Mr. Lube Canada Limited Partnership

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2020

Financial Highlights

The following table sets out selected information and other data of Mr. Lube Canada Limited Partnership ("MLC"), which should be read in conjunction with the attached interim financial statements of MLC for the three and nine months ended September 30, 2020.

	(Unaudited) Q3, 2020	(Unaudited) Q3, 2019	(Unaudited) YTD, 2020	(Unaudited) YTD, 2019
Franchise royalties	$4,268,001	$4,242,377	$11,582,497	$12,287,912
License, rental & other income	$3,817,516	$3,161,063	$9,215,599	$9,036,360
Subtotal revenue	**$8,085,517**	**$7,403,440**	**$20,798,096**	**$21,324,272**
Marketing fund revenue [1]	$2,628,793	$2,746,645	$5,224,755	$7,957,567
Rental revenue [2]	$108,510	$218,490	$193,854	$358,112
Total revenue	**$10,822,820**	**$10,368,575**	**$26,216,705**	**$29,639,951**
General, admin, marketing & rental expenses	($3,991,229)	($5,412,255)	($11,561,460)	($15,152,726)
Interest expense	($12,096)	($25,249)	($44,121)	($82,552)
Sublease interest revenue [2]	$1,404,601	$1,311,630	$4,123,210	$3,796,592
Head lease interest expense [2]	($1,421,663)	($1,318,837)	($4,175,635)	($3,818,016)
Royalty expense	($4,040,345)	($4,084,770)	($11,019,536)	($11,822,053)
Management fees	($55,204)	($54,122)	($163,448)	($160,242)
Amortization of deferred gain	$304,172	$301,186	$912,517	$893,899
Amortization of equipment and leasehold improvements	($53,354)	($46,755)	($149,605)	($138,800)
Amortization of right-of-use assets	($37,279)	($27,983)	($111,836)	($79,435)
Other (expenses) income	($81,302)	($93,502)	($255,826)	($19,794)
Net earnings	**$2,839,121**	**$917,918**	**$3,770,965**	**$3,056,824**
Fair value gain (loss) on investments [3]	($25,040)	$0	($501,590)	$0
Net earnings and comprehensive income	**$2,814,081**	**$917,918**	**$3,269,375**	**$3,056,824**
Add (deduct):				
Interest expense	$12,096	$25,249	$44,121	$82,552
Sublease interest revenue [2]	($1,404,601)	($1,311,630)	($4,123,210)	($3,796,592)
Head lease interest expense [2]	$1,421,663	$1,318,837	$4,175,635	$3,818,016
Royalty expense	$4,040,345	$4,084,770	$11,019,536	$11,822,053
Management fees	$55,204	$54,122	$163,448	$160,242
Amortization of deferred gain	($304,172)	($301,186)	($912,517)	($893,899)
Amortization of equipment and leasehold improvements	$53,354	$46,755	$149,605	$138,800
Amortization of right-of-use assets	$37,279	$27,983	$111,836	$79,435
Other expenses (income)	$81,302	$93,502	$255,826	$19,794
Fair value loss (gain) on investments [3]	$25,040	$0	$501,590	$0
Marketing fund revenues [1]	($2,628,793)	($2,746,645)	($5,224,755)	($7,957,567)
Marketing fund expenses [1]	$1,987,787	$2,971,789	$5,716,173	$8,182,711
Rental revenue [2]	($108,510)	($218,490)	($193,854)	($358,112)
Rental expense [2]	$108,510	$218,490	$193,854	$358,112
Head office lease expenses [2]	($47,404)	($31,478)	($117,418)	($86,744)
Wage subsidy [4]	($113,084)	$0	($444,216)	$0
Adjusted EBITDA [1][2][5]	**$6,030,097**	**$5,149,986**	**$14,585,029**	**$14,625,625**

Notes:

[1] As part of the transition to IFRS 15 on January 1, 2018, MLC was required to record marketing fund revenues and expenses on a gross basis on the consolidated statement of income. Management expects revenue and expenses to fluctuate throughout the year with seasonal promotions. To provide users with more comparable information, MLC has presented "Adjusted EBITDA" which excludes these items.

[2] As part of the transition to IFRS 16 on January 1, 2019, MLC recognizes a right-of-use asset and a lease obligation at the lease commencement date. Under the new standard, a right-of-use asset is recorded for each head lease based on the present value of future lease payments, with an equal corresponding lease liability. If there is a corresponding sublease, the right-of-use asset is derecognized and a new investment in sublease is recognized based on the future value of lease payments received. Interest expenses and revenues as a result of the change in lease liability and change in net investment in sublease will be recorded on a gross basis on the statement of comprehensive income.

[3] Fair value loss adjustment reflects the revaluation of the currently exchangeable Class B units to market value as of September 30, 2020.

[4] Canada Emergency Wage Subsidy (CEWS) was claimed and received during the quarter and was used to offset personnel costs. As this specifically relates to the COVID-19 pandemic, the amount has been removed in the adjusted EBITDA calculation.

[5] "Adjusted EBITDA" is a non-IFRS measure and removes the impact of marketing fund revenues and expenses that are required to be presented on the statement of net earnings and comprehensive income under IFRS 15, the impact of differing accounting treatment for head office leases under IFRS 16, and other adjustments for unusual income or expenses that are not expected to be incurred frequently. In addition to net earnings, "Adjusted EBITDA" is a useful measure in evaluating the ability to service debt, working capital and capital expenditure needs. The definition of "Adjusted EBITDA" as determined by MLC may differ from the definition determined by others.

Summary of Quarterly Financial Results (Unaudited)

Summary of Quarterly Financial Results

	Q3, 2020	Q2, 2020	Q1, 2020	Q4, 2019
Franchise royalties	$4,268,001	$3,711,141	$3,603,355	$4,571,680
License, rental & other income	$3,817,516	$2,653,965	$2,744,118	$3,257,645
Marketing fund & rental revenue	$2,737,303	$640,254	$2,041,051	$3,307,084
Revenue (1)	$10,822,820	$7,005,360	$8,388,524	$11,136,409
Net earnings (loss) and comprehensive income (loss) (2)	$2,814,081	$1,393,671	($938,377)	$110,026
Adjusted EBITDA (3)	**$6,030,097**	**$4,479,686**	**$4,075,246**	**$5,398,605**

	Q3, 2019	Q2, 2019	Q1, 2019	Q4, 2018
Franchise royalties	$4,242,377	$4,263,020	$3,782,515	$4,299,235
License, rental & other income	$3,161,063	$2,956,406	$2,918,891	$3,029,480
Marketing fund revenue	$2,965,135	$2,806,126	$2,544,418	$2,236,087
Revenue (1)	$10,368,575	$10,025,552	$9,245,824	$9,564,802
Net earnings (loss) and comprehensive income (loss) (2)	$917,918	$852,863	$1,286,043	$1,504,163
Adjusted EBITDA (3)	**$5,149,986**	**$4,985,370**	**$4,490,269**	**$5,493,477**

Notes:

(1) Revenues fluctuate with changing weather patterns and product mix. Figures reported are inclusive of marketing fund revenues under IFRS 15 that were adopted on January 1, 2018. 2019 & 2020 figures include rental revenues under IFRS 16 that were adopted on January 1, 2019. Prior periods have not been restated.

(2) Net earnings (loss) and comprehensive income (loss) are inclusive of marketing fund revenues and expenses under IFRS 15 that were adopted on January 1, 2018, lease interest revenue and expenses under IFRS 16 that were adopted on January 1, 2019 and the revaluation of investments. Prior periods have not been restated.

(3) Adjusted EBITDA is a non-IFRS measure and removes the impact of marketing fund revenues and expenses outlined in notes 1 & 2, royalty expenses, management fees, lease interest revenues, lease interest expenses, amortization, and other unusual items.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2020

Overview

Mr. Lube Canada Limited Partnership ("MLC") is the franchisor of Mr. Lube stores across Canada. Mr. Lube is the leading quick service oil change provider in Canada with 174 locations nationally.

On August 19, 2015, MLC sold trademarks and certain other intellectual property rights ("ML Rights") to ML Royalties Limited Partnership (the "MRLP"), an entity controlled by Diversified Royalty Corp. ("DIV") for a purchase price of approximately $138.9 million. The MRLP licensed the ML Rights back to MLC for 99 years (the "ML Licence" and together with the sale, the "Transaction") in exchange for an initial royalty payment of approximately $12.5 million per annum (the "Royalty").

Following the completion of the Transaction, DIV now owns all the ordinary limited partnership units of the MRLP and MLC now owns all of the Class B, C, D, E and F limited partnership units of the MRLP. The Class B, C, D, E and F LP units may, upon certain performance criteria being met by MLC, be exchanged by MLC for common shares of DIV in connection with certain future increases in the net number of Mr. Lube locations in the Royalty Pool (as defined below) and the amount of the Royalty Rate (as defined below).

MLC is required to use International Financial Reporting Standards ("IFRS") and the financial results disclosed in this Management's Discussion and Analysis ("MD&A") have all been recorded in accordance with those standards.

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian Federal and Provincial governments, enacting emergency measures to combat the spread of the virus. As a listed essential service, Mr. Lube locations remain open to serve our customers across Canada. To support the health and wellbeing of our communities, management has proactively enacted measures to reinforce social distancing and minimize customer touchpoints at our locations.

Although the broader impact on future operations and financial performance remains uncertain, management was proactive in enacting measures early on to support franchisee cashflow, including negotiating rent deferrals and concessions, temporarily suspending marketing contributions, arranging for improved payment terms with suppliers, and promoting government sponsored initiatives. Given the proactive nature of these actions, Mr. Lube has not had to close any flagship locations because of the pandemic.

Despite the economic implications associated with the pandemic, net earnings increased by $1,921,203 for the three-month period ended September 30, 2020 compared to the three months ended September 30, 2019. The growth was mainly attributable to leveraging supplier relationships, deferring marketing spend, and maintaining control over discretionary expenses. MLC temporarily postponed the term loan principal payments for the months of March, April and May and has received an exemption on covenant tests for Q1, 2020 and Q2, 2020. Notwithstanding the exemption, MLC remained in compliance with all bank covenants. Management is confident that MLC will have sufficient working capital and cash flows from operations to fulfill its obligations for the next year.

The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances and related covenants, which may also have a direct impact on MLC's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect our business is not known at this time.

Royalty Pool and Payment

In accordance with the terms of the Licence and Royalty Agreement dated August 19, 2015 between the MRLP and MLC (the "Licence and Royalty Agreement"), the Royalty is calculated by multiplying the system sales of the Mr. Lube locations in the royalty pool (the "Royalty Pool", initially consisting of 117 flagship stores) by an initial agreed royalty rate of 6.95% (the "Royalty Rate"). The Royalty payments will fluctuate based on the system sales of the Mr. Lube locations included in the Royalty Pool. Effective September 18, 2017, the License and Royalty Agreement was amended to reduce the royalty rate to 2.5% on retail tire sales only ("Retail Tire Sales Program").

Subject to the terms of the Amended and Restated Partnership Agreement dated August 19, 2015, eligible new Mr. Lube locations may be added to the Royalty Pool on May 1st of each year starting in 2016.

On May 1, 2018, an agreement was executed for the first royalty rate increase and the vend-in of two eligible locations into the Royalty Pool. Effective May 1, 2018, the royalty for eligible non-tire system sales of the Mr. Lube stores in the Royalty Pool is 7.45%. As consideration for the rate increase, MLC received $9.2M in exchange for 2.8M Class C units, while the remaining Class C units were surrendered for $1. A further $0.9M was exchanged for the vend-in of two eligible locations into the Royalty Pool. A remaining $0.2M was paid on May 1, 2019 based on the final performance of the two eligible locations.

On May 1, 2019, $2.7M was exchanged for the vend-in of four eligible locations into the Royalty Pool. Based on the final performance of the four eligible locations, up to $1.1M is expected to be received by May 1, 2021.

In addition to the Royalty payments, MLC has agreed to pay DIV a management fee that was initially set at $200,000 per year for strategic and other services. The management fee will be increased at a rate of 2% per annum over the term of the Licence and Royalty Agreement.

OPERATING RESULTS FOR THE THREE MONTHS ENDING SEPTEMBER 30, 2020

Same Store Sales Growth ("SSSG")

SSSG, a key driver of franchise royalties for MLC, is the change in net sales of Mr. Lube stores as compared to the net sales for the same period in the previous year, where stores were open for a minimum of 12 months. SSSG is a non-IFRS measure.

Results for the quarter have improved since the onset of COVID-19 pandemic. As an essential service, Mr. Lube locations remained open to serve the community with an increased emphasis on social distancing. For the three-month period ended September 30, 2020, system wide SSSG was negative 0.1% while SSSG for the stores included in the Royalty Pool was positive 0.5%.

Mr. Lube Stores

As of September 30, 2020, there were 174 Mr. Lube stores, which is eight less than the number of Mr. Lube stores as of September 30, 2019. There are 122 Flagships included in the Royalty Pool after the addition of 4 new stores on May 1, 2019. There was one store opening and four store closures for the three months ended September 30, 2020 compared to one store opening and no store closures for the three months ended September 30, 2019. All 4 closures during the current period were Walmart co-locations. The decision to close these Walmart locations was made prior to the onset of the COVID-19 pandemic.

Revenue

Revenue for the three-month period ending September 30, 2020 was $10,822,820 compared to $10,368,575 for the three-month period ended September 30, 2019, an increase of $454,245. The increase was predominantly related to incremental supplier, franchising, and property rental streams.

Adjusted EBITDA

Adjusted EBITDA increased by $880,111 from $5,149,986 for the three-month period ended September 30, 2019 to $6,030,097 for the three-month period ended September 30, 2020. The change was attributable to growth in revenues outlined above, combined with ongoing control over discretionary spend.

Net Earnings

Net earnings increased by $1,921,203, from $917,918 for the three-month period ended September 30, 2019 to $2,839,121 for the three-month period ended September 30, 2020. The improvement was largely attributable to the reduction and deferral of marketing expenditures during the period, coupled with incremental revenue streams and an increased focus on managing discretionary spend.

Net Earnings and Comprehensive Income

Net earnings and comprehensive income increased by $1,896,163, from $917,918 for the three-month period ended September 30, 2019 to $2,814,081 for the three-month period ended September 30, 2020. The growth was attributable to the $1,921,203 outlined in the net earnings discussion above, partially offset by a fair value loss on Class B units of $25,040.

Cash Flows

Cash Flow from Operating Activities

During the three-month period ended September 30, 2020 operating activities generated cash of $1,849,612 compared to a generation of $678,431 in the same period in 2019. The change in cash from operations was due to growth in net earnings, which were partially offset by changes in the timing of working capital.

Cash Flow from Financing Activities

During the three-month period ended September 30, 2020, financing activities used $3,474,341 of cash, compared with a use of $2,874,650 during the same period in 2019. The change in financing activities of $599,691 was largely attributable to the repayment of COVID-19 related rent deferrals received from landlords earlier in the year.

Cash Flow from Investing Activities

During the three-month period ended September 30, 2020, investing activities generated cash of $3,189,956, compared to a generation of $2,697,546 in 2019. The change in cash of $492,410 was largely attributable to the repayment of COVID-19 related franchisee rent deferrals granted to franchisees earlier in the year.

OPERATING RESULTS FOR THE NINE MONTHS ENDING SEPTEMBER 30, 2020

Same Store Sales Growth ("SSSG")

SSSG, a key driver of franchise royalties for MLC, is the change in net sales of Mr. Lube stores as compared to the net sales for the same period in the previous year, where stores were open for a minimum of 12 months. SSSG is a non-IFRS measure.

Results for the year have been negatively impacted by COVID-19 and the associated travel restrictions imposed. As an essential service, Mr. Lube locations remained open to serve the community with an increased emphasis on social distancing. For the nine-month period ended September 30, 2020, system wide SSSG was negative 7.4% while SSSG for the stores included in the Royalty Pool was negative 6.4%.

Mr. Lube Stores

As of September 30, 2020, there were 174 Mr. Lube stores, which is eight less than the number of Mr. Lube stores as of September 30, 2019. There are 122 Flagships included in the Royalty Pool after the addition of 4 new stores on May 1, 2019. There were three store openings and fourteen store closures for the nine months ended September 30, 2020 compared to five store openings and no store closures for the nine months ended September 30, 2019. All 14 closures during the current period were Walmart co-locations. The decision to close the Walmart locations was made prior to the onset of the COVID-19 pandemic.

Revenue

Revenue for the nine-month period ending September 30, 2020 was $26,216,705 compared to $29,639,951 for the nine-month period ended September 30, 2019, a decline of $3,423,246. The change was predominantly attributable to reduced marketing fees, franchise royalties and other fees associated with the decline in same store sales.

Adjusted EBITDA

Adjusted EBITDA decreased by $40,596, from $14,625,625 for the nine-month period ended September 30, 2019 to $14,585,029 for the nine-month period ended September 30, 2020. The change was predominantly due to declines in franchise royalties and other revenues associated with the sales interruptions experienced during the period, which were partially offset by reductions in discretionary spend.

Net Earnings

Net earnings increased by $714,141, from $3,056,824 for the nine-month period ended September 30, 2019 to $3,770,965 for the nine-month period ended September 30, 2020. The increase was largely attributable to the reduction in marketing spend relative to collections, the receipt of the Canadian Emergency Wage Subsidy and reductions in discretionary spend. As the royalty expense paid to MRLP is based on sales, much of the decline in franchise revenue was offset by reductions in expenses paid to MRLP.

Net Earnings and Comprehensive Income

Net earnings and comprehensive income increased by $212,551, from $3,056,824 for the nine-month period ended September 30, 2019 to $3,269,375 for the nine-month period ended September 30, 2020. The increase was attributable to the increase in net earnings of $714,141 outlined above, offset by a fair value loss on Class B units of $501,590.

Cash Flows

Cash Flow from Operating Activities

Operating activities generated cash of $3,628,815 for the nine months ended September 30, 2020 compared to a generation of $2,753,503 in the same period in 2019, an increase of $875,312. The change in cash from operations was attributable to the increase in net earnings and favourable movements in working capital.

Cash Flow from Financing Activities

During the nine-month period ended September 30, 2020, financing activities used $8,855,528 of cash, compared with a use of $11,111,480 during the same period in 2019, an improvement of $2,255,952. The change in financing activities was largely attributable to the issuance of promissory notes receivable from partners in 2019, which were partially offset by incremental lease payments made during the period. To provide temporary relief on cash outflows, MLC secured a temporary deferral of term loan principal payments for the months of March, April and May. The deferred payments will be payable upon maturity of the term loan on December 31, 2021.

Cash Flow from Investing Activities

During the nine-month period ended September 30, 2020, investing activities generated cash of $8,245,272, compared to a generation of $10,578,654 in 2019. The change in cash of $2,333,382 was attributable to the absence of new store vend-in during the period, which was partially offset by an increase in incremental lease payments received associated with IFRS 16.

Liquidity and Capital Resources

MLC will use cash flows from operations and a demand operating facility to finance investing and operating activities.

Commitments

Long term incentive compensation

In 2016, MLC introduced a share-based compensation program to replace the existing long-term incentive plan that expired in 2016. One component of the plan resulted in the issuance of units for the forfeit of any future long-term incentive payments. These units will vest over a 5-year period, contingent upon continued service. The other component of the plan resulted in the issuance of units in exchange for cash consideration. Participating management will be paid an annual bonus up to December 31, 2021, which must be used to purchase units. The expense for both components of the plan will be charged rateably over the service period. The vested units issued under the plan contain a mandatory redemption provision and accordingly, are recorded as a liability on the Statement of Financial Position. The vested units are remeasured on an annual basis to determine their redemption amount. Given the interruptions associated with COVID-19, no bonuses were paid, and no units were purchased for the three and nine-months ended September 30, 2020.

Leases

MLC has rental obligations under operating leases for office locations and franchise stores. MLC has sub-leased all franchise stores to franchisees and, under the terms of each sub-lease, each franchisee assumes all obligations under the applicable head lease. MLC does not record franchise store lease revenue or expenses in its statement of comprehensive income and has recorded a recoverable decommissioning obligation on the statement of financial position. See the accounting estimates section for further discussion of the provision for decommissioning obligations. Effective January 1, 2019, MLC adopted IFRS 16, Leases. Under the new standard, a right-of-use asset is recorded for each head lease based on the present value of future lease payments with an equal corresponding lease liability; however, as a result of the sublease, the right-of-use asset is derecognized and a net investment in sublease is recognized based on the future value of lease payments received. Interest expenses and revenues as a result of the change in lease liability and change in net investment in sublease will be recorded on a gross basis in the statement of comprehensive income. Rent concessions were negotiated with landlords during Q2 and passed onto the franchisees to support franchisees in managing cash flows. This led to an increase in net investments in subleases and lease obligation as a result of the change in variable lease payments.

Management Fees

Over the past 12 months, MLC paid DIV management fees of $217,569 for strategic and other services. The management fee will be increased at a rate of 2% per annum over the term of the Licence and Royalty Agreement which expires in 2114.

Royalty Expense

MLC will pay MRLP a Royalty calculated by multiplying the non-tire system sales of the Mr. Lube locations in the Royalty Pool by 7.45% and the retail tire sales of the Mr. Lube locations in the Royalty Pool by 2.50%. The Royalty payments will fluctuate based on the system sales of the Mr. Lube locations included in the Royalty Pool. Effective May 1, 2018, the Royalty Rate on non-tire sales for stores in the Royalty Pool was increased from 6.95% to 7.45%.

Contractual Obligations

A summary of the estimated timing of cash flows related to MLC's contractual obligations and commercial commitments as at September 30, 2020 is as follows:

	< 1 year	2-3 years	4-5 years	>5 years	Total	Book Value
Management fees [1]	$221,920	$457,245	$475,717	$58,962,175	$60,117,057	$0
Operating lease commitments [2]	$11,393,938	$22,535,610	$21,760,815	$134,385,051	$190,075,414	$122,498,177
Accounts payable and accrued liabilities	$6,825,659	$0	$0	$0	$6,825,659	$6,825,659
Demand Loan [3]	$836,442	$418,219	$0	$0	$1,254,661	$1,254,661
Decommissioning obligation [4]	$0	$0	$0	$935,282	$935,282	$935,282
Redeemable Partnership Units	$0	$0	$0	$7,488,122	$7,488,122	$7,488,122
	$19,277,959	**$23,411,074**	**$22,236,532**	**$201,770,630**	**$266,696,195**	**$139,001,901**

Notes:

(1) Represents annual management fee payable to DIV.

(2) Represents minimum annual rental payments under operating lease contracts now accounted for as right-of-use obligations. Variable payment changes due to rent deferrals have been factored in.

(3) Represents scheduled principal payments factoring in the deferral of March, April, and May payments to December 31, 2021.

(4) Represents MLC's estimated obligation to restore leased facilities to their original condition at the end of the lease terms. The full amount of this obligation has been recorded as a recoverable asset from the franchisee on the statement of financial position.

Demand Facility and Guarantee

On April 1, 2020, MLC entered into a new term sheet with its lender, the Bank of Montreal. The new term sheet provides MLC with a demand, revolving credit facility, a non-revolving demand loan and a letter of credit facility. To manage cash flow during the pandemic, MLC amended the term sheet to defer principal payments on the term facility for the months of March, April, and May, while providing covenant exemptions for Q1, 2020 and Q2, 2020. Despite the exemption, MLC remained within compliance of all banking covenants during the year.

Related Party Transactions

MLC is related to Graybar Investments Limited Partnership (“Graybar”) by virtue of common officers and directors as well as some common limited partners. MLC earns franchise royalties and licence fees from stores owned by Graybar and receives marketing fees to administer advertising and promotional programs. Transactions with related parties are as follows:

	Q3, 2020	Q3, 2019	YTD, 2020	YTD, 2019
Common cost recovered	$27,946	$30,734	$83,839	$92,202
Franchise royalties received	$6,574	$20,387	$26,282	$57,602
Marketing fees received	$4,382	$13,591	$14,517	$38,401
License fees received	$0	$0	$27,500	$22,500
	$38,902	**$64,712**	**$152,138**	**$210,705**

All related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Accounting Estimates

The preparation of MLC's financial statements in accordance with IFRS requires estimates and judgments to be made that affect the reported amounts of assets and liabilities, earnings and expenses and related disclosures. These estimates are based on historical experience, knowledge and assumptions that are believed to be reasonable under the circumstances.

MLC believes that the following selected accounting policy is critical to understanding the estimates, assumptions and uncertainties that affect the amounts reported and disclosed in the financial statements and related notes:

Estimate - Provisions for Decommissioning Obligations

MLC records a decommissioning obligation which represents the estimated costs of restoring certain leased facilities to their original condition at the end of the lease terms. A corresponding recoverable balance is recognized representing the amount to be recovered from the franchisees under the sub-lease agreement as any cost incurred by MLC is reimbursed by franchisees. If a franchisee is unable to satisfy their obligation under the related sub-lease for the location, MLC would be liable for the obligation and this would impact the financial performance accordingly.

The value of the obligation is determined using known performance obligations of the related leases and an estimate of the associated cost. The costs are estimated using actual costs incurred in the past, supplier quotes and management knowledge of current construction costs. The opening and closing of stores as well as significant changes to costs for decommissioning stores would all impact the calculation and may result in a material change over accounting periods.

Changes in Accounting Standards and Future Accounting Standards

The information presented reflects the adoption of IFRS 15, Revenue from Contracts with Customers & IFRS 9, Financial Instruments effective January 1, 2018 and IFRS 16, Leases effective January 1, 2019. MLC has adopted IFRS 16 on a modified retrospective approach, with no restatement to comparative information.