annual report 2011

MTY FOOD GROUP

Au Vieux Duluth Express
country style
Croissant Plus
burger
Koya Japan
KORYO KOREAN BARBEQUE
Jugo Juice
vie&nam
cultures
sushi shop
Villa Madina Cuisine Méditerranéenne
Kim Chi Délice Coréen
Franx Supreme
Sukiyaki
TacoTime Canada
MR.SUB
Tandori Cuisine Indienne
Chick'n'Chick Spécialité de poulet • Chicken specialties
valentine
Vanellis Mets italiens frais
Tutti Frutti Dejeuner & Diner
Thaï express
tcby
yogen früz Canada
La Crémière
Tiki-Ming Cuisine chinoise
Buns Master Baking it Better
Panini Pizza Pasta

OUR BANNERS

MTY FOOD GROUP

LETTER FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dear Shareholders:

On behalf of the Board of Directors, I am pleased to present the 2011 Annual Report. This past financial year has drawn to a close on a high note for MTY. On a continued path of growth, we have achieved unprecedented financial results and completed four (4) acquisitions.

The following are some highlights from this eventful 2011 fiscal year;

- MTY completes four (4) acquisitions:
  - 51% interest in a 60,000 square feet food processing plant;
  - 136 units Jugo Juice franchise network;
  - 338 units MR. Sub franchise network;
  - 20 units Koryo Korean Barbeque franchise network.
- Number of locations at 2,263, up from 1,727 from November 30, 2010;
- Revenues increased by 17% to reach $78.5 million for the year;
- Same store sales grew by 0.63% for the fiscal year;
- System wide sales went up by 14% reaching $527.6 million during the fiscal year;
- EBITDA before restructuring charges up 6% at $27.9 million for the twelve month period;
- Earnings per share of $0.84 per share for the year;
- Cash and short term investments total $10.6 million at the end of November 2011, despite the disbursements for the acquisitions which totaled $36.1 million during the year and the payment of the quarterly dividends of $3.44 million.

Once again, we achieved these results in a challenging economic environment, in which our performance driven culture, operational excellence and commitment by our employees and franchisees were critical to reach our goals.

On January 23, 2012 we were pleased to announce an increase of 22% of our quarterly dividend payment from 4.5¢ per share to 5.5¢ per share, which increase reflects the positive momentum building our confidence in our future earnings and our commitment to financial discipline.

Going into 2012, we will continue to strive for excellence, namely by opening new locations of existing concepts in shopping malls, at street front locations and in non-traditional settings. We also intend to develop on the international level through area master agreements as well as to diligently seek out new prospective acquisitions.

In closing, I wish to personally thank each member of the MTY team, franchisees, partners and shareholders for their continuous support and contribution to our success in 2011. I truly appreciate and thank you for being a part of our growing Family.

MTY Food Group Inc.

Stanley Ma
Chairman and Chief Executive Officer
February 13, 2012

GROUPE MTY GROUP

Management's Discussion and Analysis
For the fiscal year ended November 30, 2011

General

Management's Discussion and Analysis of the financial position and results of operations ("MD&A") of MTY Food Group Inc. ("MTY") is supplementary information and should be read in conjunction with the Company's consolidated financial statements and accompanying notes for the fiscal year ended November 30, 2011.

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.

This MD&A was prepared as at February 13, 2012. 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

This MD&A and, in particular, but without limitation, the sections of this MD&A entitled Outlook, Same Store Sales and Contingent Liabilities, 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 2011. Forward-looking statements also include any other statements that do not refer to historical facts. A statement we make is forward-looking when it uses what we know and expect 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 by us, forward-looking statements in this MD&A describe our expectations at February 13, 2012 and, accordingly, are subject to change after such date. Except as may be required by Canadian securities laws, we do 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 our expectations expressed in or implied by such forward-looking statements and that our business outlook, objectives, plans and strategic priorities may not be achieved. As a result, we cannot guarantee that any forward-looking statement will materialize and you 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 our business outlook and operating environment. Readers are cautioned, however, that such information may not be appropriate for other purposes.

Forward-looking statements made in this MD&A are based on a number of assumptions that we believed were reasonable on February 13, 2012. 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 we have used in making forward-looking statements contained in this MD&A. If our assumptions turn out to be inaccurate, our actual results could be materially different from what we expect.

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 our ability to attract customers' disposable income; our ability to secure advantageous locations and renew our existing leases at sustainable rates; the arrival of foreign concepts, our ability to attract new franchisees; changes in customer tastes, demographic trends and in the attractiveness of our 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, our products; our ability to implement our strategies and plans in order to produce the expected benefits; events affecting the ability of third-party suppliers to provide to us essential products and services; labour availability and cost; stock market volatility; operational constraints 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 our expectations expressed in or implied by our forward-looking statements are discussed in this MD&A.

We caution readers that the risks described above are not the only ones that could impact us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also have a material adverse effect on our business, financial condition or results of operations.

Except as otherwise indicated by us, 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 February 13, 2012. The financial impact of these transactions and non-recurring and other special items can be complex and depends on the facts particular to each of them. We therefore cannot describe the expected impact in a meaningful way or in the same way we present known risks affecting our business.

Compliance with Generally Accepted Accounting Principles

Unless otherwise indicated, the financial information presented below, including tabular amounts, is expressed in Canadian dollars and prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). MTY uses income before income taxes, interest on long-term debt, non-controlling interest and amortization ("EBITDA") because this measure enables management to assess the Company's operational performance. This measure is a widely accepted financial indicator but is not a measurement determined in accordance with GAAP and may not be comparable to the EBITDA presented by other companies.

Highlights of significant events during the fiscal year

On November 10, 2011, the Company announced it had completed the acquisition of the assets of Koryo Korean BBQ Franchise Corporate for an estimated consideration of $1.8 million. The acquisition was effective November 1, 2011.

On November 1, 2011, the Company announced it had completed the acquisition of substantially of the assets of Mr. Submarine Limited and Mr. Submarine Realty Inc., for an estimated consideration of $23.0 million.

On August 24 2011, the Company announced it had completed the acquisition of the assets of Jugo Juice International Inc., effective on August 18, 2011, for an estimated consideration of $15.45 million.

On December 17, 2010, the Company announced it had acquired a 51% interest in a 60,000 square feet food processing plant located in the vicinity of the city of Quebec. The transaction was entirely financed by debt.

On November 30, 2011, the Company amalgamated, in two separate transactions, fifteen of its wholly-owned subsidiaries in an effort to simplify the legal structure of the Company and reduce the administrative costs related to maintaining the legal entities active.

Core business

MTY franchises and operates quick-service restaurants under the following banners: Tiki Ming, Sukiyaki, La Cremiere, Au Vieux Duluth Express, Carrefour Oriental, Panini Pizza Pasta, Chick 'N' Chick, Franx Supreme, Croissant Plus, Villa Madina, Cultures, Thai Express, Mrs. Vanelli's, Kim Chi, "TCBY", Yogen Früz, Sushi Shop, Koya Japan, Vie & Nam, Tandori, O'Burger, Tutti Frutti, Taco Time, Country Style, Bunsmaster, Valentine, Jugo Juice, Mr. Sub and Koryo Korean BBQ.

As at November 30, 2011, MTY had 2,263 locations in operation, of which 2,233 were franchised or under operator agreements and the remaining 30 locations were operated by MTY.

MTY's locations can be found in: i) food courts and shopping malls; ii) street front; and, iii) non-traditional format within petroleum retailers, convenience stores, cinemas, amusement parks and in other venues or retailers shared sites. The non-traditional locations are typically smaller in size, require a lower investment and generate lower revenues than the locations found in shopping malls, food courts or street front locations. The street front locations are mostly made up of the Country Style, La Cremiere, "TCBY", Sushi Shop, Taco Time, Tutti Frutti, Valentine and Mr. Sub banners. La Cremiere and "TCBY" operate primarily from April to September and the others banners operate year round.

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

Other banners added through acquisitions include:

- 18 locations from the Fontaine Sante/Veggirama chain in 1999,
- 74 locations from the La Cremiere ice cream chain in 2001,
- 20 locations from the Croissant Plus chain in 2002,
- 24 locations from the Cultures chain in 2003,
- 6 locations from the Thai Express chain in May 2004,
- 103 locations from the Mrs. Vanelli's chain in June 2004,
- 91 locations of The Country's Best Yogurt "TCBY" with the undertaking of the Canadian master franchise right in September 2005,
- On April 1, 2006, MTY acquired the exclusive master franchise rights to franchise Yogen Früz™ throughout Canada with its network of 152 existing locations,
- On September 1, 2006, MTY acquired the Sushi Shop banner with its 42 franchise locations and 5 corporate owned locations,
- On October 19, 2006, the Company acquired the Koya Japan banner with its 24 franchise locations and one corporate owned location,
- On September 1, 2007 MTY purchased 15 existing Sushi Shop franchise locations from an investor group,

- On September 15, 2008, MTY acquired the Tutti Frutti banner with its 29 outlets. This banner caters to the breakfast and lunch crowd,
- On October 31, 2008, MTY acquired the Canadian franchising rights of Taco Time in Canada. As at the date of acquisition, there were 117 Taco Time restaurants operating in Western Canada,
- On May 1, 2009, the Company acquired the outstanding shares of Country Style Food Services Holdings Inc. with the 480 outlets operated by its subsidiaries,
- On September 16, 2010, the Company acquired the outstanding shares of Groupe Valentine inc. and of its network of 95 stores. The transaction was effective September 1, 2010,
- On August 24, 2011, the Company acquired the assets of Jugo Juice International Inc. with 136 outlets in operation at the date of closing. The transaction was effective August 18, 2011,
- On November 1, 2011, the Company acquired the assets of Mr. Submarine Limited, with 338 stores in operations at the date of closing,
- On November 10, 2011, the Company acquired the assets of Koryo Korean BBQ Franchise Corp. with 20 stores in operations at the effective date of closing. The transaction was effective November 1, 2011.

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 turn key projects, rent, sign rental, supplier contributions and sales of other goods and services to franchisees. Revenues from corporate owned locations include sales generated from corporate owned locations. 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 turn key projects, rent, supplies and equipment sold to franchisees. Corporate owned location expenses include the costs incurred to operate corporate owned locations.

MTY generates revenues from the food processing business discussed herein. The plant produces various products that range from ingredients and ready to eat food sold to restaurants or other food processing plants to microwavable meals sold in retail stores. The plant generates most of its revenues selling its products to distributors and retailers.

The Company also generates revenues from its distribution center located on the south shore of Montreal. The distribution center mainly serves our Valentine and Franx franchises with a broad range of products required in the day-to-day operations of the restaurants.

Description of recent acquisitions

On November 10, 2011, the Company acquired the assets of Koryo Korean BBQ Franchise Corp for an estimated total consideration of $1.8 million. At the effective date of closing, November 1, 2011, the Koryo network was composed of 19 franchised stores and 1 corporate store. Of the purchase price, MTY withheld an amount of $0.35 million in holdbacks.

On November 1, 2011, the Company acquired substantially all of the assets of Mr. Submarine Limited and Mr. Sub Realty Inc. for an estimated total consideration of $23.0 million. At the date of closing, there were 338 Mr. Sub stores in operations, all of which were franchised or subject to an operator agreement. MTY withheld an amount of $2.5 million as holdback, which will become payable in November 2013.

On August 24, 2011, the Company acquired all of the assets of Jugo Juice International Inc., Jugo Juice Canada Inc. and Jugo Juice Western Canada Inc. for an estimated total consideration of $15.45 million. At the effective date of closing, August 18, 2011, 136 Jugo Juice outlets were in operations, 2 of which we corporately owned and 134 were franchised. Of the total consideration, MTY withheld $1.735 million as holdbacks on the transaction.

On December 17, 2010, the Company acquired a 51% interest in a food processing plant. The total transaction value was estimated at approximately $3.5 million including land, building, equipment, inventories, existing workforce and certifications. The newly formed company contracted at $3.5 million bank loan to finance the acquisition.

As part of the transaction, one of the shareholders in the newly formed company brought in existing activities from another operating plant, in exchange for mandatorily redeemable preferred shares. One third of the preferred shares will be redeemed annually, at a value contingent on the performance of the plant. The value of such shares was estimated at $300,000 at the inception of the shareholders' agreement and subsequently revalued at $200,000 following changes in the purchase price allocation.

Selected annual information

	Year ended November 30,2009	Year ended November 30,2010	Year ended November 30,2011
Total assets	$76,535,459	$96,554,108	$117,053,200
Total long-term liabilities*	$2,463,229	$3,544,590	$9,691,586
Operating revenue	$51,537,788	$66,886,441	$78,465,018
Income before income taxes and non-controlling interest	$17,927,708	$22,303,714	$22,840,940
Net income and comprehensive income	$12,261,503	$15,446,794	$16,154,023
EPS basic	$0.64	$0.81	$0.84
EPS diluted	$0.64	$0.81	$0.84
Weighted daily average number of common shares	19,120,567	19,120,567	19,120,567
Weighted average number of diluted common shares	19,120,567	19,120,567	19,120,567

* Total long-term liabilities exclude non-controlling interest

Summary of quarterly financial information

	Quarters ended							
	February 2010	May 2010	August 2010	November 2010	February 2011	May 2011	August 2011	November 2011
Revenue	$14,313,553	$17,287,393	$15,941,775	$19,343,720	$17,476,037	$18,355,608	$19,334,519	$23,298,854
Net income and comprehen-sive income	$3,003,595	$3,809,139	$4,150,813	$4,483,247	$3,468,337	$3,554,583	$4,401,521	$4,729,580
Per share	$0.16	$0.20	$0.22	$0.23	$0.18	$0.19	$0.23	$0.25
Per diluted share	$0.16	$0.20	$0.22	$0.23	$0.18	$0.19	$0.23	$0.25

Results of operations for the fiscal year ended November 30, 2011

Revenue

During the year ended November 30, 2011, the Company's total revenue increased by 17%, to reach $78.5 million. Revenues for the four segments of business are broken down as follows:

	November 30, 2011 ($ million)	November 30, 2010 ($ million)	Variation
Franchise operation	56.1	57.1	-2%
Corporate stores	10.8	8.7	25%
Distribution	6.1	1.3	371%
Food processing	6.3	nil	N/A
Intercompany transactions	-0.8	-0.2	N/A
Total operating revenues	78.5	66.9	17%

For the year, revenue from franchise locations were down by $1.0 million compared to 2010, for factors described below:

	$million
Revenues, 2010 fiscal year	57.1
Increase in recurring revenue streams	4.4
Decrease in turn-key, rent and sales to franchisees	-5.0
Decrease in initial franchise fees	-1.2
Increase in renewal and transfer fees	0.4
Other non-material increases	0.4
Revenues, 2011 fiscal year	56.1

During the 2011 fiscal period, the fundamentals of our business, characterized by recurring streams of revenues have strengthened, showing an increase of $4.4 million over the realization of 2010.

This was realized while Country Style experienced a total decrease in franchising revenues of $4.1 million, affecting all categories of income, including royalties, initial franchise fees, percentage rent, turnkeys and sales of material to franchisees.

During the year, 127 new outlets were opened, compared to an exceptional 191 during 2010; the decrease in new store openings resulted in a corresponding decrease in franchise fee revenues and sales of turnkeys.

The additional revenues gained from the acquisitions realized during 2011 and during the late stages of 2010 contributed to offset the above-mentioned decreases. Together, Jugo Juice (3½ months during 2011), Mr. Sub (1 month during 2011) and Valentine (owned for 12 months in 2011 compared to 3 months in 2010) contributed $3.8 million in various franchising revenues.

Revenue from corporate owned locations increased 25% over last year, mainly owing to the addition of the Valentine corporate stores in the fourth quarter of 2010 as well as to the consolidation of certain variable interest entities (VIEs) acquired in the Mr. Sub transaction.

During 2011, the Company also generated distribution and food processing revenues of $6.1 million and $6.3 million respectively. The distribution center was acquired in September of 2010; as a result, the 12 month-results of 2011 are compared to only 3 months of operations during 2010. The distribution center revenues are highly dependent on the performance of the Valentine and Franx restaurants, from which it derives 100% of its revenues.

As for the food processing plant, it was acquired during the first quarter of our 2011 fiscal period. Revenues in the food processing industry tend to be more volatile and are highly dependent on the performance of third parties. The focus continues to be on business development and maximization of the plant's excess capacity.

Cost of sales and other operating expenses

During 2011, operating expenses increased by 26%. The increase is broken down as follows:

	November 30, 2011 ($ million)	November 30, 2010 ($ million)	Variation
Franchise operation	30.1	32.4	-7%
Corporate stores	10.7	7.7	39%
Distribution	5.5	1.2	378%
Food processing	6.2	nil	N/A
Intercompany transactions	-0.8	-0.2	N/A
Total operating expenses	51.8	41.1	26%

Operating expenses related to the franchising operations decreased by $2.3 million in 2011, mainly because of the decrease in revenues from turn-keys, rent and sales to franchisees, which shrunk by $5.0 million. Expenses related to the recently acquired banners were among the items that contributed to offset the decrease in the cost of sales described above.

Expenses for corporate owned locations increased 39% during 2011, in large part due to the addition of the Valentine corporate stores as well as to the consolidation of certain VIEs acquired in the Mr. Sub transaction.

Our distribution center incurred $5.5 million in operating expenses during the year, compared to $1.2 million in expenses for the 3 months following the acquisition in 2010. The food processing plant incurred $6.2 million in operating expenses, with no comparatives for the prior year.

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

	Fiscal year ended November 30, 2011					
(In millions)	Franchise	Corporate	Distribution	Processing	Consolidation	Total
Revenues (1)	$57.29	$10.78	$6.06	$6.33	$-0.76	$79.70
Expenses	$30.57	$10.73	$5.53	$6.20	$-0.76	$52.27
EBITDA	$26.72	$0.05	$0.53	$0.13	$0.00	$27.43
EBITDAR	$27.17	$0.05	$0.53	$0.13	$0.00	$27.88
EBITDAR as a % of Revenue (1)	47%	0%	9%	2%	N/A	35%

	Fiscal year ended November 30, 2010					
(In millions)	Franchise	Corporate	Distribution	Processing	Consolidation	Total
Revenues (1)	$57.68	$8.65	$1.29	$nil	$-0.15	$67.47
Expenses	$32.36	$7.73	$1.16	$nil	$-0.15	$41.10
EBITDA/EBITDAR	$25.32	$0.92	$0.13	$nil	$0.00	$26.37
EBITDAR as a % of Revenue (1)	44%	11%	10%	N/A	N/A	39%

EBITDA (income before income taxes, non-controlling interest and amortization) is not an earnings measure recognized by GAAP and therefore may not be comparable to similar measures presented by other companies. EBITDAR uses the same parameters as EBITDA but deducts restructuring charges from expenses. It is also not recognized by GAAP.

(1)For purposes of the EBITDA analysis, interest income, gains on disposal of capital assets and gains or losses on foreign exchange have been included with Franchise revenue. See reconciliation to net income and comprehensive income on page 23.

The franchising operation's EBITDAR increased 7% during 2011. The increase is the result of multiple factors, including solid growth of our recurring, high margin, revenues such as royalties and the contribution of our recent acquisition in the fourth of the year. The decrease in the proportional weight of low margin items such as turnkeys, combined with the increase in high margin items such as royalties caused the EBITDAR as a percentage of revenues to increase to 47%, compared to 44% a year ago.

During the second and third quarters of 2011, the Company has undertaken a restructuring of its Country Style team. MTY has reviewed opportunities to integrate some of its teams and brands together by centralizing some functions into shared services so that greater efficiency could be reached. As a result of this process, the Company incurred $446,579 in restructuring costs, which are mainly made of severance costs. This charge includes the costs related to the departure of Country Style's president, whose duties will be absorbed by the existing team.

EBITDA from corporate owned locations decreased from $0.9 million in 2010 to $0.0 million in 2011, mainly due to some relatively weaker stores recently acquired and to the disposition of a highly profitable store at the end of the first quarter of 2011.

EBITDA from the Company's distribution center was $0.5 million for the year, which represents and EBITDA margin of 9%.

The newly acquired food processing plant generated an EBITDA of $0.1 million and continues to show signs of improvement after a longer than anticipated transition period.

Net income
During 2011, MTY's net income increased by 5% to reach a historical high of $16.2 million or $0.84 per share ($0.84 per diluted share). Net income for the same period last year was $15.4 million or $0.81 per share ($0.81 per diluted share).

Income before taxes and minority interest increased by 2%, fueled mainly by the franchising operation's growth, which more than offset the decrease in the performance of the corporate stores.

The income tax burden on pre-tax income was 28.1% in 2011, 2.3% lower than the average tax rate for our 2010 fiscal period. This is mainly due to declining tax rates in most jurisdictions in Canada as well as to a shift in the proportional weight of some jurisdictions for tax purposes. The increase in net income attributable to lower tax rates is approximately $0.5 million.

Other income
Interest income, which is generated from the Company's investments in short-term notes and guaranteed investment certificates, increased by $0.2 million in 2011 compared to the same period a year earlier; the increase is attributable to the higher amount of excess cash invested.

The gains on disposal of capital assets, which result from the sale of the assets of corporate stores, increased to $0.9 million in 2011 compared to $0.4 million in 2010. This is mainly attributable to the sale of the assets of one of the Company's subsidiaries in the first quarter of 2011, which resulted in a gain of $0.7 million.

Amortization expense
Amortization of capital assets increased by $0.2 million during the last twelve months, mainly because of the additions of Valentine and of the food processing plant.

Amortization of intangible assets also increased by $0.2 million during 2011, because of the amortization of the newly acquired intangibles.

Results of operations for the fourth quarter ended November 30, 2011

Revenue
During the last three months of our 2011 fiscal year, the Company's total revenue increased by 20% to reach $23.3 million. Revenues for the four segments of business are broken down as follows:

	November 30, 2011 ($ million)	November 30, 2010 ($ million)	Variation
Franchise operation	16.3	15.7	4%
Corporate stores	3.3	2.5	30%
Distribution	1.9	1.3	45%
Food processing	2.0	nil	N/A
Intercompany transactions	-0.2	-0.2	N/A
Total operating revenues	23.3	19.3	20%

As is shown in the table above, revenue from franchise locations progressed by 4%. Several factors contributed to the variation, as listed below:

	$million
Revenues, fourth quarter of 2010	15.7
Increase in recurring revenue streams	1.8
Decrease in turn-key, sales of material to franchisees and rent revenues	-1.0
Decrease in initial franchise fees	-0.5
Other non-material variations	0.3
Revenues, fourth quarter of 2011	16.3

During the fourth quarter of 2011, the Company opened 37 new stores compared to 59 during the same period last year. As a result, initial franchise fees declined by $0.5 million for the same period, while revenues from turn-keys were also affected adversely.

Recurring revenue streams increased by $1.8 million, fueled by the acquisitions of Mr. Sub and Jugo Juice, as well as by the strong internal growth of some of our existing banners.

Revenue from corporate owned locations increased 30%, to $3.3 million during the last four months of our 2011 fiscal period. The increase is mainly due to the consolidation of certain VIEs acquired with Mr. Sub during the fourth quarter of 2011.

Distribution revenues have increased 45% during the fourth quarter, with the addition of the Franx stores to the list of customers and the growth in the Valentine network contributing the most significant portion of the increase.

The Company also generated food processing revenues of $2.0 million during the quarter. There were no such revenues streams in 2010. The fourth quarter was the strongest in terms of revenues since the acquisition of the plant.

Cost of sales and other operating expenses

During the fourth quarter of 2011, operating expenses increased by 23% to $15.4 million, from $12.5 million for the same period in 2010. Operating expenses for the four business segments were incurred as follows:

	November 30, 2011 ($ million)	November 30, 2010 ($ million)	Variation
Franchise operation	8.7	9.0	-3%
Corporate stores	3.3	2.6	30%
Distribution	1.7	1.2	50%
Food processing	1.9	Nil	N/A
Intercompany transactions	-0.2	-0.2	N/A
Total operating expenses	15.4	12.5	23%

Operating expenses related to the franchising operations decreased by $0.3 million, mainly because of the reduction in turnkey revenues and sales of materials to franchisees described above. This decrease was partially offset by increased labour costs and other operating expenses related to the acquisition realized during 2011.

During the period, expenses for corporate owned locations increased by $0.7 million. Most of the increase is caused by the consolidation of the VIEs of Mr Sub.

Our distribution center incurred $1.7 million in operating expenses during the quarter, an increase that is entirely attributable to the growth in revenues discussed above, while the food processing plant incurred $1.9 million in operating expenses.

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

	Three months ended November 30, 2011					
(In millions)	Franchise	Corporate	Distribution	Processing	Consolidation	Total
Revenues [1]	$16.49	$3.28	$1.87	$2.01	$-0.19	$23.46
Expenses	$8.69	$3.34	$1.74	$1.85	$-0.19	$15.43
EBITDA	$7.80	-$0.06	$0.13	$0.16	$0.00	$8.03
EBITDAR	$7.80	-$0.06	$0.13	$0.16	N/A	$8.03
EBITDAR as a % of Revenue [1]	47%	N/A	7%	8%	N/A	34%

	Three months ended November 30, 2010					
(In millions)	Franchise	Corporate	Distribution	Processing	Consolidation	Total
Revenues [1]	$16.25	$2.52	$1.29	$nil	-$0.15	$19.91
Expenses	$8.97	$2.56	$1.16	$nil	-$0.15	$12.54
EBITDA/EBITDAR	$7.28	-$0.04	$0.13	$nil	$nil	$7.37
EBITDAR as a % of Revenue [1]	45%	N/A	10%	N/A	N/A	37%

EBITDA (income before income taxes, non-controlling interest and amortization) is not an earnings measure recognized by GAAP and therefore may not be comparable to similar measures presented by other companies. EBITDAR uses the same parameters as EBITDA but deducts restructuring charges from expenses. It is also not recognized by GAAP.

(1) For purposes of the EBITDA analysis, interest income, gains on disposal of capital assets and gains or losses on foreign exchange have been included with Franchise revenue. See reconciliation to net income and comprehensive income on page 23.

EBITDAR increased by 9%, from $7.4 million to $8.0 million for the three months ended November 30, 2011.

During the period, the franchising operations generated $7.8 million in EBITDAR, a 7% increase over the results of the fourth quarter of 2010. The increase is mainly attributable to the contribution of recent acquisitions as well as to internal growth in high margin revenues, while some gains realized on the sale of restaurants in 2010 were not repeated in the fourth quarter of 2011, partially offsetting the growth.

EBITDAR from franchise operations as a percentage of revenue increased because of the lower deliveries of turnkeys and sales of materials to franchisees, which typically generate lower profit margins.

EBITDA from corporate owned locations was virtually unchanged compared to 2010, with the improvements in the operations of certain stores being offset by the impact of the sale of a highly profitable store in the first quarter of 2011.

EBITDA from the Company's distribution center was $0.1 million for the period, down slightly compared to the results of the fourth quarter of 2010.

New production contracts gained during the fourth quarter enabled the food processing plant to generate an EBITDA of $0.2 million.

Net income

For the three months ended November 30, 2011, MTY reported a net income of $4.7 million or $0.25 per share ($0.25 per diluted share) compared to a net income of $4.5 million or $0.23 per share ($0.23 per diluted share) for the same period last year, representing a net income increase of 5%.

The increase in net income is mostly attributable to the impact of recent acquisitions on our results as well as to strong generic growth in revenues, which more than offset the decline in the gains realized on disposal of restaurants and the increase in the tax burden for the quarter.

Amortization expense

Amortization of capital assets for the quarter decreased by $0.1 million, mainly because of an adjustment posted in the purchase price allocation of the food processing plant during the quarter, which resulted in a one-time reduced amortization charge.

Amortization of intangible assets was up by $0.1 million because of the amortization of recently acquired franchise rights.

Other income

The gains on disposal of capital assets, which result from the sale of the assets of corporate stores, decreased to $0.0 million in 2011 compared to a gain of $0.5 million during in 2010. In the fourth quarter of 2010, the Company had disposed of certain corporate stores; the Company did not realize the same level of activity in the fourth quarter of 2011.

Income taxes

The provision for income taxes as a percentage of income before taxes increased slightly by 1.4% during the quarter compared to the same period last year, mainly because of the lower tax burden on certain types of income realized in 2010. The Company also had to adjust the rate at which the tax losses coming from Country Style were utilized, resulting in a higher net tax rate.

Contractual obligations and long-term debt

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

For the period ending	Long term debt	Net lease commitments	Total contractual obligations
12 months ending November 2012	$1,982,167	$2,623,603	$4,605,770
12 months ending November 2013	$4,147,000	$2,435,934	$6,582,934
12 months ending November 2014	$425,000	$1,939,863	$2,364,863
12 months ending November 2015	$291,667	$1,585,228	$1,876,895
12 months ending November 2016	$2,479,166	$1,352,422	$3,831,588
Balance of commitments	$-	$2,193,682	$2,193,682
	$9,325,000	**$12,130,732**	**$21,455,732**

* for total commitments, please refer to November 30, 2011 consolidated financial statements

Long-term debt includes non-interest bearing holdbacks on acquisitions, shareholder loans contracted by subsidiaries with the minority shareholders, a bank loan used to finance the acquisition of the food processing plant acquired in December 2010 as well as mandatorily redeemable preferred shares issued to a minority shareholder of a subsidiary.

In addition to the above, the Company has entered into supplier agreements for purchases of coffee beans, wheat, sugar and shortening for delivery between December 2011 and May 2012. The total commitment amounts to $1.6 million.

In relation to the items listed above, the Company has entered into contracts to minimize the impact of variations in foreign currencies. The total commitment on these contracts amounts to approximately $0.6 million.

Liquidity and capital resources

Cash and highly liquid temporary investments totalled $10.6 million on November 30, 2011, a decrease of $18.4 million compared to the $29.0 million balance at the end of the 2010 fiscal period. The decrease is attributable to the disbursement of $32.6 million for the acquisitions of Jugo Juice, Mr. Sub and Koryo, as well as to the payment of $3.4 million in dividends.

Cash flows generated by operating activities were $18.0 million, offsetting approximately half of the disbursements discussed above. Excluding the variation in non-cash working capital items, our operations generated $23.3 million in cash flows, compared to $19.7 million in 2010.

The main driver of the $3.6 million increase in cash flows before non-cash working capital items is the utilization of the tax losses available to the Company following the amalgamation that took place on November 30, 2010.

The variation in working capital requirements is attributable to numerous factors, including the ramp up of the food processing plant acquired in December, income tax installments paid during the year that will be refunded during 2012, and the timing of the collection and payment of the accounts receivable and payable of the Company.

In the short-term, Management will continue to open new locations that will be funded by new franchisees. MTY will continue its efforts to sell some of its existing corporate owned locations and will seek new opportunities to acquire other food service operations. MTY has an available line of credit of $5.0 million that remained unused at November 30, 2011. The facility, when used, bears interest at the bank's annual prime rate plus 1.00%.

Balance sheet

Following the acquisitions of Jugo Juice, Mr. Sub and Koryo during 2011, temporary investments decreased to $4.6 million at the end of the year, down from $23.4 million as at November 30, 2010. Cash flows generated by our operations are typically invested until they are needed to fund acquisitions.

These temporary investments are comprised of highly liquid, short-term notes and guaranteed investment certificates valued at fair value. They have maturity dates between December 2011 and June 2012 and have rates of return between 1.02% and 1.62% (0.82% to 1.45% in November 2010).

Accounts receivable at the end of 2011 were at $9.5 million, an increase of $2.0 million compared to the balance at the end of our 2010 fiscal period. The increase is due to the ramp up in the business of the food processing plant ($0.9 million), to the receivables of Jugo Juice and Mr. Sub ($0.5 million) as well as to the timing of the collection of some receivables in the rest of the Company.

Loans receivable went down by $0.1 million in the period. During 2011, one new loan was granted in relation to a newly franchised restaurant while two were extinguished. In addition, three loans were assigned to MTY in the acquisition of Jugo Juice.

Capital assets increased to $10.2 million at the end of the year, an increase of $3.0 million compared to the balance at November 30, 2010. The acquisitions realized during the year contributed $4.1 million to our capital assets. These additions were partially offset by the disposal of some corporate store assets and by the amortization recorded during 2011.

Goodwill increased by $12.4 million as a result of three distinct transactions:

- the adjustment in the purchase price of Country Style Food Services Holdings Inc. following the settlement of the litigation with the vendors resulted in an increase in goodwill of $1.5 million;

- the contribution of the existing business by one of the minority shareholders to the food processing plant, of which the value of $0.2 million is recorded as goodwill. The valuation of this contribution has not yet been finalized;
- the acquisitions of Jugo Juice and Mr. Sub resulted in goodwill preliminarily valued at $10.7 million

Accounts payable increased to $14.9 million from $12.5 million between November 30, 2010 and November 30, 2011. The acquisition of Jugo Juice and Mr. Sub contributed approximately $4.0 million, in the form of payables and of the balance of sale. This was offset by a reduction in the payables in the rest of the Company, mainly on account of the stage of completion of the projects under construction.

Deferred revenues consist of distribution rights which are earned on a consumption basis and include initial franchise fees to be earned once substantially all of the initial services have been performed. The balance at year end was $1.6 million, an increase of $0.1 million compared to the balance a year earlier. The variation is due to an increase in unearned franchise fees, mainly owing to the acquisition of Jugo Juice.

The long-term debt is composed of non-interest bearing holdbacks on acquisitions, of bank loans contracted by a subsidiary to finance an acquisition, of loans payable by subsidiaries to their minority shareholders and of mandatorily redeemable preferred shares payable to a minority shareholder of a subsidiary.

Long-term debt increased by $6.5 million during our 2011 fiscal period. The acquisition of the food processing plant contributed $3.7 million to this variance, in the form of a bank loan of $3.5 million and of $0.2 million in mandatorily redeemable preferred shares. The acquisitions of Jugo Juice, Mr. Sub and Koryo resulted in holdbacks of $1.7 million, $2.5 million and $0.4 million respectively.

The settlement of the litigation with the vendors of Country Style Food Services Holdings Inc. included a settlement of the holdbacks, which reduced the long-term debt by $1.3 million. In addition, the bank loans contracted by two of Valentine's subsidiaries were completely repaid during the year, and a portion of the holdbacks resulting from past acquisitions was repaid.

The loans payable by a subsidiary to non-controlling shareholders carry no terms of repayment and will be repaid when this subsidiary generates sufficient cash flow to repay its debt without impairing its operations. One third of the preferred shares will be redeemed annually at a value that is contingent on the performance of a subsidiary. Management expects that the value of the preferred shares at redemption will be approximately $200,000.

Further details on the above balance sheet items can be found in the notes to the November 30, 2011 consolidated financial statements.

Capital stock

No shares were issues during the Company's 2011 fiscal period. As at February 13, 2012 there were 19,120,567 common shares of MTY outstanding.

Location information

MTY's locations can be found in: i) food courts and shopping malls; ii) street front; and iii) non-traditional format within petroleum retailers, convenience stores, cinemas, amusement parks and in other venues or retailers shared sites. 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 twelve months November 2011	Number of locations twelve months November 2010
Franchises, beginning of year	**1,701**	1,550
Corporate owned, beginning of year	**26**	20
Opened during the year	**127**	191
Acquired during the year	**494**	95
Closed during the year	**(85)**	(129)
Total end of year	**2,263**	1,727
Franchises, end of year	**2,233**	1,701
Corporate owned, end of year	**30**	26
Total end of year	**2,263**	1,727

The net addition to the MTY network for our 2011 fiscal period is 536 outlets; of that total 494 outlets came as a result of three acquisitions. Generic growth generated a net addition of 42 stores, compared to 62 during 2010.

Of the 127 stores opened during the year, 41 were in mall locations (69 in 2010), 37 were street locations (43 in 2010) and 49 were non-traditional locations (79 in 2010).

During 2011, the 85 of the Company's outlets closed, including 25 non-traditional Country Style locations lost as a result of the early termination of a contract during the second quarter. Of the stores closed, 16 were mall locations (28 in 2010), 21 were street locations (13 in 2010) and 48 were non-traditional locations (88 in 2010).

At year-end, the Company had 30 corporate stores, a net increase of 4. During the year, six corporate-owned locations were sold, twelve were added (including three resulting from acquisitions) and two were closed.

As at November 30, 2011, there were three test locations in operation, all of which were excluded from the numbers presented above. One was closed subsequent to year-end, following the conclusion of a cross-banner concept.

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

Location type	% of location count year ended November 30		% of system sales year ended November 30	
	2011	2010	**2011**	2010
Shopping mall & food court	**36%**	39%	**50%**	51%
Street front	**36%**	27%	**40%**	39%
Non-traditional format	**28%**	34%	**10%**	10%

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

Geographical location	% of location count year ended November 30		% of system sales year ended November 30	
	2011	2010	2011	2010
Ontario	**48%**	45%	**32%**	36%
Quebec	**27%**	33%	**40%**	36%
Western Canada	**20%**	16%	**22%**	21%
Maritimes	**2%**	2%	**1%**	1%
International	**3%**	4%	**5%**	6%

System wide sales

System wide sales grew 14%, reaching $527.6 million during the twelve months of 2011, compared to $461.9 million for the same period last year. For the fourth quarter, system wide sales were $149.4 million, up 21% over the fourth quarter of 2010.

System wide sales include sales for corporate and franchise locations and exclude sales realized by the distribution center or by the food processing plant.

Approximately two thirds of the increase in system wide sales for the year is attributable to the acquisitions of Valentine (annualization over a full twelve-month period), Jugo Juice, Mr. Sub and Koryo. The remainder is generated by the two weeks of Jugo Juice sales since the acquisition as well as by new locations opened in the last twelve months.

For the fourth quarter of 2011, two thirds of the increase is due to the acquisitions realized in the third and fourth quarter of 2011.

Same store sales

During the fourth quarter of 2011, same store sales have improved by 1.29% over the same period last year. For the twelve months of our 2011 fiscal period, same store sales increased 0.63%.

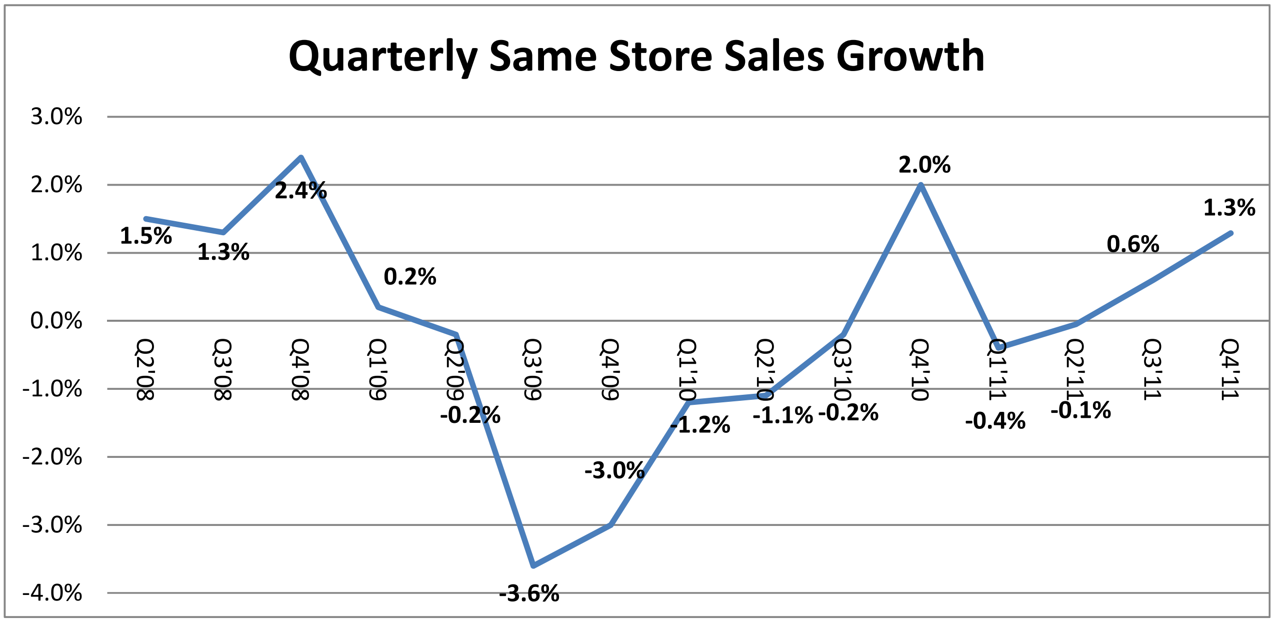
That performance was realized despite a difficult year for our Country Style outlets, in the face of aggressive promotions launched by some major players in the quick service industry, which continue to have an adverse impact on the sales of our coffee shops.

Our frozen treats concepts have continued to suffer in Q4 from what is perceived as the impact the colder weather and of lower impulse purchases by our customers; all are showing negative same store sales for both the three and twelve-month periods ended November 30, 2011.

Most other concepts fared better, with an overall positive same store sales growth both for the three and twelve-month periods. For all other concepts of MTY, same store sales is 2.94% for the fourth quarter.

Our mall and street locations performed better than non-traditional locations; the average non-traditional outlet had a negative same-store sale growth during 2011, mostly as a result of a slow fourth quarter. There were no material variations between the various regions in which MTY outlets operate, although our stores in Ontario were not as successful as those in the rest of Canada during 2011.

The following table shows quarterly information on same stores sales growth for the last 16 quarters:



Investors relations

On January 19, 2004, MTY appointed, for a 12 month-term, Mr. Jean-Francois Dube of Boxe Comm, as its investor relation's specialist. Mr. Dube is responsible for communicating to existing shareholders, potential investors and members of the brokerage community, for and on behalf of MTY. The Company further extends the contract with Boxe Comm on a monthly basis since May 2011, subject to terms and conditions contained in the Agreement. For the twelve-month period ended November 30, 2011, MTY has paid an amount of $48,000 to Boxe Comm.

Stock options

During the year, no options were granted or exercised. As at November 30, 2011 there were no options outstanding.

Seasonality

Results of operations for the interim period are not necessarily indicative of the results of operations for the full year. The Company expects that seasonality will not be a material factor in the quarterly variation of its results. System sales fluctuate seasonally, during January and February sales are historically lower than average due to weather conditions. Sales are historically above average during May to August. This is generally as a result of higher traffic in the street front locations, higher sales from seasonal locations only operating during the summer months and higher sales from shopping centre locations. Sales for shopping malls locations are also higher than average in December during the Christmas shopping period.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the period reported. Significant areas requiring the use of management estimates relate to the carrying value of long lived assets, valuation of allowances for accounts receivable and inventories, liabilities for potential claims and settlements, income taxes, the useful life of assets used when calculating amortization, the determination of fair value of assets and liabilities in business acquisitions and impairment testing on goodwill and trademarks. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results could differ from those estimates.

Contingent liabilities

The Company is involved in legal claims associated with its current business activities, the outcome of which is not determinable. Management believes that these legal claims will have no significant impact on the financial statements of the Company.

Guarantee

The Company has provided a guarantee in the form of a letter of credit for an amount of $45,000.

EBITDA reconciliation to net income and comprehensive income

The following table provides reconciliation of EBITDA to net income and comprehensive income disclosed in this MD&A.

(In millions)	3 months ended November 30, 2011	12 months ended November 30, 2011	3 months ended November 30, 2010	12 months ended November 30, 2010
	$	$	$	$
EBITDAR	8.03	27.88	7.37	26.37
Less: restructuring charges	-	0.45	-	-
EBITDA	8.03	27.43	7.37	26.37
Less:				
Amortization – capital assets	0.21	1.26	0.33	1.05
Amortization – intangible assets	0.88	3.18	0.76	3.02
Interest on long-term debt	0.04	0.15	-	-
Total income taxes	2.08	6.42	1.80	6.78
Non-controlling interest	0.09	0.26	0.00	0.07
Net income and comprehensive income	**4.73**	**16.15**	**4.48**	**15.45**

Risks and uncertainties

Despite the fact that the Company has a various number of concepts, diversified in type of locations and geographically across Canada, 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, 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 dependant on maintaining the current franchise system which is subject to the renewal of existing leases at sustainable rates, MTY’s ability to continue to expand by obtaining acceptable store sites and lease terms, obtaining qualified franchisees, increasing comparable store sales and completing acquisitions. The time, energy and resources involved in the integration of the acquired businesses into the MTY system and culture could also have an impact on MTY’s results.

Off-balance sheet arrangement

MTY has no off-balance sheet arrangements

Future accounting policies

International Financial Reporting Standards

In February 2008, Canada’s Accounting Standards Board (“AcSB”) confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. For the Company, the conversion to IFRS will be required for interim and annual financial statements for the year ending November 30, 2012.

The following information is presented pursuant to the October 2008 recommendations of the Canadian Performance Reporting Board relating to pre-2011 communications about IFRS conversion and to comply with the guidance provided in Canadian Securities Administration Staff notice 52-320, Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards. This information is provided to enable investors and others to gain a better understanding of the Company's transition plan and the resulting impacts on financial statements and financial reporting. This information reflects the Company's most recent assumptions and expectations; circumstances may arise which would change these assumptions and expectations.

The change to IFRS will require restatements of the 2011 numbers used for comparative purposes so they are in accordance with IFRS.

The Company's transition plan is composed of the following phases:

1. Diagnostics and Scoping
2. Analysis and Evaluation
3. Design
4. Implementation and review

1- Diagnostics and Scoping Phase

A preliminary overview of the major differences between GAAP and IFRS in the context of MTY was completed during the third quarter of our 2010 fiscal period and updated following the acquisitions made during 2010 and 2011. The objective of this phase was to determine, at a high level, the financial reporting differences under IFRS and the key areas that will be impacted. This identification has in turn largely influence the efforts deployed during the next phases of the project. The areas which have been identified to have a potential impact are as follows:

- Presentation of Financial Statements (IAS 1),
- Business Combinations (IFRS 3),
- Property, Plant and Equipment (IAS 16),
- Investment Property (IAS 40),
- Impairment of assets (IAS 36),
- Income Taxes (IAS 12),
- Leases (IAS 17),
- Revenues (IAS 18),
- Provisions and Contingent Liabilities (IAS 37),
- Customer Loyalty Programmes (IFRIC 13),
- Investment in associates (IAS 28),
- Consolidated and separate financial statements (IAS 27 & SIC 12).

This list is not all-inclusive and remains subject to change as the Company's operations and accounting standards evolve.

Furthermore, IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions to the general requirement of full retrospective application of IFRS which may differ from the requirements of the sections listed above. The Company has analyzed the various accounting policy choices available and will implement those determined to be most appropriate in the Company's circumstances, as discussed below. The Company is currently reviewing the aggregate financial impact of adopting IFRS 1 on its consolidated financial statements.

As part of this phase, the Company also assessed the impact of the transition on its Internal Controls over Financial Reporting (ICFR); at the moment, given the Company's structure, the organization of the work and the flow of the information, the Company's ICFR are expected to be impacted during transition from Canadian GAAP to IFRS.

<u>2- Analysis and Evaluation Phase</u>

A more detailed evaluation is currently underway to assess the impact of the above mentioned sections on our financial reporting. Deliverables include documentation of the rationale supporting accounting policy choices and quantification of the impacts of the changeover.

As part of this phase, employees involved in accounting and financial reporting functions have been offered education and training to ensure that IFRS and the specific choices made by the Company are applied consistently and accurately. Furthermore, seminars have been offered throughout the transition period to members of the Audit Committee, management and finance and accounting staff. Given the recent changes in the composition of the Audit Committee, completion of this phase was deferred and was completed around the end of our 2011 fiscal period.

Initial adoption of IFRS requires the application of IFRS 1, "First Time Adoption of IFRS". This standard requires retrospective application of all IFRS effective at the reporting date. An important part of this phase involves producing a detailed evaluation of the choices that are available to the Company as part of IFRS 1. The Company has completed its analysis of the choices available under IFRS 1.

This assessment was based on existing standards and economic context in place today and could change before the changeover date. Below are a discussion and a preliminary guidance regarding the relevant optional exemptions provided by IFRS 1:

Relevant optional exemptions	Preliminary findings
Business combinations	The Company may elect not to apply IFRS 3 retrospectively to all of the acquisitions that occurred prior to transition date or to choose a date after which to apply the standard. Other than the impact of the changeover on deferred income taxes, the Company's past practices have been generally similar to the ones dictated by IFRS 3. The company will elect to apply IFRS 3 prospectively only, and as a result will not restate the acquisitions that have occurred prior to IFRS transition date, which is December 1st, 2010.
Deemed cost	On transition, the Company may elect to use fair value as the deemed cost of its Property, Plant and Equipment, Investment Properties and Intangible Assets for which an active market exists. The Company does not intend to revalue its PP&E, Investment Properties or Intangible Assets at transition. Preliminary assessments suggest that the IRFS cost of the assets described above will be similar to the carrying amounts under Canadian GAAP at the date of transition.
Compound financial instruments	Some instruments contain both an equity and a liability component; under IAS 32, an entity is required to separate the two components. In cases in which the liability component is no longer outstanding, this exemption provides relief in that IAS 32 can be applied prospectively from the IFRS transition date and no retroactive restatement is required. The company intends to use this exemption and apply IAS 32 prospectively from the IFRS transition date.

Designation of previously recognized financial instruments	This exemption provides the opportunity to designate financial assets as either Available for Sale (AFS) or Fair Value through Profit or Loss (FVTPL). Gains or losses in fair value of financial assets designated as AFS flow through Other Comprehensive Income, whereas they would flow into the P&L under the FVTPL. The Company's temporary investments do not meet the criteria to be classified as FVTPL. As a result, the exemption does not apply to MTY and temporary investments will be classified as AFS.
Share-based payments	For equity-settled awards with non-employees, IFRS 2 requires that the transaction be measured at the fair value of the goods or services received rather than at the fair value of the equity instrument provided. As a result, some old share-based payments would have to be revisited. At year-end, no instruments issued as compensation to acquire assets were unvested. The company will elect to use this exemption and apply IFRS 2 prospectively after the IFRS transition date.

In addition to its assessment of IFRS 1, the Company has undertaken a thorough review of the potential changes to accounting policies arising from the changeover. Information regarding the relevant sections and of the status of the process is presented below:

Business combinations

As mentioned previously, the Company's past practices are generally similar to the requirements of IFRS 3; one area of difference is the measurement period which, under IFRS 3, is limited to twelve months following the business combination transaction, even in cases in which there remains unknown items.

IFRS 3 states that negative goodwill should be recorded into income rather than distributed to a certain set of assets. This will have an impact on the purchase price allocation of certain recent acquisitions and will also have an impact on any future acquisition for which the fair value of the assets exceeds the purchase price.

IFRS3 requires that contingent consideration based on future specified earnings recorded as a liability be recorded at fair value at the acquisition date, with any subsequent re-measurement recorded as part of income. This is a significant difference with Canadian

GAAP, which stated that such consideration should be recorded only when the contingency is resolved and the additional consideration is issued or becomes issuable. This will have an impact on the current and future acquisitions.

The Company is still currently finalizing the quantification of the impact of the changeover.

Consolidation (including IAS 27 and IAS 28)

Under Canadian GAAP, Variable Interest Entitites ("VIEs") are consolidated if the reporting entity is the primary beneficiary of the VIE's earnings. There is no such concept under IFRS. Rather, entities are to be consolidated if the Company has control over the subject entity. Factors that need to be considered include:

- A majority share ownership;
- Ability to control the board of directors;
- Power to govern financial and operating policies;
- Contracted arrangements conferring effective control.

The relationship with certain specific franchisees will be assessed individually to test whether or not it meets the control criteria listed above.

The application of IAS 27 and IAS 28 to the Company are not expected to materially differ from the application of Canadian GAAP. The Company is currently finalizing the evaluation of all potential impacts.

Property, Plant and Equipment

We have assessed IFRS against our current accounting policies and at this time we do not foresee a major impact to our financial statements outside of additional disclosure and of the impact of the application of IFRS 3 on negative goodwill described above. The Company intends to use IFRS historical costs as its measurement basis. Certain of our fixed assets will have to be re-componentized as of the transition date, resulting in variations in net book value of fixed assets.

Impairment will continue to be assessed annually if there is an indicator of impairment.

Investment Property

As part of the acquisition of Groupe Valentine Inc., the Company has acquired assets that generate rental income from third parties. It has been established that none of the Company's material assets require classification as investment property.

Impairment of assets

Under IAS 36, impairment tests are conducted using a one-step approach, in which the assets' or cash generating units' ("CGU") carrying value is compared to the assets' or CGU's discounted cash flows. This method is different from Canadian GAAP, which includes as a first step an undiscounted cash flow screen. This increases the likelihood that an impairment would have to be recognized under IFRS.

The Company is still in the process of conducting specific tests to evaluate whether some assets are impaired or not at the date of transition. Adjustments to the carrying value of certain assets are expected.

Income Taxes

The conceptual approach under IFRS and Canadian GAAP with respect to accounting for deferred income taxes (referred to as future income taxes under Canadian GAAP) are consistent; both use the liability method in assessing the impact of temporary differences between the tax bases and carrying values for financial reporting purposes.

The Company is currently quantifying the impact of IAS 12 specifically on deferred income taxes arising from indefinite life intangible assets such as Goodwill and Trademarks.

Leases

Under IFRS, more judgment is required when classifying leases due to the lack of quantitative guidance; each asset must be assessed qualitatively to make the determination as to whether it is an operating or finance lease. The impact of the transition is expected to be immaterial.

Revenues

IAS 11 states that percentage of completion is required for construction contracts. The Company currently uses the completed contract method for revenues related to the delivery of turnkey restaurants. Early guidance obtained on the matter suggests that an accounting policy change with retroactive application and restatement of retained earnings will be required; more specifically, costs incurred on construction contracts will be recognized in the period in which they are incurred. Percentage of completion revenues will be recognized up to a maximum of the expensed costs and the profit will be recognized when the project is delivered. Changes resulting from the transition to IAS 11 will impact accounts receivable, franchise locations under construction, accounts payable, revenues, costs of turnkey locations and might impact some other items on the financial statements that have yet to be determined.

Provisions and contingent liabilities

Provisions need to be recognized in the financial statements when there is a present obligation arising from a past event that is probable to require a cash outflow. Canadian GAAP requires recognition when the outflow was likely, whereas IFRS requires recognition when it is probable (defined as more likely than not); as a result, more provisions could be required under IFRS than under Canadian GAAP.

Additionally, disclosure will be more detailed and provisions will need to be presented specifically on the face of the balance sheet rather than being aggregated with other trade payables.

An analysis is currently being undertaken to quantify the impact of this requirement. The Company is anticipating that this new requirement will have a significant impact on disclosure but a very limited, if any, impact on its financial statements.

Customer loyalty programmes

IFRIC 13 is expected to have no significant impact on the Company's financials. The MTY Rewards program is in effect owned by the Company's clients; MTY collects the amounts that make up the amount payable for redemptions and recognizes a corresponding liability on its books.

<u>3- Design Phase</u>

The objective of this phase of the transition project is to ensure that our accounting records reflect the choices made by the company and that the potential impacts on disclosure, financial reporting, information technology, internal controls over financial reporting and disclosure controls are assessed and addressed.

Our objective was to have this phase completed before the end of the third quarter of our 2011 fiscal period, with a final confirmation of the elections by the changeover date, December 1, 2011. However, the increase in the scope of the project due to recent acquisitions has caused delays to this phase, which was completed prior to the end of our 2011 fiscal period. As part of this phase, an external consultant was hired to provide direction and guidance on the process.

<u>4- Implementation and Review Phase</u>

This phase will involve the implementation of the changes to accounting policies and financial reporting and the compilation of the comparative financial data. This phase is being undertaken in parallel with the design phase and is expected to be completed during the same period. The culmination of the process is expected to be the board approval of the 2011 financial statements presented under IFRS as comparative figures for our 2012 fiscal period, which is scheduled to occur during in the early stages of our 2012 fiscal period.

Critical accounting policies

MTY's significant accounting policies are those set forth in the notes to the consolidated financial statements as at November 30, 2011. There are no accounting estimates that, if changed, would materially affect MTY's overall financial condition or results of operations.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries from the date of their acquisition. In addition, the consolidated financial statements include the accounts of three subsidiaries in which it owns 50% or more of the controlling shares and two other subsidiaries in which it owns 49% and 45% of the controlling shares respectively and over which it exercises effective control. All significant intercompany accounts and transactions have been eliminated upon consolidation.

Variable interest entities ("VIEs") are entities in which equity investors do not have controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties. VIEs are consolidated by their primary beneficiary (i.e., the party that receives the majority of the expected residual returns and/or absorbs the majority of the entity's losses). Management of the Company conducted a review of the ownership and contractual interest in entities and determined that the Company held variable interests in a number of VIEs as of November 30, 2011. Management has evaluated these interests and concluded that the Company is the primary beneficiary of a small number of VIEs, and as such consolidated these VIEs in its consolidated financial statements. The Company was not aware of pledges, securities or any other forms of debt or guarantees awarded by the consolidated VIEs, other than those that have been incorporated in the Company's consolidated financial statements. The Company believes that recourses by creditors or beneficial interest holders of the consolidated VIEs against the Company are highly limited given the nature of the agreements and relationships existing between the consolidated VIEs and the Company.

Pursuant to the franchise agreements, franchisees must pay a fee to the promotional fund. These amounts are collected by the Company in its capacity as agent and must be used for promotional and advertising purposes, since the amounts are set aside to promote the respective banners for the franchisees' benefit. The fees collected by the Company for the promotional fund are not recorded in the Company's consolidated statement of earnings, but rather as operations in the accounts payable to the promotional fund.

Use of estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Significant areas requiring the use of management estimates relate to the carrying value of long-lived assets, valuation of allowances for accounts receivable and inventories, liabilities for potential claims and settlements, income taxes, the useful life of assets used when calculating amortization, the determination of fair value of assets and liabilities in business acquisitions and impairment testing on goodwill and intangible assets.

Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results could differ from those estimates.

Inventories

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. Cost is equivalent to acquisition costs, net of consideration received from suppliers.

Franchise locations under construction held for resale

The Company constructs franchise locations for resale. The Company capitalizes all direct costs relating to the construction of these franchise locations. If a franchisee is not immediately identified, the Company operates the franchise location as a corporate-owned location until a franchisee is identified. The franchise locations under construction and held for resale are carried at the lower of cost and estimated net realizable value.

Capital assets

Capital assets are recorded at cost. Amortization is based on their estimated useful life using the following methods and rates or terms:

Buildings		
Structure	Straight-line	50 years
Components	Straight-line	20 to 30 years
Equipment	Declining balance	10%-33%
Leasehold improvements	Straight-line	Term of lease
Rolling stock	Declining balance	15%-30%
Computer hardware	Declining balance	20%-30%
Computer software	Declining balance	50%

Goodwill

Goodwill represents the excess of the purchase price over the fair values assigned to identifiable net assets acquired. Goodwill, which is not amortized, is tested for impairment annually or more frequently if impairment indicators arise to determine whether the fair value of each reporting unit to which goodwill has been attributed is less than the carrying value of the reporting unit's net assets including goodwill, thus indicating impairment. The fair value of a reporting unit is calculated based on future cash flows. Any impairment is then calculated as the difference between the fair value of the reporting unit and the carrying value, and is then recorded as a separate charge against income and a reduction of the carrying value of goodwill. An impairment adjustment in the carrying value of goodwill was not required for the years ended November 30, 2011 and 2010.

Intangible assets

Franchise rights and master franchise rights

The franchise rights and master franchise rights represent the fair value of the future revenue stream related to the acquisition of franchises. The franchise rights and master franchise rights are generally amortized on a straight-line basis over the term of the agreements which range between 10 to 20 years. Master franchise rights with an indefinite life are not amortized. They are tested for impairment annually or more frequently when events or circumstances indicate that the master franchise rights might be impaired. An impairment adjustment in the carrying value of the franchise rights was not required for the years ended November 30, 2011 and 2010.

Trademarks

Trademarks represent the cost incurred to operate under a trade name and are not amortized as they have an indefinite life. They are tested annually for impairment or more frequently when events or circumstances indicate that the trademarks might be impaired. The impairment test compares the carrying amount of the trademarks with their fair value. An impairment adjustment in the carrying value of the trademarks was not required for the years ended November 30, 2011 and 2010.

Leases

Leases, which represent the value associated to preferential terms or locations, are amortized on a straight-line basis over the term of the leases.

Other

Included in other intangible assets are a sponsorship fee and a licensing agreement acquired in the 2004 acquisition of Mrs. Vanelli's Restaurants Ltd., which are both fully amortized, and distributions rights obtained from the acquisition of Country Style Food Services Inc., which are being amortized over the remaining life of the contracts (three years at the date of acquisition).

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value. An impairment adjustment in the carrying value of long-lived assets was not required for the years ended November 30, 2011 and 2010.

Revenue recognition

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

Revenue from franchise locations

Royalties are for the most part based either on a percentage of gross sales as reported by the franchisees or on a fixed monthly fee and are recognized as revenue in the period earned.

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

Revenue from the sale of franchise locations is recognized at the time the franchisee assumes control of the franchise location.

Restaurant construction and renovation revenue are accounted for in accordance with the completed contract method. Losses are fully recognized as they become probable.

Master license fees are recognized when the Company has performed substantially all material initial obligations under the agreement, which usually occurs when the agreement is signed.

Renewal and transfer fees are recognized when substantially all applicable services required by the Company under the franchise agreement have been performed. This generally occurs when the agreement is signed.

The Company earns rent revenues on certain properties and leases it holds and sign rental revenues; both are recognized in the month they are earned.

The Company receives considerations from certain suppliers. Supplier contributions are recognized as revenues as they are earned.

Revenue from distribution center

Distribution revenues are recognized when goods have been delivered and accepted by customers.

Revenue from food processing

Food processing revenues are recognized when goods have been delivered to end-users or when significant risks and rewards of ownership have been transferred to distributors or retailers.

Revenue from corporate-owned locations

Revenue from corporate-owned locations is recorded when services are rendered.

Foreign currency

Foreign currency transactions and balances are translated using the temporal method. Under this method, all monetary assets and liabilities are translated at the exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates.

Revenue and expenses are translated at the average exchange rates for the month, except for amortization which is translated on the same basis as the related assets. Translation gains and losses are reflected in net income.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse. Future income tax assets are recognized to the extent it is more likely than not they will be realized. The effect of changes in income tax rates on future income tax assets and liabilities is recognized in earnings in the year that includes the date of enactment or substantive enactment of the changes.

Financial instruments

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

Classification

Cash	Held for trading
Temporary investments	Held for trading
Accounts receivable	Loans and receivables
Deposits	Loans and receivables
Loans receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Long-term debt	Other liabilities

Held for trading

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in other income.

Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities other than derivative instruments.

Effective interest method

The Company uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

Embedded derivatives

An embedded derivative is a component of a contract with characteristics similar to a derivative. Management of the Company conducted a review of its contracts and determined that no embedded derivatives exist as at November 30, 2011.

Derivative financial instruments

Derivative financial instruments that are not eligible for hedge accounting are recognized on the balance sheet at their fair value, with changes in fair value recognized in net earnings.

Credit risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the balance sheet are net of allowances for bad debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. The Company believes that the credit risk of accounts receivable is limited for the following reasons:

- The Company's broad client base is spread mostly across Canada.
- The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual account receivable.

The following table sets forth details of the age receivables that are not overdue as well as an analysis of overdue amounts and the related allowance for doubtful accounts:

	November 30, 2011	November 30, 2010
	$	$
Total accounts receivable	**10,404,554**	8,360,696
Less: Allowance for doubtful accounts	**855,844**	783,261
Total accounts receivable, net	**9,548,710**	7,577,435
Of which:		
Not past due	**7,075,654**	5,665,888
Past due for more than one day but for no more than 30 days	**739,243**	255,948
Past due for more than 31 days but for no more than 60 days	**215,386**	217,314
Past due for more than 61 days	**1,518,427**	1,438,285
Total accounts receivable, net	**9,548,710**	7,577,435
Allowance for doubtful accounts beginning of year	**783,261**	754,110
Additions	**335,428**	384,531
Write-off	**(262,845)**	(355,380)
Allowance for doubtful accounts end of year	**855,844**	783,261

The credit risk on cash and temporary investments is limited because the Company invests its excess liquidity in high quality financial instruments.

The credit risk on the loans receivable is similar to that of accounts receivable. There is currently no allowance for doubtful accounts applicable to the loans receivable. There are, however, holdbacks on the three loans acquired with Jugo Juice.

Economic environment risk

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

Outlook

It is Management's opinion that the trend in the quick service restaurants industry will continue to grow in response to the demand from busy and on-the-go consumers.

Management will maintain its focus on completing the integration of the latest acquisitions and maximizing the value of those new locations and concepts to our network.

Management also remains committed on offering its customers a wide range of innovative menus and modern store designs. The quick service restaurant environment will remain challenging in the future, and management believes that the focus on the food offering, consistency and store design will give MTY's restaurants a strong position to face those challenges.

For 2012, the Company expects to open 85 new locations. We will continue to emphasize the growth of our network while seeking potential acquisitions to further strengthen its market position.

Controls and Procedures

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with the securities regulatory authorities are recorded, processed, summarized and reported in a timely fashion. The disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in such reports is then accumulated and communicated to the Company's management to ensure timely decisions regarding required disclosure.

Based upon the evaluation of the disclosure controls and procedures, subject to the inherent limitations noted above, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as at November 30, 2011, in providing reasonable assurance that the material information relating to the Company is made known to the Company's management.

Internal controls over financial reporting

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

The Chief Executive Officer and the Chief Financial Officer, together with Management, after evaluating the effectiveness of the Company's internal control over financial reporting as at November 30, 2011, have concluded that the Company's internal control over financial reporting was effective.

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 November 30, 2011, no change in the Company's internal control over financial reporting occurred that could have materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

Limitations of Controls and Procedures

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

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

Limitation on scope of design

The Company's management, with the participation of its President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, has limited the scope of the design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures and internal control over financial reporting of the operations of 7687567 Canada Inc, a corporation established in December 2010 in which the Company owns 51% of the voting control. For the year ended November 30, 2011, this operation represents 5% of the Company's assets (7% of current assets, 4% of non-current assets), 5% of current liabilities, 37% of long-term liabilities, 8% of the Company's revenues and 0% of the Company's net earnings.

The Company's management, with the participation of its President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, has limited the scope of the design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures and internal control over financial reporting of the recently acquired operations of Jugo Juice (acquired August 24, 2011) and Mr. Sub (acquired November 1, 2011). Excluding the goodwill created on the acquisitions, these operations respectively represent 10% and 16% of the Company's assets (4% and 4% of current assets, 11% and 19% of non-current assets); they also represent 13% and 10% of current liabilities (0% and 0% of long-term liabilities), 1% and 1% of the Company's revenues and 1% and 2% of the Company's net earnings.

The Company's management, with the participation of its President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, has also limited the scope of the design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures and internal control over financial reporting of certain VIEs in which the Company is the primary beneficiary of the variability in cash flows and which have as a result been consolidated in the Company's consolidated financial statements. For the year ended November 30, 2011, these VIEs represent 1% of the Company's current assets, 0% of its non-current assets, 1% 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.

Stanley Ma, Chief Executive Officer

Claude St-Pierre, Chief Financial Officer

Eric Lefebvre, CA, MBA Vice President Finance

Consolidated financial statements of

MTY FOOD GROUP INC.

For the years ended November 30, 2011and 2010

Deloitte.

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Independent Auditor's Report

To the Shareholders of
MTY Food Group Inc.

We have audited the accompanying consolidated financial statements of MTY Food Group Inc., which comprise the consolidated balance sheets as at November 30, 2011 and 2010, and the consolidated statements of earnings and comprehensive income, retained earnings and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MTY Food Group Inc. as at November 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.[1]

Montreal, February 13, 2012

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[1] Chartered accountant auditor permit No. 17456

MTY FOOD GROUP INC.
Consolidated statements of income and comprehensive income
years ended Nov 30

	2011	2010
	$	$
Revenue (Notes 17 and 24)	**78,465,018**	66,886,441
Expenses		
Operating expenses (Note 24)	**51,819,842**	41,090,641
Amortization – capital assets	**1,261,842**	1,045,931
Amortization – intangible assets	**3,179,002**	3,024,716
Interest on long-term debt	**150,297**	-
Restructuring (Note 18)	**446,579**	-
	56,857,562	45,161,288
Other income		
Gain (loss) on foreign exchange	**18,342**	(14,221)
Interest income	**356,746**	195,897
Gain on disposal of assets	**858,396**	396,885
	1,233,484	578,561
Income before income taxes and non-controlling interest	**22,840,940**	22,303,714
Income taxes (Note 22)		
Current	**2,957,002**	6,006,792
Future	**3,467,117**	776,405
	6,424,119	6,783,197
Income before non-controlling interest	**16,416,821**	15,520,517
Non-controlling interest	**(262,798)**	(73,723)
Net income and comprehensive income	**16,154,023**	15,446,794

Earnings per share (Note 23)		
Basic	**0.84**	0.81
Fully diluted	**0.84**	0.81

See accompanying notes to consolidated financial statements

MTY FOOD GROUP INC.
Consolidated statements of retained earnings
years ended November 30

	2011	2010
	$	$
Balance, beginning of year	**55,924,397**	41,338,029
Net income	**16,154,023**	15,446,794
Dividends	**(3,441,702)**	(860,426)
Balance, end of year	**68,636,718**	55,924,397

See accompanying notes to consolidated financial statements

MTY FOOD GROUP INC.

Consolidated balance sheets

as at November 30

	2011	2010
	$	$
Assets		
Current assets		
Cash	**5,995,085**	5,636,912
Temporary investments (Note 4)	**4,632,032**	23,383,261
Accounts receivable	**9,548,710**	7,577,435
Income taxes receivable	**1,418,921**	-
Inventories (Note 5)	**1,540,333**	645,528
Franchise locations under construction held for resale	**1,201,651**	1,091,488
Loans receivable (Note 6)	**413,624**	336,067
Prepaid expenses	**157,372**	140,549
Deposits	**155,183**	45,292
Future income taxes (Note 22)	**440,401**	3,561,864
	25,503,312	42,418,396
Loans receivable (Note 6)	**705,390**	908,619
Other receivable (Note 3)	-	2,697,762
Capital assets (Note 7)	**10,180,389**	7,138,466
Intangible assets (Note 8)	**59,623,699**	36,266,114
Future income taxes (Note 22)	**1,531,427**	-
Goodwill (Note 9)	**19,508,983**	7,124,751
	117,053,200	96,554,108
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**14,908,311**	12,529,748
Income taxes payable	-	851,138
Deferred revenue and deposits (Note 11)	**1,560,630**	1,485,295
Current portion of long-term debt (Note 12)	**1,982,167**	1,873,213
	18,451,108	16,739,394
Deferred revenue and deposits (Note 11)	**11,467**	8,708
Long-term debt (Note 12)	**7,342,833**	930,000
Future income taxes (Note 22)	**2,337,286**	2,605,882
Non-controlling interest	**-**	71,939
	28,142,694	20,355,923
Commitments, guarantee and contingent liabilities (Notes 19, 20 and 21)		
Shareholders' equity		
Capital stock (Note 13)	**19,792,468**	19,792,468
Contributed surplus	**481,320**	481,320
Retained earnings	**68,636,718**	55,924,397
	88,910,506	76,198,185
	117,053,200	96,554,108

See accompanying notes to consolidated financial statements

Approved by the Board

Director Director

MTY FOOD GROUP INC.
Consolidated statement of cash flows
years ended November 30, 2011

	2011	2010
	$	$
Operating activities		
Net income	**16,154,023**	15,446,794
Items not affecting cash:		
Amortization – capital assets	**1,261,842**	1,045,931
Amortization – intangible assets	**3,179,002**	3,024,716
Deferred revenue	**(143,257)**	(287,479)
Non-controlling interest	**262,798**	73,723
Gain on disposal of capital assets	**(858,396)**	(396,885)
Future income taxes	**3,467,117**	776,405
	23,323,129	19,683,205
Changes in non-cash working capital items (Note 25)	**(5,314,032)**	2,192,748
Cash flows provided by operating activities	**18,009,097**	21,875,953
Investing activities		
Business acquisitions (Note 3)	**(36,087,900)**	(4,023,698)
Repayment of long-term debt arising from acquisition (Note 3)	-	(402,571)
Acquisition of properties (Note 3)	-	(3,372,000)
Temporary investments	**18,751,229**	(8,751,788)
Additions to capital assets	**(954,308)**	(1,203,616)
Proceeds on disposal of assets	**1,654,719**	1,473,525
Cash flows (used in) provided by investing activities	**(16,636,260)**	(16,280,148)
Financing activities		
Issuance of long-term debt	**3,500,000**	110,000
Repayment of long-term debt	**(720,769)**	(379,366)
Investment from non-controlling shareholders in subsidiary companies	**25,049**	55
Dividends paid to non-controlling shareholders of subsidiaries	**(361,100)**	(75,000)
Share buyback paid to non-controlling shareholders of subsidiaries companies	**(16,142)**	-
Dividends paid	**(3,441,702)**	(860,426)
Cash flows (used in) provided by financing activities	**(1,014,664)**	(1,204,737)
Net increase in cash	**358,173**	4,391,068
Cash, beginning of year	**5,636,912**	1,245,844
Cash, end of year	**5,995,085**	5,636,912

See accompanying notes to consolidated financial statements

1. Description of the business

MTY Food Group Inc. (the "Company") is a franchisor in the quick service food industry. Its activities consist of franchising and operating corporate-owned locations under a multitude of banners. The Company also operates a distribution center and a food processing plant, both of which are located in the province of Quebec.

During its 2011 fiscal year, the company has opened 127 stores and acquired 494, bringing the total number of stores to 2,263. Of this number, 30 were corporate stores at the end of period.

2. Accounting policies

a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries from the date of their acquisition. In addition, the consolidated financial statements include the accounts of three subsidiaries in which it owns 50% or more of the controlling shares and two other subsidiaries in which it owns 49% and 45% of the controlling shares respectively and over which it exercises effective control. All significant intercompany accounts and transactions have been eliminated upon consolidation.

Variable interest entities ("VIEs") are entities in which equity investors do not have controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties. VIEs are consolidated by their primary beneficiary (i.e., the party that receives the majority of the expected residual returns and/or absorbs the majority of the entity's losses). Management of the Company conducted a review of the ownership and contractual interest in entities and determined that the Company held variable interests in a number of VIEs as of November 30, 2011. Management has evaluated these interests and concluded that the Company is the primary beneficiary of a small number of VIEs, and as such consolidated these VIEs in its consolidated financial statements. The Company was not aware of pledges, securities or any other forms of debt or guarantees awarded by the consolidated VIEs, other than those that have been incorporated in the Company's consolidated financial statements. The Company believes that recourses by creditors or beneficial interest holders of the consolidated VIEs against the Company are highly limited given the nature of the agreements and relationships existing between the consolidated VIEs and the Company.

Pursuant to the franchise agreements, franchisees must pay a fee to the promotional fund. These amounts are collected by the Company in its capacity as agent and must be used for promotional and advertising purposes, since the amounts are set aside to promote the respective banners for the franchisees' benefit. The fees collected by the Company for the promotional fund are not recorded in the Company's consolidated statement of earnings, but rather as operations in the accounts payable to the promotional fund.

b) Use of estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Significant areas requiring the use of management estimates relate to the carrying value of long-lived assets, valuation of allowances for accounts receivable and inventories, liabilities for potential claims and settlements, income taxes, the useful life of assets used when calculating amortization, the determination of fair value of assets and liabilities in business acquisitions and impairment testing on goodwill and intangible assets.

2. Accounting policies (cont.)

b) Use of estimates (cont.)

Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results could differ from those estimates.

c) Inventories

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. Cost is equivalent to acquisition costs, net of consideration received from suppliers.

d) Franchise locations under construction held for resale

The Company constructs franchise locations for resale. The Company capitalizes all direct costs relating to the construction of these franchise locations. If a franchisee is not immediately identified, the Company operates the franchise location as a corporate-owned location until a franchisee is identified. The franchise locations under construction and held for resale are carried at the lower of cost and estimated net realizable value.

e) Capital assets

Capital assets are recorded at cost. Amortization is based on their estimated useful life using the following methods and rates or terms:

Buildings		
Structure	Straight-line	50 years
Components	Straight-line	20 to 30 years
Equipment	Declining balance	10%-33%
Leasehold improvements	Straight-line	Term of lease
Rolling stock	Declining balance	15%-30%
Computer hardware	Declining balance	20%-30%
Computer software	Declining balance	50%

f) Goodwill

Goodwill represents the excess of the purchase price over the fair values assigned to identifiable net assets acquired. Goodwill, which is not amortized, is tested for impairment annually or more frequently if impairment indicators arise to determine whether the fair value of each reporting unit to which goodwill has been attributed is less than the carrying value of the reporting unit's net assets including goodwill, thus indicating impairment. The fair value of a reporting unit is calculated based on future cash flows. Any impairment is then calculated as the difference between the fair value of the reporting unit and the carrying value, and is then recorded as a separate charge against income and a reduction of the carrying value of goodwill. An impairment adjustment in the carrying value of goodwill was not required for the years ended November 30, 2011 and 2010.

2. Accounting policies (cont.)

g) Intangible assets

Franchise rights and master franchise rights

The franchise rights and master franchise rights represent the fair value of the future revenue stream related to the acquisition of franchises. The franchise rights and master franchise rights are generally amortized on a straight-line basis over the term of the agreements which range between 10 to 20 years. Master franchise rights with an indefinite life are not amortized. They are tested for impairment annually or more frequently when events or circumstances indicate that the master franchise rights might be impaired. An impairment adjustment in the carrying value of the franchise rights was not required for the years ended November 30, 2011 and 2010.

Trademarks

Trademarks represent the cost incurred to operate under a trade name and are not amortized as they have an indefinite life. They are tested annually for impairment or more frequently when events or circumstances indicate that the trademarks might be impaired. The impairment test compares the carrying amount of the trademarks with their fair value. An impairment adjustment in the carrying value of the trademarks was not required for the years ended November 30, 2011 and 2010.

Leases

Leases, which represent the value associated to preferential terms or locations, are amortized on a straight-line basis over the term of the leases.

Other

Included in other intangible assets are a sponsorship fee and a licensing agreement acquired in the 2004 acquisition of Mrs. Vanelli's Restaurants Ltd., which are both fully amortized, and distributions rights obtained from the acquisition of Country Style Food Services Inc., which are being amortized over the remaining life of the contracts (three years at the date of acquisition).

h) Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value. An impairment adjustment in the carrying value of long-lived assets was not required for the years ended November 30, 2011 and 2010.

2. Accounting policies (cont.)

i) Revenue recognition

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

i. Revenue from franchise locations

Royalties are for the most part based either on a percentage of gross sales as reported by the franchisees or on a fixed monthly fee and are recognized as revenue in the period earned.

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

Revenue from the sale of franchise locations is recognized at the time the franchisee assumes control of the franchise location.

Restaurant construction and renovation revenue are accounted for in accordance with the completed contract method. Losses are fully recognized as they become probable.

Master license fees are recognized when the Company has performed substantially all material initial obligations under the agreement, which usually occurs when the agreement is signed.

Renewal and transfer fees are recognized when substantially all applicable services required by the Company under the franchise agreement have been performed. This generally occurs when the agreement is signed.

The Company earns rent revenues on certain leases it holds and sign rental revenues; both are recognized in the month they are earned.

The Company receives considerations from certain suppliers. Supplier contributions are recognized as revenues as they are earned.

ii. Revenue from distribution center

Distribution revenues are recognized when goods have been delivered and accepted by customers.

iii. Revenue from food processing

Food processing revenues are recognized when goods have been delivered to end-users or when significant risks and rewards of ownership have been transferred to distributors or retailers.

iv. Revenue from corporate-owned locations

Revenue from corporate-owned locations is recorded when services are rendered.

2. Accounting policies (cont.)

j) Foreign currency

Foreign currency transactions and balances are translated using the temporal method. Under this method, all monetary assets and liabilities are translated at the exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates.

Revenue and expenses are translated at the average exchange rates for the month, except for amortization which is translated on the same basis as the related assets. Translation gains and losses are reflected in net income.

k) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse. Future income tax assets are recognized to the extent it is more likely than not they will be realized. The effect of changes in income tax rates on future income tax assets and liabilities is recognized in earnings in the year that includes the date of enactment or substantive enactment of the changes.

l) Financial instruments

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

Classification

Cash	Held for trading
Temporary investments	Held for trading
Accounts receivable	Loans and receivables
Deposits	Loans and receivables
Loans receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Long-term debt	Other liabilities

Held for trading

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in other income.

Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities other than derivative instruments.

2. Accounting policies (cont.)

l) Financial instruments (cont.)

Effective interest method

The Company uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

Embedded derivatives

An embedded derivative is a component of a contract with characteristics similar to a derivative. Management of the Company conducted a review of its contracts and determined that no embedded derivatives exist as at November 30, 2011.

Derivative financial instruments

Derivative financial instruments that are not eligible for hedge accounting are recognized on the balance sheet at their fair value, with changes in fair value recognized in net earnings.

m) Future accounting policies

i. International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board (AcSB) confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. For the Company, the conversion to IFRS will be required for interim and annual financial statements for the year ending November 30, 2012.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. The Company is currently preparing its IFRS conversion.

3. Business acquisitions

I) 2011 acquisition

On December 17, 2010 the Company's wholly-owned subsidiary, MTY Tiki-Ming Enterprises Inc., acquired a 51% interest in a newly formed company established to purchase a food processing plant. The acquisition was financed by a long-term bank loan of $3,500,000 (Note 12).

	$
Consideration paid	3,497,110

The purchase price allocation is as follows:

Net assets acquired:	
Current Assets	
Inventories	339,663
Deferred expenses	30,192
	369,855
Land	661,609
Building	1,161,322
Equipment	1,410,373
Future income tax asset	72,033
Goodwill	200,000
	3,875,192
Current Liabilities	
Accounts payable	178,082
	178,082
Mandatorily redeemable preferred shares	200,000
Total purchase price	3,497,110

The redeemable preferred shares were issued in exchange for the existing business relationships and activities (classified as goodwill) of one of the shareholders of the newly formed company. The issued preferred shares are redeemable annually, at a price contingent on the performance of the plant for the three years following the acquisition of the business. Management estimates the redemption price at $200,000.

3. Business acquisitions (cont.)

II) 2011 acquisition

On August 24, 2011, the Company's wholly-owned subsidiary, MTY Tiki-Ming Enterprises Inc., acquired the assets of Jugo Juice International Inc., Jugo Juice Canada Inc., and Jugo Juice Western Canada Inc. for a total consideration of $15,450,000. The acquisition was effective August 18, 2011.

Consideration paid

Purchase price	15,450,000
Net obligations assumed	(608,554)
Net purchase price	14,841,446
Holdbacks	1,735,000
Balance of sale	1,200,000
Net cash outflow	11,906,446

The preliminary purchase price allocation is as follows:

Net assets acquired:

Current Assets	
Cash	1,200
Inventory	5,580
Franchise locations under construction held for resale	40,701
Current portion of loans receivable	62,237
Deposits	9,818
	119,536
Loans receivable	59,907
Property, plant and equipment	551,000
Franchise rights	3,272,932
Trademark	5,425,135
Goodwill	5,205,197
Future income taxes	995,736
	15,629,443
Current Liabilities	
Accounts payable	586,646
Unearned revenue	201,351
	787,997
Net purchase price	14,841,446

The final purchase price for the acquisition has not yet been finalized.

3. Business acquisitions (cont.)

III) 2011 acquisition

On November 1, 2011, the Company's wholly-owned subsidiary, MTY Tiki-Ming Enterprises Inc., acquired substantially all of the assets of Mr. Submarine Limited and Mr. Submarine Realty Inc. for a total consideration of $23,000,000.

Consideration paid

Purchase price	23,000,000
Net obligations assumed	(1,232,856)
Net purchase price	21,767,144
Holdbacks	2,500,000
Net cash outflow	19,267,144

The preliminary purchase price allocation is as follows:

Net assets acquired:

Current Assets	
Prepaid and deposits	417,362
	417,362
Property, plant and equipment	332,476
Franchise rights	4,745,057
Trademark	11,306,740
Goodwill	5,528,717
Future income taxes	1,095,292
	23,425,643
Current Liabilities	
Accounts payable	1,650,217
	1,650,217
Future income taxes	8,281
	1,658,499
Net purchase price	21,767,144

The final purchase price for the acquisition has not yet been finalized.

3. Business acquisitions (cont.)

IV) 2011 acquisition

On November 10, 2011, the Company's wholly-owned subsidiary, MTY Tiki-Ming Enterprises Inc., acquired the assets of Koryo Korean BBQ Franchise Corp. for a total consideration of $1,800,000. The purpose of the acquisition was to diversify the Company's range of offering as well as to complement existing MTY brands. The acquisition was effective November 1, 2011.

Consideration paid

Purchase price	1,800,000
Net obligations assumed	(32,800)
Net purchase price	1,767,200
Holdbacks	350,000
Net cash outflow	1,417,200

The preliminary purchase price allocation is as follows:

Net assets acquired:

Current Assets	
Inventories	2,379
	2,379
Property, plant and equipment	20,000
Franchise rights	651,561
Trademark	1,135,161
	1,809,101
Current Liabilities	
Accounts payable	12,800
Unearned revenues	20,000
	32,800
Future income taxes	9,101
	41,901
Net purchase price	1,767,200

The final purchase price for the acquisition has not yet been finalized.

3. Business acquisitions (cont.)

V) 2010 acquisition

On September 16, 2010 the Company's wholly-owned subsidiary, MTY Tiki-Ming Enterprises Inc., acquired all of the outstanding shares of Groupe Valentine Inc. as well as seven real estate properties for a consideration of $8,764,126. The acquisition was effective September 1, 2010.

Consideration paid

Share purchase	4,989,555
Repayment of long-term debt	402,571
Acquisition of properties	3,372,000
Total purchase price	8,764,126

Of the consideration above, the Company is currently retaining $930,000 as holdbacks (Note 12).

The purchase price allocation is as follows:

Net assets acquired:

Current Assets	
Cash	4,336
Accounts receivable	499,247
Inventory	324,962
Franchise locations under construction held for resale	270,631
Current portion of loans receivable	117,695
Prepaid expenses	26,246
	1,243,117
Loans receivable	232,735
Property, plant and equipment	4,322,764
Franchise rights	860,770
Trademark	3,337,895
Goodwill	1,446,061
Minority interest	20,657
	11,463,999
Current Liabilities	
Accounts payable	1,193,109
Income taxes payable	87,005
Loans payable	129,683
Unearned revenue	104,860
	1,514,657
Future income taxes	1,185,216
Total purchase price	8,764,126

3. Business acquisitions (cont.)

VI) 2009 acquisition

On May 1, 2009, the Company's wholly-owned subsidiary, MTY Tiki Ming Enterprises Inc., acquired all of the issued and outstanding shares of Country Style Food Services Holdings Inc. The Company has paid $7,936,791 in cash and $6,750,000 as repayment of long-term debt on closing and retained the amounts of $997,868 and $794,576 as holdbacks and withholding taxes respectively.

An amount of $2,697,762 of post-closing adjustments was claimed to the sellers following the transaction and was under litigation at the last balance sheet date. In May of 2011, a settlement was reached that ended the litigation whereby MTY Tiki Ming Enterprises Inc. received a compensation of $1,247,444 from the sellers, which was made of $205,000 received in cash and $1,042,444 as an offset from the remaining holdbacks and withholding taxes. The resulting adjustment was recorded as goodwill.

A holdback of $750,000 has been completely used up since acquisition that pertained to events that had occurred prior to the acquisition date. As a result, the retention of this holdback does not affect the purchase price.
The allocation of the purchase price of the acquisition is as follows:

	$
Consideration paid	
Share purchase	9,729,235
Repayment of long-term debt	6,750,000
Post closing adjustments	(1,247,444)
Acquisition costs	29,091
Total purchase price	15,260,882
Net assets acquired:	
Current Assets	
Cash	127,381
Accounts receivable	2,039,936
Inventory	368,768
Franchise locations under construction held for resale	627,542
Prepaid expenses	196,000
Future income taxes	1,290,000
	4,649,627
Future income taxes	4,458,559
Property, plant and equipment	1,584,724
Franchise rights	1,016,000
Trademarks	4,096,000
Distribution agreements	272,000
Goodwill	3,154,759
	19,231,669
Current Liabilities	
Accounts payable and accrued liabilities	3,970,787
Total purchase price	15,260,882

4. Temporary investments

Temporary investments are comprised of short-term notes and guaranteed investment certificates recorded at fair value. They have maturity dates between December 2011 and June 2012 and have rates of return between 1.02% and 1.62% (0.82% to 1.45% in November 2010).

5. Inventories

Inventories expensed during the year amount to $18,823,063 (2010 - $14,640,623).

6. Loans receivable

The loans receivable generally result from the sales of franchises and consist of the following:

	November 30, 2011	November 30, 2010
	$	$
Loans receivable, carrying no interest and without terms of repayment	**45,484**	-
Loans receivable bearing interest between nil and 10% per annum, receivable in monthly instalments of $23,125 in aggregate, including principal and interest, ending in April 2017	**1,073,530**	1,244,686
	1,119,014	1,244,686
Current portion	**(413,624)**	(336,067)
	705,390	908,619

The capital repayments in subsequent years will be:

	$
12 months ending November 2012	**413,624**
12 months ending November 2013	**208,669**
12 months ending November 2014	**206,194**
12 months ending November 2015	**124,045**
12 months ending November 2016	**31,410**
Thereafter	**135,072**
	1,119,014

7. Capital assets

	November 30, 2011		
	Cost	Accumulated amortization	Net book value
	$	$	$
Corporate-owned locations			
Equipment	**1,565,223**	**553,314**	**1,011,909**
Leasehold improvements	**1,179,415**	**610,688**	**568,727**
Computer hardware	**36,690**	**27,234**	**9,456**
Land	**1,946,890**	**-**	**1,946,890**
Buildings	**3,728,808**	**166,985**	**3,561,823**
Equipment	**2,307,266**	**335,038**	**1,972,228**
Computer hardware	**462,861**	**282,144**	**180,717**
Computer software	**230,524**	**146,399**	**84,125**
Leasehold improvements	**1,690,715**	**862,379**	**828,336**
Rolling stock	**39,558**	**23,380**	**16,178**
	13,187,950	**3,007,561**	**10,180,389**

	November 30, 2010		
	Cost	Accumulated amortization	Net book value
	$	$	$
Corporate-owned locations			
Equipment	1,659,267	497,509	1,161,758
Leasehold improvements	1,624,452	643,851	980,601
Computer hardware	42,000	30,764	11,236
Land	1,285,281	-	1,285,281
Buildings	2,064,144	18,604	2,045,540
Equipment	557,784	161,687	396,097
Computer hardware	409,944	214,709	195,235
Computer software	163,148	105,249	57,899
Leasehold improvements	1,624,204	646,373	977,831
Rolling stock	39,558	12,570	26,988
	9,469,782	2,331,316	7,138,466

8. Intangible assets

	November 30, 2011		
	Cost	Accumulated amortization	Net book value
	$	**$**	**$**
Franchise and master franchise rights(1)	**40,045,154**	**13,554,798**	**26,490,356**
Trademarks	**32,723,891**	**-**	**32,723,891**
Leases	**1,000,000**	**628,312**	**371,688**
Other	**504,725**	**466,961**	**37,764**
	74,273,770	**14,650,071**	**59,623,699**

	November 30, 2010		
	Cost	Accumulated amortization	Net book value
	$	**$**	**$**
Franchise and master franchise rights(1)	31,375,604	10,613,665	20,761,939
Trademarks	14,856,855	-	14,856,855
Leases	1,000,000	481,116	518,884
Other	504,725	376,289	128,436
	47,737,184	11,471,070	36,266,114

(1) Franchise and master franchise rights include an amount of $1,500,000 ($1,500,000 in November 2010) of unamortizable master franchise right.

9. Goodwill

The changes in the carrying amount of goodwill for the years ended November 30, 2011 and 2010 are as follows:

	November 30, 2011	November 30, 2010
	$	$
Balance, beginning of the year	7,124,751	6,834,249
Goodwill acquired during the year (Note 3)	10,933,914	1,446,061
Adjustment of purchase price following settlement of litigation (Note 3)	1,450,318	-
Reduction of goodwill due to adjustment in future income taxes	-	(1,155,559)
Balance, end of year	19,508,983	7,124,751

10. Bank indebtedness

As at November 30, 2011, the Company has an authorized operating line of credit of $5,000,000. Bank indebtedness is secured by a moveable hypothec on all the assets of the Company. The interest rate charged is the bank's annual prime rate (3.00% on November 30, 2011) plus 1.00%. Under the terms of the line of credit, the Company must satisfy a funded debt to EBITDA ratio of 1 to 1, a current ratio of 1.45 to 1, and a debt service coverage ratio of 1.8 to 1. The company is in compliance with all these ratios. The operating line of credit is payable on demand and is renewable annually. As at November 30, 2011, the Company had not used funds from its line of credit.

11. Deferred revenue and deposits

	November 30, 2011	November 30, 2010
	$	$
Franchise fee deposits	**1,023,125**	903,876
Distribution rights	**548,972**	590,127
	1,572,097	1,494,003
Current portion	**(1,560,630)**	(1,485,295)
	11,467	8,708

12. Long-term debt

	November 30, 2011	November 30, 2010
	$	$
Non-interest bearing holdbacks on acquisition	-	179,070
Non-interest bearing holdbacks on acquisition, repayable between March 2012 and September 2013	**930,000**	961,518
Non-interest bearing holdbacks on acquisition, repayable between February 2012 and August 2014	**1,735,000**	-
Non-interest bearing holdback on acquisition, repayable in November 2013	**2,500,000**	-
Non-interest bearing holdbacks on acquisition, repayable between December 2011 and November 2013	**350,000**	-
Bank loans backed by the assets of two subsidiaries	-	125,916
Non-interest bearing holdbacks and withholding taxes on the acquisition of Country Style Food Services Holdings Inc. This holdback was part of a settlement described in Note 3.	-	1,253,309
Bank loan bearing interest at the bank's prime plus 0.50%, secured by the capital assets of a subsidiary, repayable in fixed monthly capital repayments at $24,305.56 plus interest. As at November 30, 2011, the bank's prime rate was 4.00%. The first capital repayment is due in June 2012[(i)]	**3,500,000**	-
Mandatorily redeemable preferred shares, non-cumulative, redeemable in three yearly installments beginning December 2011,with redemption value based on the performance of a subsidiary	**200,000**	**-**
Non-interest bearing loans from non-controlling shareholders of subsidiaries with no terms of repayment	**110,000**	283,400
	9,325,000	2,803,213
Current portion	**(1,982,167)**	(1,873,213)
	7,342,833	930,000

[(i)] This loan is subject to restrictive covenants to maintain certain working capital, interest coverage and debt to equity ratios. As at November 30, 2011, one of the covenants was not met, however they only become applicable on November 30, 2012. As such, there is no breach of covenants as at November 30, 2011.

12. Long-term debt (cont.)

The capital repayments in subsequent years will be:

	$
12 months ending November 2012	**1,982,167**
12 months ending November 2013	**4,147,000**
12 months ending November 2014	**425,000**
12 months ending November 2015	**291,667**
12 months ending November 2016	**2,479,166**
	9,325,000

13. Capital stock

Authorized, unlimited number of common shares without nominal or par value

	November 30, 2011		November 30, 2010	
	Number	Amount	Number	Amount
		$		$
Balance, beginning and end of period	**19,120,567**	**19,792,468**	19,120,567	19,792,468

14. Stock options

Under various plans, the Company may grant stock options on the common shares at the discretion of the Board of Directors, to senior executives, directors and certain key employees. Of the 3,000,000 common shares initially reserved for issuance, 699,500 were available for issuance under the share option plan as at November 30, 2011. There are no options outstanding as at November 30, 2011.

15. 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.

Fair value of recognized financial instruments

Following is a table which sets out the fair values of recognized financial instruments using the valuation methods and assumptions described below:

	November 30, 2011		November 30, 2010	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Financial assets				
Cash	**5,995,085**	**5,995,085**	5,636,912	5,636,912
Temporary investments	**4,632,032**	**4,632,032**	23,383,261	23,383,261
Accounts receivable	**9,548,710**	**9,548,710**	7,577,435	7,577,435
Loans receivable	**1,119,014**	**1,119,014**	1,244,686	1,244,686
Other receivable	-	**N/A**	2,697,762	N/A
Deposits	**155,183**	**155,183**	45,292	45,292
Financial liabilities				
Accounts payable and accrued liabilities	**14,908,311**	**14,908,311**	12,529,748	12,529,748
Long-term debt	**9,325,000**	**9,252,723**	2,803,213	2,786,336

Determination of fair value

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

Accounts receivable, deposits, accounts payable and accrued liabilities - The carrying amounts approximate fair values due to the short maturity of these financial instruments.

Cash and temporary investments - The carrying amounts are reflected at market values, which are determined by quoted prices in active markets for identical securities.

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

Other receivable - The other receivable was the result of post-closing adjustments claimed by the Company from the sellers of Country Style Food Services Holdings Inc. in accordance with the provisions of the purchase agreement. The litigation has been settled during the second quarter of our 2011 fiscal period.

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 interest rates currently available to the Company for similar arrangements.

15. Financial instruments (cont.)

Risk management policies

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at the balance sheet date of November 2011.

Credit risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the balance sheet are net of allowances for bad debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. The Company believes that the credit risk of accounts receivable is limited for the following reasons:

- The Company's broad client base is spread mostly across Canada.
- The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual account receivable.

The following table sets forth details of the age receivables that are not overdue as well as an analysis of overdue amounts and the related allowance for doubtful accounts:

	November 30, 2011	November 30, 2010
	$	$
Total accounts receivable	**10,404,554**	8,360,696
Less: Allowance for doubtful accounts	**855,844**	783,261
Total accounts receivable, net	**9,548,710**	7,577,435
Of which:		
Not past due	**7,075,654**	5,665,888
Past due for more than one day but for no more than 30 days	**739,243**	255,948
Past due for more than 31 days but for no more than 60 days	**215,386**	217,314
Past due for more than 61 days	**1,518,427**	1,438,285
Total accounts receivable, net	**9,548,710**	7,577,435
Allowance for doubtful accounts beginning of year	**783,261**	754,110
Additions	**335,428**	384,531
Write-off	**(262,845)**	(355,380)
Allowance for doubtful accounts end of year	**855,844**	783,261

The credit risk on cash and temporary investments is limited because the Company invests its excess liquidity in high quality financial instruments.

The credit risk on the loans receivable is similar to that of accounts receivable. There is currently no allowance for doubtful accounts applicable to the loans receivable.

15. Financial instruments (cont.)

Foreign exchange risk

The Company has entered into a contract to minimize its exposure to fluctuations in foreign currencies, mainly on purchases of coffee. As of November 30, 2011, the total value of such contracts was approximately $635,000. Immediate liquidation of the contracts at November 30, 2011 would have resulted in a gain of $44,000.

Other than the above-mentioned contracts, the Company has minimal exposure to the US$ and is subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in the currency. The Company considers this risk to be relatively limited. At year-end, the value of the US$ held by the Company was $670,071 (2010 - $464,354).

Interest rate risk

The Company is exposed to interest rate risk with regards temporary investments. Given the very short term nature of the temporary investments, the risk that changes in interest rates will cause material fluctuations in the fair value is considered limited.

The Company's is also exposed to interest rate risk with its operating line of credit and a bank loan contracted by a subsidiary. Both facilities bear interest at a variable rate and as such the interest burden could potentially become more important. The line of credit is not currently used by the Company; as a result, the exposure to interest rate risk in minimal.

Liquidity risk

The Company actively maintains credit facilities to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

The following are the contractual maturities of financial liabilities as at November 30, 2011:

	Carrying Amount	Contractual Cash Flows	0 to 6 Months	6 to 12 Months	12 to 24 Months
	$	$	$	$	$
Accounts payable and accrued liabilities	14,908,311	14,908,311	14,351,611	556,700	-
Long-term debt	9,325,000	9,325,000	1,353,000	629,167	4,147,000
Interest	-	-	78,750	76,836	143,827
	24,233,311	24,233,311	15,783,361	1,262,703	4,290,827

The following are the contractual maturities of financial liabilities as at November 30, 2010:

	Carrying Amount	Contractual Cash Flows	0 to 6 Months	6 to 12 Months	12 to 24 Months
	$	$	$	$	$
Accounts payable and accrued liabilities	12,529,748	12,529,748	12,529,748	-	-
Long-term debt	2,803,213	2,803,213	1,873,213	-	558,000
	15,332,961	15,332,961	14,402,961	-	558,000

16. Capital Disclosures

The Company's objectives when managing capital are:

1- To safeguard the Company's ability to obtain financing should the need arise;
2- To provide an adequate return to its shareholders;
3- To maintain financial flexibility in order to have access to capital in the event of future acquisitions.

The company defines its capital as follows:
1- Shareholders' equity;
2- Long-term debt including the current portion;
3- Deferred revenue including the current portion;
4- Cash and temporary investments.

The Company's financial strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions and the risk characteristics of the underlying assets. The Company may invest in longer or shorter-term investments depending on eventual liquidity requirements.

The Company monitors capital on the basis of the debt-to-equity ratio. The debt-to-equity ratios at November 30, 2011 and November 30, 2010 were as follows:

	November 30, 2011	November 30, 2010
	$	$
Debt	**28,152,349**	20,283,984
Equity	**88,910,506**	76,198,185
Debt-to-equity ratio	**0.32**	0.27

During the year ending November 30 2011, the addition of $8,285,000 of debt and holdbacks related to the acquisitions discussed in Note 3 caused the ratio to go up slightly. The Company intends to reduce its total debt with the positive cash flows generated from its operations. Maintaining a low debt-to-equity ratio is a priority in order to permit the Company to secure financing at a reasonable cost for future acquisitions. As at November 30, 2011, the Company does not have debt outstanding that is subject to such a covenant.

17. Franchise fees

Included in revenue from franchise locations are initial franchise fees in the amount of $1,854,238 ($3,019,913 in 2010).

18. Restructuring

During the second quarter, the Company has undertaken a restructuring of its Country Style operations following unsatisfactory performances. The total cost of the terminations incurred during the second quarter was $446,579; no additional terminations are expected as part of this restructuring activity, but some of the provided amounts are still being negotiated and could therefore vary from the original estimate. As at November 30, 2011, $205,360 remains in liabilities.

19. Commitments

The Company has entered into various long-term leases and has sub-leased substantially all of the premises based on the same terms and conditions as the original lease to unrelated franchisees. The minimum rentals, exclusive of occupancy and escalation charges, and additional rent paid on a percentage of sales basis, payable under the leases are as follows:

	Lease commitments	Sub leases	Net commitments
	$	$	$
12 months ending August 2012	**46,783,160**	**44,159,557**	**2,623,603**
12 months ending August 2013	**43,729,750**	**41,293,816**	**2,435,934**
12 months ending August 2014	**40,034,879**	**38,095,016**	**1,939,863**
12 months ending August 2015	**36,037,402**	**34,452,174**	**1,585,228**
12 months ending August 2016	**31,167,381**	**29,814,959**	**1,352,422**
Thereafter	**83,661,071**	**81,467,389**	**2,193,682**
	281,413,643	**269,282,911**	**12,130,732**

The Company has entered into supplier agreements for purchases of coffee beans, wheat, sugar and shortening for delivery dates ranging from December 2011 to May 2012. The total commitment amounts to approximately $1,634,000. Based on market rates at November 30, 2011, a loss of $44,000 would result from immediate liquidation of all contracts.

20. Guarantee

The Company has provided a guarantee in the form of a letter of credit for an amount of $45,000.

21. Contingent liabilities

The Company is involved in legal claims associated with its current business activities, the outcome of which is not determinable. Management believes that these legal claims will have no significant impact on the consolidated financial statements of the Company.

22. Income taxes

Variations of income tax expense from the basic Canadian Federal and Provincial combined tax rates applicable to income from operations before income taxes are as follows:

	November 30, 2011		November 30, 2010	
	$	**%**	$	%
Combined income tax rate	**6,463,987**	**28.3**	6,713,418	30.1
Add effect of:				
Impact of disposition of capital property	**(114,533)**	**(0.5)**	(25,115)	(0.1)
Permanent impact of tax assessment	-	-	52,310	0.2
Non-deductible items	**15,553**	**0.1**	35,745	0.2
Recognition of previously unrecognized Future income tax assets	**(113,992)**	**(0.5)**	-	-
Change in applicable tax rates	**217,818**	**0.9**	-	-
Prior year adjustment	**(43,873)**	**-0.2**	-	-
Other – net	**(841)**	**(0.0)**	6,839	(0.0)
Provision for income taxes	**6,424,119**	**28.1**	6,783,197	30.4

As at November 30, 2011 there were approximately $6,706,035 of net allowable capital losses which may be applied against capital gains for future years and be carried forward indefinitely. The future income tax benefit of these capital losses has not been recognized.

Significant components of future income tax assets and liabilities are as follows:

	November 30, 2011	November 30, 2010
	$	$
Future income tax assets		
Intangible assets	**1,462,190**	-
Financial statements reserves on payables	**361,397**	-
Capital assets	**69,237**	-
Non-capital loss carry-forward	**79,004**	3,561,864
	1,971,828	3,561,864
Future income tax liabilities		
Capital assets	**351,716**	(61,834)
Intangible assets	**1,985,570**	2,667,716
	2,337,286	2,605,882

23. Earnings per share

The following table provides a reconciliation between the number of basic and fully diluted shares outstanding:

	November 30, 2011	November 30, 2010
Weighted daily average number of common shares	**19,120,567**	19,120,567
Diluted effect of stock options	-	-
Weighted average number of diluted common shares	**19,120,567**	19,120,567

24. Segmented Information

The Company's activities are comprised of Franchise operations, Corporate store operations, Distribution operations and Food processing operations. The Company considers its Real estate activities as part of the franchise operations segment.

Year ended November 30, 2011:

	Franchising	Corporate	Distribution	Processing	Intercompany	Total
	$	$	$	$	$	$
Operating Revenues	56,061,127	10,775,206	6,062,762	6,329,501	(763,578)	78,465,018
Operating expenses	30,125,351	10,727,697	5,527,894	6,202,478	(763,578)	51,819,842
Operating margin	25,935,776	47,509	534,868	127,023	-	26,645,176
Other expenses						
Amortization- capital assets	617,377	433,650	7,429	203,386	-	1,261,842
Amortization- intangible assets	3,179,002	-	-	-	-	3,179,002
Interest on long-term debt	-	9,050	-	141,247	-	150,297
Restructuring	446,579	-	-	-	-	446,579
Other income						
Foreign exchange gain	18,342	-	-	-	-	18,342
Interest income	356,746	-	-	-	-	356,746
Gain on disposal	858,396	-	-	-	-	858,396
Operating income	22,926,302	(395,191)	527,439	(217,610)	-	22,840,940
Current income taxes	2,889,176	(81,439)	149,265	-	-	2,957,002
Future income taxes	3,530,593	-	-	(63,476)	-	3,467,117
Income before non-controlling interest	16,506,533	(313,752)	378,174	(154,134)	-	16,416,821
Non-controlling interest						(262,798)
Net income						16,154,023

24. Segmented Information (cont.)

Year ended November 30, 2010

	Franchising	Corporate	Distribution	Processing	Intercompany	Total
	$	$	$	$	$	$
Operating Revenues	57,100,010	8,652,564	1,286,118	-	(152,251)	66,886,441
Operating expenses	32,356,404	7,730,568	1,155,920	-	(152,251)	41,090,641
Operating margin	24,743,606	921,996	130,198	-	-	25,795,800
Other expenses						
Amortization- capital assets	520,451	523,715	1,765	-	-	1,045,931
Amortization- intangible assets	3,024,716	-	-	-	-	3,024,716
Other income						
Foreign exchange loss	(14,221)	-	-	-	-	(14,221)
Interest income	195,897	-	-	-	-	195,897
Gain on disposal	396,885	-	-	-	-	396,885
Operating income	21,777,000	398,281	128,433	-	-	22,303,714
Current income taxes	5,848,379	119,883	38,530	-	-	6,006,792
Future income taxes	776,405	-	-	-	-	776,405
Income before non-controlling interest	15,152,216	278,398	89,903	-	-	15,520,517
Non-controlling interest						(73,723)
Net income						15,446,794

25. Statement of cash flows

Net changes in non-cash working capital balances relating to continuing operations are as follows:

	November 30, 2011	November 30, 2010
	$	$
Accounts receivable	(1,971,275)	(403,151)
Income taxes receivable	(1,418,921)	-
Inventory	(547,182)	72,429
Franchise locations under construction held for resale	(69,463)	184,959
Loans receivable	247,816	(356,842)
Other receivable	205,000	-
Prepaid expenses	407,167	(23,093)
Deposits	(76,509)	(45,291)
Accounts payable and accrued liabilities	(1,239,527)	2,043,636
Income taxes payable	(851,138)	720,101
	(5,314,032)	2,192,748

Supplemental disclosure of cash flows

Income taxes paid	5,478,557	5,466,254
Income tax refund received	320,920	266,569

Non-cash transaction

During the period, the Company has settled its other receivable and some of its holdbacks in a transaction described in Note 3.

26. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

CORPORATE INFORMATION | annual report 2011

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