance lease receivables	**—**	98,256	**98,256**
Prepaid expenses and deposits	**9,284**	(1,972)	**7,312**
Finance lease receivables	**—**	428,165	**428,165**
Right-of-use assets	**—**	68,838	**68,838**
Liabilities			
Current liabilities			
Provisions	**13,163**	(1,274)	**11,889**
Deferred revenue and deposits	**18,761**	(2,089)	**16,672**
Current portion of lease liabilities	**—**	111,414	**111,414**
Lease liabilities	**—**	499,665	**499,665**
Deferred income taxes	**158,430**	(3,737)	**154,693**
Reserves			
Retained earnings	**353,300**	(10,692)	**342,608**

IFRIC 23 - Uncertainty over income tax treatments

In June 2017, the IASB released IFRIC 23 - Uncertainty over Income Tax Treatments, which addresses how to determine the taxable profit (loss), tax basis, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 1 - Income Taxes. It specifically considers whether tax treatments should be considered independently or collectively and assumptions for taxation authorities' examinations in regard to taxable profit (loss), tax bases, unused tax losses, unused tax credits or tax rates.

IFRIC 23 was adopted effective December 1, 2019 and resulted in no significant adjustment.

JOINT ARRANGEMENTS

Joint arrangements are arrangements in which the Company exercises joint control as established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangement's returns. When the Company has the rights to the net assets of the arrangement, the arrangement is classified as a joint venture and is accounted for using the equity method. When the Company has rights to the assets and obligations for the liabilities relating to an arrangement, the arrangement is classified as a joint operation and the Company accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Company's share of the profits or losses and movements in other comprehensive income (OCI) of the investee. When the Company's share of losses in a joint venture equals or exceeds its interests in the joint ventures, the Company does not recognize further losses unless it will incur obligations or make payments on behalf of the joint ventures.

Unrealized gains resulting from transactions with joint ventures are eliminated, to the extent of the Company's share in the joint venture. For sales of products or services from the Company to its joint ventures, the elimination of unrealized profits is considered in the carrying value of the investment in equity accounted investees in the condensed interim consolidated statement of financial position and in the share in profit or loss of equity accounted investees in the condensed interim consolidated statement of income.

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 29, 2020 and have not been applied in preparing these consolidated financial statements.

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

Standard	Issue date	Effective date for the Company	Impact
IFRS 3 Business Combinations	October 2018	December 1, 2020	In assessment

IFRS 3-Business Combinations

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

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 many factors including but not limited 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.

MTY could be materially and adversely affected by the outbreak of a widespread health epidemic or pandemic, including arising from various strains of avian flu or swine flu, such as H1N1, or COVID-19, particularly if located in regions from which the Company derives a significant amount of revenue or profit. The occurrence of such an outbreak or other adverse public health developments could materially disrupt the business and operations. Such events could also significantly impact the industry and cause a temporary closure of restaurants, which could severely disrupt MTY's or the Company's franchisees' operations and have a material adverse effect on the business, financial condition and results of operations.

In December 2019, a novel strain of coronavirus was first detected in China. The spread of this virus caused business disruption beginning in March 2020, due to the closure or modified operating hours in certain restaurants, and traffic decline in Canada, the USA and Internationally. Although some disruption was seen overseas during the Company's first quarter, these were not deemed to have a material impact. At this time, the Company is unable to accurately predict the impact that the coronavirus will have on the results of operations, due to uncertainties including the ultimate geographic spread of the virus within and outside of Canada and the USA, the severity of the disease, the duration of the outbreak, and actions that may be taken by governmental authorities to contain the coronavirus or to treat its impact. However, while it is premature to accurately predict the ultimate impact of these developments, the Company expects the results for the second quarter ending May 31, 2020 to be significantly impacted with potential continuing adverse impacts beyond May 31, 2020.

In addition, the operations could be disrupted if any of MTY's employees or employees of MTY's business partners were suspected of having the avian flu or swine flu, or other illnesses such as hepatitis A, norovirus or coronavirus, since this could require the Company or business partners to quarantine some or all of such employees or disinfect the restaurant facilities. Outbreaks of avian flu occur from time to time around the world, and such outbreaks have resulted in confirmed human cases. It is possible that outbreaks could reach pandemic levels. Public concern over avian flu generally may cause fear about the consumption of chicken, eggs and other products derived from poultry, which could cause customers to consume less poultry and related products. Because poultry is a menu offering for many of the Company's Concepts, this would likely result in lower revenues and profits to both MTY and franchisee partners. Avian flu outbreaks could also adversely affect the price and availability of poultry, which could negatively impact profit margins and revenues.

Furthermore, other viruses may be transmitted through human contact, and the risk of contracting viruses could cause employees or guests to avoid gathering in public places, which could adversely affect restaurant guest traffic or the ability to adequately staff restaurants. MTY could also be adversely affected if government authorities impose mandatory closures, seek voluntary closures, impose restrictions on operations of restaurants, or restrict the import or export of products, or if suppliers issue mass recalls of products. Even if such measures are not implemented and a virus or other disease does not spread significantly, the perceived risk of infection or health risk may adversely affect the business and operating results.

Please refer to the November 30, 2019 Annual Information Form for further discussion on all risks and uncertainties.

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 case of turmoil 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 restaurant industry will be impacted by the current economic uncertainty in the certain regions in which it operates. Exposure to heath epidemics and pandemics, such as the current COVID-19, are a risk to the Company and its franchise partners. Within a normal economic cycle, management is of the opinion that these risks will not have a major impact on the Company due to the following reasons: 1) the Company generates strong cash flows and has a healthy balance sheet; 2) the Company has several concepts offering affordable dining out options for consumers in an economic slowdown. During extreme economic turmoil, management believes that the Company has the ability to overcome these risks until the economy re-establishes itself.

FINANCIAL INSTRUMENTS

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

The Company has determined that the fair value of its financial assets and financial liabilities with short-term maturities approximates their carrying value. These financial instruments include cash, accounts receivables, accounts payable and accrued liabilities and deposits. The table below shows the fair value and the carrying amount of other financial instruments as at February 29, 2020 and November 30, 2019. Since estimates are used to determine fair value, they must not be interpreted as being realizable in the event of a settlement of the instruments.

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

(in thousands $)	**February 29, 2020**		November 30, 2019	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
Financial assets				
Loans receivable	**5,247**	**5,247**	7,145	7,145
Finance lease receivable	**516,017**	**516,017**	—	—
Financial liabilities				
Long-term debt (1)	**543,064**	**553,111**	531,196	542,147

(1) Excludes promissory notes, contingent consideration on acquisition, obligations to repurchase non-controlling interests, obligations to repurchase partner in a joint venture interest and interest rate swap.

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 interim 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 value of each class of financial instrument:

Loans receivable and Finance lease receivable – The carrying amount for these financial instruments approximates fair value due to the short-term maturity of these instruments and/or the use of at market interest rates.

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

The Company has three outstanding promissory notes that were recorded as part of the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar.

A fair value remeasurement loss of nil was recorded for these promissory notes for the three-month period ended February 29, 2020 (2019 – gain of $1.1 million).

Contingent consideration on acquisitions and joint venture interest

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

A fair value remeasurement gain of $0.6 million was recorded for the contingent considerations for the three-month period ended February 29, 2020 (2019- 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 loss of $0.1 million for the three-month period ended February 29, 2020 (2019 – gain of $0.1) 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 fair value re-measurement loss of $0.3 million for the three-month period ended February 29, 2020 (2019 – loss of $0.2 million) was recorded for this non-controlling interest obligation.

Obligation to repurchase partner in a joint venture

The Company, in conjunction with the acquisition of its 70% interest in a joint venture that acquired Tortoise Group, entered into an agreement to acquire the remaining 30% interest by December 2025. 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 fair value remeasurement loss of $0.1 million for the three-month period ended February 29, 2020 (2019 - nil) was recorded.

Interest rate swap

The Company holds an interest rate swap that is contracted to a fixed rate on a notional amount of $100.0 million and that matures in July 21, 2021. The fair value of this interest rate swap amounted to $0.5 million (2019 – nil) and the Company recorded a fair value remeasurement gain of $0.2 million for the three-month period ended February 29, 2020 (2019 – nil).

Fair value hierarchy (1)

	Level 3	
(In thousands $)	**February 29, 2020**	November 30, 2019
Financial liabilities	**$**	**$**
Promissory notes for Houston Avenue Bar & Grill	**335**	329
Promissory notes related to buyback obligation of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	**2,779**	2,738
Contingent considerations on acquisitions and joint venture interest	**9,264**	3,874
Non-controlling interest buyback options	**2,929**	2,513
Obligation to repurchase partner in a joint venture	**2,875**	—
Financial Liabilities	**18,182**	9,454

(1) The Company has an interest rate swap outstanding as at February 29,2020 in a liability position amounting to $0.5 million and it is classified as level 2.

FINANCIAL RISK EXPOSURE

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at February 29, 2020.

Credit risk

Credit risk arises from cash and deposits with banks and financial institutions. The Corporation reduces this risk by dealing with credit-worthy financial institutions.

The Company's credit risk is also primarily attributable to its trade receivables, loans receivables and finance lease receivables. The amounts disclosed in the interim consolidated statement of financial position represent the maximum exposure to credit risk for each respective financial asset as at the relevant dates. The Company believes that no particular concentration of credit risks exists due to the geographic diversity of its customers across Canada and the USA and the procedures in place for managing these risks.

Interest rate risk

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

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

Long-term debt stems mainly from acquisitions of long-term assets and business combinations. The Company is exposed to interest rate risk with its revolving credit facility which is used to finance the Company's acquisitions. The facility bears interest at a variable rate and as such the interest burden could change materially. Of the credit facility, $532.0 million (November 30, 2019 – $518.9 million) was used as at February 29, 2020. A 100 basis points increase in the bank's prime rate would result in additional interest of $5.3 million per annum (November 30, 2019 – $5.2 million) on the outstanding credit facility.

Liquidity risk

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

As at February 29, 2020, the Company had an authorized revolving credit facility for which the available amount may not exceed $700.0 million (November 30, 2019 – $700.0 million) to ensure that sufficient funds are available to meet its financial requirements.

The following are the contractual maturities of financial liabilities as at February 29, 2020:

(in millions $)	Carrying amount	Contractual cash flows	0 – 6 Months	6 – 12 Months	12 – 24 Months	Thereafter
	$	$	$	$	$	$
Trade payable and accrued liabilities	97.8	97.8	97.8	—	—	—
Long-term debt (1)	561.7	562.6	2.1	0.7	11.3	548.5
Interest on long-term debt (2)	48.0	48.0	9.3	9.3	18.6	10.8
Lease liabilities	603.2	653.4	65.4	65.5	120.4	402.1
Total contractual obligations	**1,310.7**	**1,361.8**	**174.6**	**75.5**	**150.3**	**961.4**

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

NEAR-TERM OUTLOOK

The Company is closely monitoring the global situation surrounding COVID-19 and taking proactive steps to ensure the well-being and safety of our employees, franchisees and customers, and the continuity of our operations and businesses. Given the dynamic nature of the situation, it is not possible to ascertain what impact there may be on our financial performance. We are taking the necessary steps to mitigate the potential consequences that this situation may have on our operations, franchisees, partners and service to our customers.

In the very short term, management's primary focus is to re-open the restaurants that have been temporarily closed as a result of the pandemic and to rebuild customer confidence by implementing proper safety measures and adjust the way we serve customers. Even after the pandemic is over, customer spending patterns might shift temporarily or permanently from those traditionally witnessed and MTY will have to adapt to new customer behaviours. Although we do not foresee sales comparability for at least the next two to three quarters as a result of COVID-19, management believes the Company will be able to regain customer confidence in the brands and restore the positive momentum it saw in the first quarter of 2020. The Company's focus, after the pandemic will still be on innovation, quality of food and customer service in each of the outlets and maximizing the value offered to customers.

The restaurant industry will remain more than ever challenging in the future as customer spending pattern changes 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 offerings to consumers.

CONTROLS & 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.

Subject to the preceding paragraph, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the design of the disclosure controls and procedures ("DC&P") as at February 29, 2020 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.

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 29, 2020, 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

There are inherent limitations in the effectiveness of any control system, including the potential for human error and the possible circumvention or overriding of controls and procedures. Additionally, judgments in decision-making can be faulty and breakdowns can occur because of a simple error or mistake. An effective control system can provide only reasonable, not absolute, assurance that the control objectives of the system are adequately met. Accordingly, the management of the Company, including its Chief Executive Officer and Chief Financial Officer, does not expect that the control system can prevent or detect all error or fraud. Finally, projections of any evaluation or assessment of effectiveness of a control system to future periods are subject to the risks that, over time, controls may become inadequate because of changes in an entity's operating environment or deterioration in the degree of compliance with policies or procedures.

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
Papa Murphy's	14%	9%	15%	5%	4%	14%	16%
South Street Burger	1%	1%	1%	1%	1%	1%	0%
Allô! Mon Coco	3%	3%	3%	2%	3%	1%	5%
Yuzu Sushi	1%	1%	1%	1%	0%	1%	2%

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 29, 2020, 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

SUPPLEMENTAL INFORMATION

List of acquisitions

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	—
Mrs. Vanelli's	June 2004	100%	103	—
TCBY – Canadian master franchise right	September 2005	100%	91	—
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,	July 2016	100%	2,839	40

Brand	Acquisition year	% ownership	# of franchised locations	# of corporate locations
Planet Smoothie, Maui Wowi and Pinkberry				
BF Acquisition Holdings, LLC – Baja Fresh Mexican Grill and La Salsa Fresh Mexican Grill	October 2016	100%	167	16
La Diperie	December 2016 March 2019	60%+ 5%	5	—
Steak Frites St-Paul and Giorgio Ristorante	May 2017 September 2018	83.25% + 9.25%	15	—
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	—
South Street Burger	March 2019	100%	24	13
Papa Murphy's	May 2019	100%	1,301	103
Yuzu Sushi	July 2019	100%	129	—
Allô! Mon Coco	July 2019	100%	40	—
Turtle Jack's Muskoka Grill, COOP Wicked Chicken and Frat's Cucina	December 2019	70%	20	3

Definition of non-GAAP measures

The following non-GAAP measures can be found in the analysis of the MD&A:

EBITDA	Represents revenues less operating expenses (excludes income tax, interest, depreciation and amortization and all other income (charges)) plus share of net profit of a joint venture accounted for using the equity method. See reconciliation of EBITDA to Income before taxes on page 11
Normalized EBITDA	Normalized EBITDA is EBITDA before transaction costs related to acquisitions.
Adjusted organic EBITDA	Defined as EBITDA before non-recurring costs, foreign exchange and acquisitions that have occurred within the last 24 months and is not comparable year-over-year
Free Cashflow	Represents the sum total cashflows from operating activities less capital expenditures
Same-store sales	Comparative sales generated by stores that have been open for at least thirteen months or that have been acquired more than thirteen months ago
System sales	System sales are sales of all existing restaurants including those 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.
Debt-to-EBITDA	Defined as current and long-term debt divided by EBITDA