annual report 2012

MTY
FOOD GROUP

Vieux Duluth Express

country style.

Croissant Plus

burger

Koya Japan

KORYO KOREAN BARBEQUE

JUGO JUICE

vie&nam

cultures.

sushi shop

Villa Madina Mediterranean Cuisine

KIMCHI KOREAN DELIGHT

Franx Supreme

Sukiyaki

TacoTime Canada

MR.SUB

Tandori Indian cuisine

MR SOUVLAKI

valentine

Vanellis FRESH ITALIAN FOODS

TUTTI FRUTTI BREAKFAST & LUNCH

Thaï express

tcby

yogen früz CANADA

LA CRÉMIÈRE

TiKi-MiNG Chinese cuisine

Buns Master Baking it Better

PANINI PIZZA PASTA

OUR BANNERS

GROUPE MTY GROUP

MESSAGE TO SHAREHOLDERS

Dear shareholders:

Fiscal 2012 will be a year to remember for the exceptional financial growth realized during this period. MTY Food Group Inc. ("MTY") takes great pride in its operational and financial success, both past and future. The results of your corporation for the 2012 fiscal year have once more established new highs, fueled by the successful integration of its most recent acquisitions.

The following are some highlights of the 2012 fiscal year:

- Net income increased by 36%, to reach $1.15 per share
- Same store sales grew by 1.08% during the year, despite challenging Q3 and Q4
- System sales were up 31%, to $688.7 million
- Cash and equivalents at the end of the year were $33.0 million
- The number of locations were at 2,199 at the end of the year
- MTY acquired the assets of Mr. Souvlaki and its 14 franchised stores in Canada

The 2012 fiscal period was marked by an unpredictable and challenging retail environment as well as intensification of the competitive pressure on some of our concepts. During this period, MTY has continued to emphasize on quality and innovation and has worked with its franchise partners to respond to those external threats.

In January of 2013, MTY announced another major increase of its quarterly dividend. This reflects the confidence we have in our concepts, our franchise partners, our employees and in our ability to generate sustainable cash flows in the long run.

Going into 2013, the retail environment is expected to remain very challenging, with a relatively weak economy and intense competitive pressure. MTY will continue to concentrate on the excellence of its operations, opening new locations of existing concepts and developing its brands outside of Canada. Financial discipline will remain at the core of our values, as we continue to diligently seek out new potential acquisitions.

In closing, I wish to personally thank each member of the MTY team, franchisees, business partners and shareholders for their continuous support and contribution to our success in 2012. 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, 2013

Management’s Discussion and Analysis
For the fiscal year ended November 30, 2012

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, 2012.

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

The disclosures and values in this MD&A were prepared in accordance with International Financial Reporting Standards (IFRS) and with the current issued and adopted interpretations applied to fiscal years beginning on or after January 1, 2011. Comparative figures as at November 30, 2011 have been restated in accordance with IFRS.

As a result of the adoption of IFRS a number of areas of financial reporting are impacted by the changeover to IFRS; they are highlighted in the MD&A under the heading “Accounting policies adopted in 2012” and in note 34 of the consolidated financial statements.

This MD&A was prepared as at February 13, 2013. 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, Contingent Liabilities and Subsequent Event, contain forward-looking statements. These forward-looking statements include, but are not limited to, statements relating to certain aspects of the business outlook of the Company during the course of 2012. Forward-looking statements also include any other statements that do not refer to independently verifiable 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, 2013 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, 2013. 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 and the event of the occurrence of epidemics, pandemics and other health risks.

These and other risk factors that could cause actual results or events to differ materially from 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, 2013. 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 International Financial Reporting Standards

Unless otherwise indicated, the financial information presented below, including tabular amounts, is expressed in Canadian dollars and prepared in accordance with International Financial Reporting Standards ("IFRS"). MTY uses income before income taxes, interest on long-term debt, depreciation and amortization ("EBITDA") because this measure enables management to assess the Company's operational performance. The Company also discloses same-store sales growth, which are defined as comparative sales generated by stores that have been open for at least thirteen months or that have been acquired more than thirteen months ago.

These measures are widely accepted financial indicators but have no standardized definition as prescribed by GAAP. As a result, they may not be comparable to the EBITDA and same store-sales growth presented by other companies.

Highlights of significant events during the fiscal year

On September 26, 2012, the Company announced it had completed the acquisition of most of the assets of Souvlaki Ltd for an estimated consideration of $0.9 million.

Core business

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

As at November 30, 2012, MTY had 2,199 locations in operation, of which 2,179 were franchised or under operator agreements and the remaining 20 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 Crémière, "TCBY", Sushi Shop, Taco Time, Tutti Frutti, Valentine and Mr. Sub banners. La Crémière 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 Santé/Veggirama chain in 1999,
- 74 locations from the La Crémière 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 Thaï 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. 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.
- On September 26, 2012, the Company acquired the assets of Mr. Souvlaki Ltd. with 14 stores in operation at the effective date of closing.

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

Supreme franchisees with a broad range of products required in the day-to-day operations of the restaurants.

Description of recent acquisitions

On September 26, 2012, the Company announced it had completed the acquisition of most of the assets of Mr. Souvlaki Ltd. for a total consideration of $0.9 million. At the date of closing, there were 14 Mr. Souvlaki stores in operation, all of which were franchised. Of the purchase price, MTY withheld an amount of $0.17 million in holdbacks.

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.

Summary of quarterly financial information

	Quarters ended							
in thousands of $	**February 2011**	**May 2011**	**August 2011**	**November 2011**	**February 2012**	**May 2012**	**August 2012**	**November 2012**
Revenue	**$16,761**	**$18,629**	**$19,852**	**$23,116**	**$21,945**	**$23,689**	**$24,239**	**$26,347**
Net income and comprehensive income attributable to owners	**$3,490**	**$3,583**	**$4,388**	**$4,733**	**$4,392**	**$5,283**	**$6,129**	**$6,263**
Per share	**$0.18**	**$0.19**	**$0.23**	**$0.25**	**$0.23**	**$0.28**	**$0.32**	**$0.33**
Per diluted share	**$0.18**	**$0.19**	**$0.23**	**$0.25**	**$0.23**	**$0.28**	**$0.32**	**$0.33**

Results of operations for the fiscal year ended November 30, 2012

Revenue

During the year ended November 30, 2012, the Company's total revenue increased by 23% to reach $96.2 million. Revenues for the four segments of business are broken down as follows:

	November 30,2012 ($ million)	November 30, 2011 ($ million)	Variation
Franchise operation	70.9	56.0	27%
Corporate stores	12.2	10.8	13%
Distribution	6.1	6.1	0%
Food processing	8.1	6.3	27%
Intercompany transactions	(1.0)	(0.8)	N/A
Total operating revenues	96.2	78.4	23%

As is shown in the table above, revenue from franchise locations progressed by 27%. Several factors contributed to the variation, as listed below:

	$million
Revenues, 2011 fiscal year	56.0
Increase in recurring revenue streams	13.0
Increase in turn-key, sales of material to franchisees and rent revenues	0.8
Increase in initial franchise fees	1.0
Other non-material variations	0.1
Revenues, 2012 fiscal year	70.9

During the 2012 fiscal year, the Company benefitted from the results of its most recent acquisitions, which account for $10.3 million of the increase in recurring streams of revenues. Other factors accounting for the increase in the recurring revenue streams include a favorable same-store-sales growth as well as the good performance of stores opened in the last 12 months.

Revenue from corporate owned locations increased 13%, to $12.2 million during the 2012 fiscal year. The increase is mainly due to the consolidation of certain Special Purpose Entities acquired with Mr. Sub during the fourth quarter of 2011, which generated approximately $4.5 million during the year. This increase was partly offset by the disposal of certain corporate stores during 2012.

The Company also generated food processing revenues of $8.1 million during the twelve-month period. The increase of 27% is attributable to the timing of the acquisition in the first quarter of 2011 as well as to the transition period which affected the performance of the plant in the early stages following the transaction.

Cost of sales and other operating expenses

During 2012, operating expenses increased by 18% to $61.3 million, from $51.9 million for the same period in 2011. Operating expenses for the four business segments were incurred as follows:

	November 30, 2012 ($ million)	November 30, 2011 ($ million)	Variation
Franchise operation	36.3	30.2	20%
Corporate stores	12.4	10.7	15%
Distribution	5.6	5.5	2%
Food processing	8.0	6.2	29%
Intercompany transactions	(1.0)	(0.8)	N/A
Total operating expenses	61.3	51.9	18%

Operating expenses related to the franchising operations increased by $6.1 million, mainly as a result the additional expenses created by the operations of the recent acquisitions.

During the year, expenses for corporate owned locations increased by $1.7 million. The increase is caused by the consolidation of the Special Purposes Entities of Mr Sub, which was partially offset by the divestiture of certain corporate stores during 2012.

The expenses of the food processing plant were up by 29%, for the reasons described in the Revenues section above.

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

	Fiscal year ended November 30, 2012					
(In millions)	Franchise	Corporate	Distribution	Processing	Consolidation	Total
Revenues	$70.91	$12.17	$6.08	$8.05	($0.99)	$96.22
Expenses	$36.33	$12.35	$5.63	$7.97	($0.99)	$61.29
EBITDA[(1)]	$34.58	($0.18)	$0.45	$0.08	$0.00	$34.93
EBITDA as a % of Revenue	49%	N/A	7%	1%	N/A	36%

	Fiscal year ended November 30, 2011					
(In millions)	Franchise	Corporate	Distribution	Processing	Consolidation	Total
Revenues	$55.95	$10.78	$6.06	$6.33	($0.76)	$78.36
Expenses	$30.23	$10.73	$5.53	$6.20	($0.76)	$51.93
Restructuring	$0.45	$0.00	$0.00	$0.00	$0.00	$0.45
EBITDA[(1)]	$25.27	$0.05	$0.53	$0.13	$0.00	$25.98
EBITDA as a % of Revenue	45%	0%	9%	2%	N/A	33%

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

Total EBITDA increased by 34%, from $26.0 million to $34.9 million for the 2012 fiscal year.

During the year, the franchising operations generated $34.6 million in EBITDA, a 37% increase over the results of the same period last year. The increase is mainly attributable to the contribution of the recent acquisitions which accounts for approximately three quarters of the growth, the increase in same-store-sales and the performance of stores opened in the last twelve months. The 2011 EBITDA also included a $0.45 million restructuring charge.

EBITDA from franchise operations as a percentage of revenue increased to 49% because of a change in the composition of the revenues that saw a reduced relative weight for revenues generated by the deliveries of turnkeys and materials to franchisees, which typically generate low profit margins.

EBITDA from corporate owned locations declined slightly during the twelve-month period, mainly because of the disposition of some profitable stores in 2012.

The food processing plant generated $0.1 million EBITDA in the 2012 and 2011 fiscal year. 2012 results had been affected by a low margin contract which has now been renegotiated.

Net income

For the fiscal year ended November 30, 2012, the Company's net income attributable to owners increased by 36% over the same period last year. MTY reported a net income and comprehensive income attributable to its owners of $22.1 million or $1.15 per share ($1.15 per diluted share) compared to $16.5 million or $0.85 per share ($0.85 per diluted share) in 2011.

The increase in net income is mostly attributable to the impact of recent acquisitions as well as to strong generic growth in revenues, which more than offset the decline in the non-recurring other income items.

Amortization expense

The amortization of intangible assets was up by $0.7 million in 2012 because of the amortization of the recently acquired franchise rights.

Other income and charges

The gain on disposal of assets, which results from the sale of the assets of corporate stores, was $0.5 million in 2012 compared to a gain of $0.9 million during 2011. The unusual 2011 gain was mainly caused by the sale of one corporate restaurant that generated above-average returns and thus commanded a higher sales price.

During the year, the Company took an impairment charge of $0.1 million on the assets of eight of its corporate stores, each one representing a cash-generating unit ("CGU"). The charge was taken following disappointing 2012 results, which indicated a potential impairment. The assets of all eight stores are now carried at their fair value less cost to sell, which was higher than their value in use based on discounted cash flows.

During the year, the Company recorded a gain of $0.1 million for the redemption of the preferred shares issued by one of its subsidiaries. The shares are mandatorily redeemable in three yearly instalments, with redemption values based on the performance of the subsidiary. Due to the financial performance of the subsidiary for 2012, the redemption value of the shares was $nil.

The Company also recorded a gain of $0.1 million on the loan forgiveness of non-controlling shareholders of a subsidiary.

Income taxes
The provision for income taxes for the 2012 fiscal year was 27.7% of the Company's income before taxes. This is higher than the average statutory rate of 26.9% applicable to the Company's income for the year. The discrepancy is mainly due to an income tax assessment that resulted in a charge of approximately $0.3 million.

Results of operations for the fourth quarter ended November 30, 2012

Revenue
During the fourth quarter of our 2012 fiscal year, the Company's total revenue increased by 14% to reach $26.3 million. Revenues for the four segments of business are broken down as follows:

	November 30,2012 ($ million)	November 30, 2011 ($ million)	Variation
Franchise operation	20.0	16.1	24%
Corporate stores	2.5	3.3	(24%)
Distribution	1.9	1.9	0%
Food processing	2.3	2.0	13%
Intercompany transactions	(0.3)	(0.2)	N/A
Total operating revenues	26.3	23.1	14%

As is shown in the table above, revenue from franchise locations progressed by 24%. Several factors contributed to the variation, as listed below:

	$million
Revenues, fourth quarter of 2011	16.1
Increase in recurring revenue streams	2.5
Increase in turn-key, sales of material to franchisees and rent revenues	1.2
Increase in initial franchise fees	0.5
Other non-material variations	(0.3)
Revenues, fourth quarter of 2012	20.0

During the fourth quarter of 2012, the Company benefited from the results of its most recent acquisitions, which account for $2.2 million of the increase in recurring streams of revenues. Other factors accounting for the increase in such revenues include the good performance of stores opened in the last 12 months and higher turnkey revenue.

Revenue from corporately-owned locations decreased 24%, to $2.5 million during the fourth quarter of our 2012 fiscal period. The decrease is due to the disposal of certain stores since the beginning of 2012.

The Company generated food processing revenues of $2.3 million during the fourth quarter of 2012, up 13% compared to the same period last year. The increase is mainly attributable to a new line of production that was put in place during the fourth quarter.

Cost of sales and other operating expenses

During the fourth quarter of 2012, operating expenses increased by 14% to $17.4 million, from $15.3 million for the same period in 2011. Operating expenses for the four business segments were incurred as follows:

	November 30, 2012 ($ million)	November 30, 2011 ($ million)	Variation
Franchise operation	11.0	8.6	28%
Corporate stores	2.7	3.3	(20%)
Distribution	1.7	1.7	0%
Food processing	2.3	1.9	23%
Intercompany transactions	(0.3)	(0.2)	N/A
Total operating expenses	17.4	15.3	13%

Operating expenses related to the franchising operations increased by $2.4 million, mainly as a result the additional expenses created by the operations of its recent acquisitions, which account for $0.7 million of this increase. The balance of the increase is due to the increase in revenues generated from turn-keys, sales of material to franchisees and rent.

During the period, expenses for corporate owned locations decreased by $0.6 million. The decrease was caused by the reduction in the number of corporate stores in the last 12 months.

The expenses of the food processing plant were up by 23%, increasing as a result of the additional revenues the plant generates.

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

	Three months ended November 30, 2012					
(In millions)	Franchise	Corporate	Distribution	Processing	Consolidation	Total
Revenues	$20.05	$2.49	$1.87	$2.27	($0.33)	$26.35
Expenses	$11.02	$2.65	$1.74	$2.28	($0.33)	$17.37
EBITDA[(1)]	$9.03	($0.16)	$0.12	$(0.01)	$0.00	$8.98
EBITDA as a % of Revenue	45%	N/A	7%	N/A	N/A	34%

	Three months ended November 30, 2011					
(In millions)	Franchise	Corporate	Distribution	Processing	Consolidation	Total
Revenues	$16.15	$3.29	$1.87	$2.01	($0.19)	$23.12
Expenses	$8.58	$3.34	$1.74	$1.85	($0.19)	$15.32
EBITDA[(1)]	$7.57	($0.06)	$0.13	$0.16	$0.00	$7.80
EBITDA as a % of Revenue	47%	N/A	7%	8%	N/A	34%

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

EBITDA increased by 15%, from $7.8 million in the fourth quarter of 2011 to $9.0 million for the three months ended November 30, 2012.

During the period, the franchising operations generated $9.0 million in EBITDA, a 19% increase over the results of the same period last year. The increase is mainly attributable to the contribution of recent acquisitions and the performance of stores opened in the last twelve months.

EBITDA from franchise operations as a percentage of revenue decreased to 45%, because of the higher relative weight of sales to franchises. These revenues typically generate lower profit margins.

Corporate stores had a loss of $0.2 million in EBITDA, a decrease of $0.1 million compared to the same period in 2011. This was mainly due to the disposition of some profitable stores in 2012.

The food processing plant generated a slightly negative EBITDA in the fourth quarter of 2012.

Net income

For the three months ended November 30, 2012, MTY reported a net income and comprehensive income attributable to its owners of $6.3 million or $0.33 per share ($0.33 per diluted share) compared to $4.7 million or $0.25 per share ($0.25 per diluted share) for the same period last year, representing a net income increase of 32%.

Amortization expense

The amortization of intangible assets in the fourth quarter of 2012 was comparable to the same period last year.

Other income and charges

During the fourth quarter, the Company took an impairment charge of $0.1 million on the assets of eight of its corporate stores (each one representing a cash-generating unit ("CGU"). The charge was taken following disappointing results in 2012. The assets of all eight stores are now carried at their fair value, which was higher than their value in use based on discounted cash flows.

During the fourth quarter, the Company recorded a gain of $0.1 million for the redemption of the preferred shares of its processing plant. The shares are mandatorily redeemable in three yearly instalments, with redemption values based on the performance of the processing plant. Due to the EBITDA generated by the processing plant, the redemption was valued at zero.

The Company also recorded a gain of $0.1 million on the loan forgiveness of non-controlling shareholders of a subsidiary which is owned at 45%.

Income taxes
The provision for income taxes as a percentage of income before taxes decreased slightly during the fourth quarter of 2012 compared to the same period last year. This was mainly due to reductions in the corporate tax rates in the territories in which the Company has permanent establishments, as well as a rate adjustment on non-capital losses carried forward accounted for in the fourth quarter of 2011.

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 *(In thousands $)*	Long term debt[1]	Net lease commitments	Total contractual obligations
12 months ending November 2013	$7,334	$2,258	$9,592
12 months ending November 2014	$287	$2,202	$2,489
12 months ending November 2015	$-	$1,883	$1,883
12 months ending November 2016	$-	$1,670	$1,670
12 months ending November 2017	$-	$1,355	$1,355
Balance of commitments	$-	$3,918	$3,918
	$7,621	**$13,286**	**$20,907**

(1) Amounts shown represent the total amount payable at maturity and are therefore undiscounted.
For total commitments, please refer to November 30, 2012 consolidated financial statements

Long-term debt includes non-interest bearing holdbacks on acquisitions, 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.

The bank loan used to finance the acquisition of the food processing plant was classified as current in 2012 as two of the covenants were not met as at November 30, 2012.

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 2012 and March 2013. The total commitment amounts to $1.0 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 $0.4 million.

Liquidity and capital resources

As of November 30, 2012, the amount held in cash and cash equivalents totalled $33.0 million, an increase of $22.4 million over the cash and cash equivalents and temporary investments held at the end of our 2011 fiscal period. The increase is attributable to the strong cash flows generated by our operations during the 2012 fiscal year.

Cash flows generated by operating activities were $29.4 million during the 12 months of 2012. Excluding the variation in non-cash working capital items, income taxes and interest paid, our operations generated $35.8 million in cash flows, compared to $26.2 million in 2011, which represents an increase of 37% compared to the same period last year.

The main drivers for this increase are the 34% increase in EBITDA discussed above as well as the receipt of material amounts of deferred revenues that will be recognized into income in the coming quarters.

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 $10.0 million that remained unused at November 30, 2012. The facility, when used, bears interest at the bank's annual prime rate plus a margin not exceeding 0.5% established based on the Company's funded debt/EBITDA ratio.

Cash flows generated by our operations are typically held in high yield savings account or guaranteed investment certificates until they are required.

Statement of financial position

During the year, the Company has liquidated its remaining investments and has now allocated its cash and cash equivalents on hand in high yield savings accounts with various recognized institutions.

Accounts receivable at the end of the fourth quarter were at $13.6 million, compared to $10.5 million at the end of our 2011 fiscal period. The increase is mainly due to the increase in revenues and the related working capital requirements. The provision for doubtful accounts has increased by $0.3 million since November 30, 2011, mainly as a result of the unpredictable environment in which some of our franchisees operate that result in uncertain collection of amounts due.

Property, plant and equipment and intangible assets both decreased during the year. The decrease in property, plant and equipment is the result of the dispositions of some corporate stores during the period, as well as of the depreciation and amortization recorded during the period. The decrease in intangible assets, which is due to the amortization recorded during the period, was partially offset by the acquisition of franchise rights valued at $0.5 million and the acquisition of Mr. Souvlaki valued at $0.9 million.

Accounts payable remained consistent at $13.4 million from $13.5 million in 2011.

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 as at November 30, 2012 was $2.2 million, an increase of $0.6 million compared to the balance at the end of 2011. The variation is due to increases in franchise fee deposits which are dependent on the level of activity and deliveries during a certain period. These amounts will be recognized into revenues as they are earned.

The long-term debt is composed of non-interest bearing holdbacks on acquisitions, of bank loans contracted by a subsidiary to finance an acquisition and of mandatorily redeemable preferred shares payable to a minority shareholder of a subsidiary. Repayments of $1.6 million were made on non-interest bearing holdbacks. In addition, payments were made on the bank loan of a subsidiary following a period during which only interest payments were required. There were no material issuances since the beginning of the year.

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 $100,000.

Further details on the above statement of financial position items can be found in the notes to the November 30, 2012 consolidated financial statements.

Capital stock

No shares were issued during the quarter ended November 30, 2012. As at February 13, 2013 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 fiscal year ended November 2012	Number of locations fiscal year ended November 2011
Franchises, beginning of year	**2,233**	1,701
Corporate owned, beginning of year	**30**	26
Acquired during the year	**14**	494
Opened during the period		
Mall	**45**	41
Street	**33**	37
Non-traditional	**51**	49
Closed during the period		
Mall	**(49)**	(16)
Street	**(45)**	(21)
Non-traditional	**(113)**	(48)
Total end of period	**2,199**	2,263
Franchises, end of period	**2,179**	2,233
Corporate owned, end of period	**20**	30
Total end of period	**2,199**	2,263

During the fiscal year ended November 30, 2012, the Company's network experienced a net reduction of 78 outlets, compared to a net addition of 42 stores for the same period a year ago, excluding those coming from the acquisitions completed during the two respective years. This net reduction is partially attributable to the loss of two non-traditional store contracts cancellations suffered during the first and third quarter of the year which resulted in a total reduction of 54 non-traditional outlets. During the year, the Company closed street and mall locations that were not seen viable in the long term. Some mall and street locations closures are also due to lease non renewals upon expiry.

At the end of the period, the Company had 20 corporate stores, a net decrease of ten. During the year, twelve corporate-owned locations were sold, five were added, and three were closed.

As at November 30, 2012, there were two test locations in operation, both which were excluded from the numbers presented above.

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

Location type	% of location count		% of system sales fiscal year ended	
	November 30, 2012	November 30, 2011	**November 30, 2012**	November 30, 2011
Shopping mall & food court	**38%**	36%	**50%**	50%
Street front	**36%**	36%	**41%**	40%
Non-traditional format	**26%**	28%	**9%**	10%

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

Geographical location	% of location count		% of system sales fiscal year ended	
	November 30, 2012	November 30, 2011	**November 30, 2012**	November 30, 2011
Ontario	**46%**	48%	**36%**	32%
Quebec	**28%**	27%	**34%**	40%
Western Canada	**20%**	20%	**24%**	22%
Maritimes	**2%**	2%	**1%**	1%
International	**4%**	3%	**4%**	5%

System wide sales

System wide sales for the year ended November 30, 2012 grew 31%, reaching $688.7 million during the period, compared to $527.6 million for the same period last year.

Approximately 80% of the increase in system wide sales for the year is attributable to the recent acquisitions. Approximately 4% of the increase comes from the growth in the same-store sales, and the rest is due to new restaurants opened in the last 12 months.

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

Same-store sales

During the 2012 fiscal year, same-stores sales improved by 1.08% over the same period last year. For the fourth quarter, same store sales have declined by 0.91%

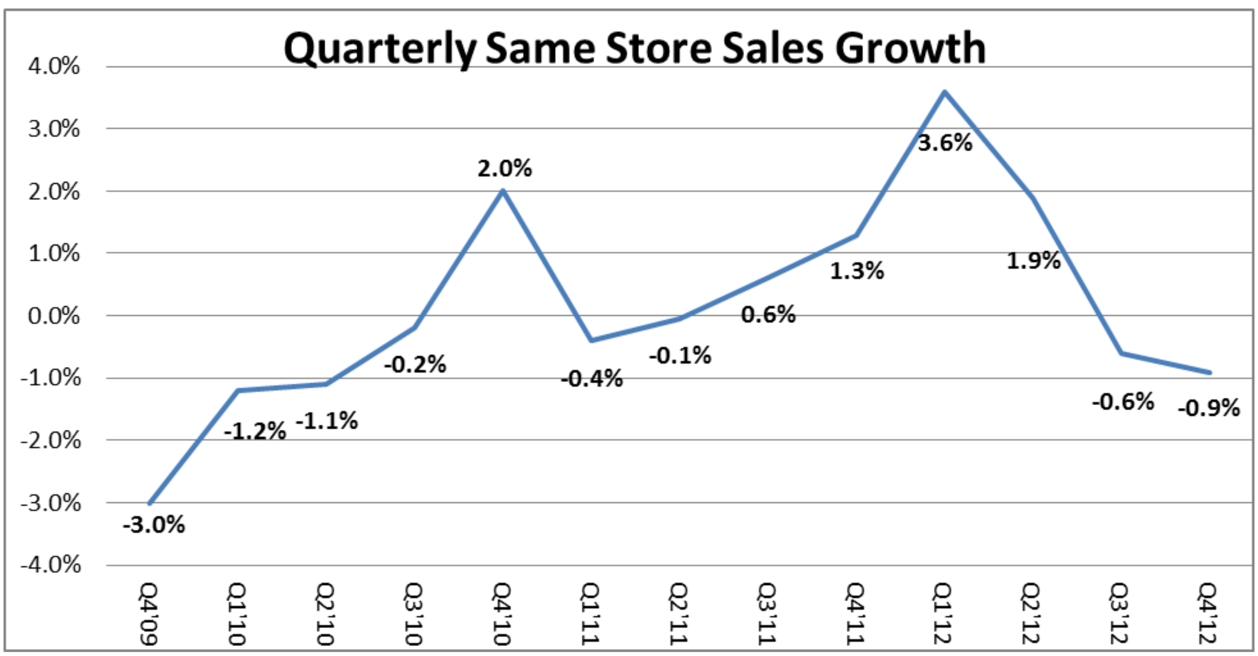
Most of our major concepts experienced growth in same-store sales during the year. The outlets located in western provinces continue to outperform the other regions, experiencing the strongest same-store sales growth, while those located in Ontario on average suffered a decrease.

Street front and mall locations showed stronger growth during the 2012 fiscal year, while non-traditional locations have experienced a slight decrease over the same period.

During the fourth quarter, same store sales performances declined compared to the previous quarters; this was felt across all regions in which our stores operate, and across all types of restaurants and concepts.

As discussed in our previous MD&A, we are witnessing high volatility on the market which seems to affect some of our brands more than others at various times. During the fourth quarter, this volatility has resulted in a downward pressure that was felt throughout the network.

The following table shows quarterly information on same-stores sales growth for the last 13 quarters:



Stock options

During the period, no options were granted or exercised. As at November 30, 2012 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.

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.

Risks and uncertainties

Despite the fact that the Company has various numbers of concepts, diversified in type of locations and geographics 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 costs, labour and benefits costs, occupancy costs and the availability of experienced management and hourly employees may adversely affect the Company. Changing consumer preferences and discretionary spending patterns could oblige the Company to modify or discontinue concepts and/or menus and could result in a reduction of revenue and operating income. Even if the Company was able to compete successfully with other restaurant companies with similar concepts, it may be forced to make changes in one or more of its concepts in order to respond to changes in consumer tastes or dining patterns. If the Company changes a concept, it may lose additional customers who do not prefer the new concept and menu, and it may not be able to attract a sufficient new customer base to produce the revenue needed to make the concept profitable. Similarly, the Company may have different or additional competitors for its intended customers as a result of such a concept change and may not be able to successfully compete against such competitors. The Company's success also depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence.

Adverse changes in these factors could reduce customer traffic or impose practical limits on pricing, either of which could reduce revenue and operating income.

The growth of MTY is 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

Related party transactions

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

Compensation of key management personnel

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

(in thousands)	Period ended November 30, 2012	Period ended November 30, 2011
	$	$
Short-term benefits	659	581
Post-employment benefits, share-based payments and other long-term benefits	Nil	Nil
Board member fees	40	40
Total remuneration of key management personnel	699	621

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

The increase in the remuneration of key management personnel is mainly due to the division in the COO/CFO role into two distinct positions.

Given its widely held share base, the Company does not have an ultimate controlling party; its most important shareholder is its CEO, who controls 26% of the outstanding shares.

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

(in thousands)	Period ended November 30, 2012	Period ended November 30, 2011
	$	$
Short-term benefits	472	447
Post-employment benefits, share-based payments and other long-term benefits	Nil	nil
Total remuneration of employees related to key management personnel	472	447

A corporation owned by individuals related to key management personnel has participation in two of the Company's subsidiaries. During the period, dividends of nil (2011- $140) were paid by those subsidiaries to the above-mentioned company, and advances of nil (2011- $78) were repaid. During the year, one of the Company's subsidiaries loan payable to its non-controlling shareholders was forgiven by individuals related to key management personnel for an amount of $50.

Critical accounting estimates

In the application of the Company's accounting policies, which are described in note 3 of the consolidated financial statements, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Identification of cash-generating units

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting period date. Doing so first requires the identification of cash-generating units; the determination is done based on management's best estimation of what constitutes the lowest level at which an asset or group of asset has the possibility of generating cash inflows.

Revenue recognition

In making their judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods and for construction contracts set out in IAS 18 Revenue and, in particular, whether the Company had transferred to the buyer the significant risks and rewards of ownership of the goods.

Consolidation of special purpose entities

In determining which entities are required to be consolidated in the fashion described below, the Company must exercise judgment to determine who has *de facto* control of the entities being considered. Such judgment is reassessed yearly to take into account the most recent facts relevant to each entity's situation.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Business combinations

For business combinations, the Company must make assumptions and estimates to determine the purchase price allocation of the business being acquired. To do so, the Company must determine the acquisition-date fair value of the identifiable assets acquired, including such intangible assets as franchise rights and trademarks, and liabilities assumed. Goodwill is measured as the excess of the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree over the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. These assumptions and estimates have an impact on the asset and liability amounts recorded in the consolidated statement of financial position on the acquisition date. In addition, the estimated useful lives of the acquired amortizable assets, the identification of intangible assets and the determination of the indefinite or finite useful lives of intangible assets acquired will have an impact on the Company's future profit or loss.

Impairment of non-financial assets

The recoverable amounts of the Company's assets is generally estimated based on value-in-use calculations as this was determined to be higher than fair value less cost to sell, except for certain corporate store assets for which fair value less cost to sell was higher than their value in use. The fair value less cost to sell of corporate stores is generally determined by estimating the liquidation value of the restaurant equipment.

Other than the value of the assets of certain corporate stores and of one of the company's trademarks, the value in use of cash-generating units ("CGUs") tested was higher or equal to the carrying value of the assets. Impairment assessments were established using a 17% discount rate on the corporate store CGU's and 15% on the trademarks and franchise rights. Discount rates are based on pre-tax rates that reflect the current market assessments, taking the time value of money and the risks specific to the CGU into account.

During the year, the Company recognized impairments on the property, plant and equipment related to eight of its CGUs following a decline in their performance. All eight CGUs are groups of assets related to corporate-owned stores. The total impairment of $135 represents a write down of the carrying value of the leasehold improvements and equipment to their fair value less cost to sell, which was higher than their value in use.

These calculations take into account our best estimate of future cash flows, using previous year's cash flows for each CGU to extrapolate a CGU's future performance to the earlier of the termination of the lease (if applicable) or 5 years and a terminal value is calculated beyond this period, assuming no growth to the cash flows of previous periods. A cash flow period of 5 years was used as predictability for future periods cannot be estimated with reasonable accuracy.

A 1% change to the discount rate used in the calculation of the impairment would result in an additional impairment of $41 on the trademarks and franchise rights and $7 on the property, plant and equipment of our corporate stores.

During the year, the Company also reversed an impairment of $67 related to the trademark of one of its brands. The reversal, which is shown on the consolidated statement of comprehensive income on the "impairment of property, plant and equipment" line, represents the full original impairment taken on the asset and is based on new estimated future cash flows of the CGU.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. It was determined that goodwill is not impaired as at November 30, 2012, November 30, 2011 and December 1, 2010.

The Company used a 13% discount rate for its assessment of goodwill. No growth was applied to the cash flows used to estimate the terminal value.

Useful lives of property, plant and equipment and intangible assets

As described in Note 3 above, the Company reviews the estimated useful lives of property, plant and equipment and intangible assets with definite useful lives at the end of each year and assesses whether the useful lives of certain items should be shortened or extended, due to various factors including technology, competition and revised service offerings. During the years ended November 30, 2012 and 2011, the Company was not required to adjust the useful lives of any assets based on the factors described above.

Provisions

The Company makes assumptions and estimations based on its current knowledge of future disbursements it will have to make in connection with various events that have occurred in the past and for which the amount to be disbursed and the timing of such disbursement are uncertain at the date of producing its financial statements.

Valuation of financial instruments

The Company uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments.

Management believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Consolidation of special purpose entities

The Company is required to consolidate a small number of special purpose entities. In doing so, the Company must make assumptions with respect to some information that is either not readily available or that is not available within reporting time frames. As a result, assumptions and estimates are made to establish a value for the current assets, short-term and long-term liabilities and results of operations in general.

Onerous contracts

A provision for onerous contracts is recognized when the unavoidable costs of meeting our obligations under the contract exceed the expected benefits to be received from the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of completing the contract.

Contingencies

The Company is involved in various litigation and disputes as a part of the business that could affect some of its operating segments. Pending litigations represent potential loss to the business.

MTY accrues potential losses if it believes the loss is probable and can be reasonably estimated, based on information that is available at the time. Any accrual would be charged to earnings and included in accounts payable and accrued liabilities. Any cash settlement would be deducted from cash from operating activities. Management estimates the amount of the loss by analyzing potential outcomes and assuming various litigation and settlement strategies.

Accounts receivable

The Company recognizes an allowance for doubtful accounts based on past experience, outlet-specific situation, counterparty's current financial situation and age of the receivables.

Trade receivables include amounts that are past due at the end of the reporting period and for which the Company has not recognized an allowance for doubtful accounts because there was no significant change in the credit quality of the counterparty and the amounts are therefore considered recoverable.

Accounting policies adopted in 2012

On December 1, 2010, MTY adopted International Financial Reporting Standards for its financial reporting, using December 1, 2010 as its transition date. Accordingly, the consolidated financial statements for the fiscal year ended November 30, 2012 and comparative figures have been prepared in accordance with IFRS 1 "First-Time Adoption of International Financial Reporting Standards" issued by the International Accounting Standards Board ("IASB").

The accounting policies used to prepare these financial statements and the comparative figures are presented in Note 3 of the consolidated financial statements for the year ended November 30, 2012. These accounting policies have been applied retrospectively to December 1, 2010. Reconciliations for the Company's income and financial position are presented in Note 34 of the consolidated financial statements.

The following standards had an impact on the financial information that had previously been presented in accordance with Canadian GAAP:

IFRS 3 "Business Combinations"

IFRS 3 eliminated the concept of negative goodwill and instead introduces "gain on bargain purchase". Under Canadian GAAP, when the consideration paid for an acquisition was lower than the fair value of the identifiable assets received, the difference was pro-rated over the non-financial assets acquired. Under IFRS 3, a gain needs to be recognized on the statement of comprehensive income. This resulted in the restatement of one of the acquisitions realized during our 2011 fiscal year; as a result, the historical cost of the non-financial assets acquired was increased by $0.1 million, deferred income taxes were restated to reflect the variation in the temporary differences and the depreciation charge on the increased cost of the property, plant and equipment was also restated. The net impact on the net income and comprehensive income was $0.1 million.

IAS 12 “Income Taxes”

Under IFRS, deferred taxes related to intangible assets and goodwill are accounted for differently than they were under Canadian GAAP when intangible assets are acquired through a business combination. Upon initial recognition of the business combination, a long-term deferred tax asset or liability must be recognized when a difference, temporary or permanent, exists between the fair value of an asset and its tax base according to the applicable corporate tax laws. Specifically, the Company had to restate the deferred taxes on its trademarks. Because the Company had elected not to apply IFRS 3 to acquisitions made prior to the transition date, the adjustment to deferred taxes related to this period was applied against retained earnings. For acquisitions subsequent to that date, the adjustment impacted the amount of goodwill recognized on each business combination.

In addition, IAS 12 eliminates the short-term portion of deferred income taxes. Consequently, short-term deferred tax assets are now reported with long term assets. As at December 1, 2010, the Company reclassified an amount of $3.6 million in such fashion.

IAS 16 “Property, Plant and Equipment”

The Company has elected to use the cost method of accounting for its property, plant and equipment (“PP&E”) and will continue to use this method to recognize such assets.

Other than the impact on property, plant and equipment (“PP&E”) of IFRS 3 discussed above, the Company has identified a conversion adjustment resulting from a difference in the consumption patterns of components of PP&E. Under IFRS, components of capitalized assets are required to be isolated and depreciated separately. Previously, components of one given asset were depreciated as a whole. The effect of this change has been to reduce the carrying value of PP&E by $0.04 million at the date of transition, December 1, 2010, reduce the deferred tax liability by $0.01 million and reduce retained earnings by the net of the two previously mentioned amounts. Subsequent depreciation and gains or losses on disposition were also impacted by the change in the depreciation policy.

IAS 18 “Revenue”

Under Canadian GAAP, the Company accounted for its turnkey projects using the completed contract method and as a result recognized revenues, expenses and profits from projects once they were delivered to the franchisees. Under IFRS, the Company is required to use the percentage of completion method, which accelerates the recognition of revenues and expenses on individual projects. Accordingly, accounts receivable, accounts payable and inventories of projects under construction held for resale had to be restated.

As of December 1, 2010, the Company had to increase its retained earnings by $0.10 million for amounts that should have been recognized in the previous fiscal period; as a result, the net income of the subsequent period, in which such profits had been recognized under Canadian GAAP, were reduced by the same amount. The reversal of revenues and expenses recognized in previous fiscal periods on transition date creates a reduction of revenues in the first quarter of 2011 of $1.08 million, a reduction of expenses of $0.94 million and a reduction of the income tax expense of $0.04 million. This change if partly offset by additional revenues and expenses recognized in the first quarter of 2011. The net impact is presented in Note 34 to the consolidated financial statements.

IAS 39 "Financial instruments: recognition and measurement"

Under Canadian GAAP, the Company did not discount the non-interest bearing holdbacks on its acquisitions because a specific exemption existed. Under IFRS, such exemption is no longer available; as a result, the Company discounted its non-interest bearing holdbacks and adjusted the consideration paid for its acquisitions accordingly, with the impact of the reduction in the fair value of the holdbacks being allocated to goodwill.

Because of the exemption available under IFRS 1, the Company did not, however, restate the purchase price of the Valentine acquisition; the differences between the carrying values of the holdbacks per Canadian GAAP and IFRS were offset into retained earnings. The impact on retained earnings was $0.1 million.

Future accounting changes

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" was issued in November 2009 and contains requirements for financial assets. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 "Financial Instruments: Recognition and Measurement" for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent they do not clearly represent a return on investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

In October 2010, the IASB amended IFRS 9 "Financial Instruments," which replaced IFRS 9 "Financial Instruments" and IFRIC 9 "Reassessment of Embedded Derivatives." This change provides guidance on classification, reclassification and measurement of financial liabilities and on the presentation of gains and losses, through profit or loss, of financial liabilities designated as measured at fair value. The requirements for financial liabilities, added in October 2010, largely replicate the requirements of IAS 39 "Financial Instruments: Recognition and Measurement," except with respect to changes in fair value attributable to credit risk for liabilities designated as measured at fair value through profit or loss, which would generally be recognized in other comprehensive income.

This new standard applies to fiscal years beginning on or after January 1, 2015. Early application is permitted.

IFRS 10 "Consolidated Financial Statements"

In May 2011, the IASB issued IFRS 10 "Consolidated Financial Statements," which establishes principles for the preparation and presentation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 provides a single consolidation model that identifies control as being the basis for consolidation. The new standard describes how to apply the principle of control to identify situations when a company controls another company and must therefore present consolidated financial statements. IFRS 10 also provides disclosure requirements for the presentation of consolidated financial statements. IFRS 10 cancels and replaces IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities."

This new standard applies to fiscal years beginning on or after January 1, 2013. Early application is permitted.

IFRS 12 "Disclosure of Interests in Other Entities"

In May 2011, the IASB issued IFRS 12 "Disclosure of Interests in Other Entities." IFRS 12 incorporates, in a single standard, guidance on disclosing interests in subsidiaries, joint arrangements, associates and structured entities. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the basis of control, any restrictions on consolidated assets and liabilities, exposures to risks arising from interests in non-consolidated structured entities and the share of minority interests in the activities of consolidated entities.

This new standard applies to fiscal years beginning on or after January 1, 2013. Early application is permitted.

IFRS 13 "Fair Value Measurement"

In May 2011, the IASB issued a guide to fair value measurement providing note disclosure requirements. The guide is set out in IFRS 13 "Fair Value Measurement," and its objective is to provide a single framework for measuring fair value under IFRS. It does not provide additional opportunities to use fair value.

This new standard applies to fiscal years beginning on or after January 1, 2013. Early application is permitted.

IAS 1 “Presentation of Financial Statements”

In June 2011, the IASB amended IAS 1 “Presentation of Financial Statements” requiring entities preparing financial statements in accordance with IFRS to group together items of other comprehensive income (OCI) that potentially may be reclassified to the profit or loss section of the income statement and to separately group items that will not be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that profit or loss and OCI be presented as either a single statement or two consecutive statements.

This amended version of this standard applies to fiscal years beginning on or after July 1, 2012. Early application is permitted.

IAS 19 “Employee Benefits”

In June 2011, the IASB amended IAS 19 “Employee Benefits” to improve the accounting for pensions and other post-employment benefits. The amendments make important improvements by:

- Eliminating the option to defer the recognition of gains and losses, known as the “corridor method” or the “deferral and amortization approach”;
- Simplifying the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring re-measurements to be presented in other comprehensive income, thereby separating those changes from changes frequently perceived to be the result of day-to-day operations; and
- Enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks to which entities are exposed through their participation in those plans.

This amended version of this standard applies to fiscal years beginning on or after January 1, 2013. Early application is permitted.

IFRS 7 “Financial Instruments: Disclosures” and IAS 32 “Financial Instruments: Presentation”

In December 2011, the IASB amended IFRS 7 “Financial Instruments: Disclosures” and IAS 32 “Financial Instruments: Presentation” as part of its offsetting financial assets and financial liabilities project. IFRS 7 was amended to harmonize the disclosure requirements with those of the Financial Accounting Standards Board (FASB), while IAS 32 was amended to clarify certain items and address inconsistencies encountered upon practical application of the standard.

The amended versions of IFRS 7 and IAS 32 apply retrospectively to annual periods beginning on or after January 1, 2013 and on or after January 1, 2014, respectively. Early application is permitted.

The Company is assessing the impact of adopting these new standards on its consolidated financial statements and will determine whether it will opt for early application.

Economic environment risk

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

Financial instruments and financial risk exposure

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

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:

In thousands of $	At November 30, 2012		At November 30, 2011	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	$	**$**	**$**	**$**
Financial assets				
Cash and cash equivalents	33,036	33,036	5,995	5,995
Temporary investments	-	-	4,632	4,632
Accounts receivable	13,631	13,631	10,496	10,496
Loans receivable	919	919	1,119	1,119
Prepaid and deposits	338	338	312	312
Financial liabilities				
Accounts payable and accrued liabilities	13,426	13,426	13,540	13,540
Long-term debt	7,476	7,476	9,008	9,008

Determination of fair value

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

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

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.

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

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 November 30, 2012.

Credit risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the statement of financial position 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:

- Other than receivables from international locations, the Company's broad client base is spread mostly across Canada limits the concentration of credit risk.

- The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual account receivable.

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

The credit risk on the loans receivable is similar to that of accounts receivable. There is currently an allowance for doubtful accounts recorded for loans receivable of $55 ($nil as at November 30, 2011).

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, 2012, the total value of such contracts was approximately $458,000.

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.

As of November 30, 2012, the Company carried US$ cash of CDN$425,000 and had net accounts receivable of CDN$429,000. As a result, a 1% change in foreign exchange rates would result in a change in net comprehensive income of approximately $9,000 Canadian dollars.

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.

A 100 basis points increase in the bank's prime rate would result in additional interest of $34,000 per annum on the outstanding bank loan.

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, 2012:

In thousands of $

	Carrying Amount	Contractual Cash Flows	0 to 6 Months	6 to 12 Months	12 to 24 Months
	$	$	$	$	$
Accounts payable and accrued liabilities	13,426	13,426	13,426	-	-
Long-term debt	7,476	7,621	3,733	3,601	287
Interest on long-term debt	N/A	N/A	151	130	137
	20,902	21,047	17,310	3,731	424

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 industry 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 stronger position to face challenges.

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.

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, 2012, 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, 2012, 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

Management, including the President and Chief Executive Officer 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 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 certain special purpose entities ("SPEs") on which the Company has the ability to exercise *de facto* control and which have as a result been consolidated in the Company's consolidated financial statements. For the twelve-month period ended November 30, 2012, these SPEs represent 0% of the Company's current assets, 0% of its non-current assets, 1% of the Company's current liabilities, 0% of long-term liabilities, 5% of the Company's revenues and 0% of the Company's net earnings.

"*Stanley Ma"*

____

Stanley Ma, Chief Executive Officer

"*Eric Lefebvre"*

____

Eric Lefebvre, CPA, CA, MBA Chief Financial Officer

Consolidated financial statements of

MTY FOOD GROUP INC.

For the years ended November 30, 2012 and 2011

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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 statements of financial position as at November 30, 2012, November 30, 2011 and December 1, 2010 , and the consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years ended November 30, 2012 and November 30 2011, 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 International Financial Reporting Standards, 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, 2012, November 30, 2011 and December 1, 2010, and its financial performance and its cash flows for the years ended November 30, 2012 and November 30, 2011 in accordance with International Financial Reporting Standards.

Deloitte s.e.n.c.r.l. [1]

February 13, 2013

[1] CPA auditor, CA, public accountancy permit No. A114814

MTY FOOD GROUP INC.
Consolidated statements of comprehensive income
For the years ended November 30, 2012 and 2011
(in thousands of Canadian dollars except per share amounts)

	2012	2011
	$	$
Revenue (notes 23 and 31)	**96,220**	78,358
Expenses		
Operating expenses (notes 24 and 31)	**61,294**	51,928
Depreciation – property, plant and equipment	**1,128**	1,233
Amortization – intangible assets	**3,867**	3,179
Restructuring	**-**	447
Interest on long-term debt	**335**	213
	66,624	57,000
Other income (charges)		
Foreign exchange (loss) gain	**(27)**	18
Interest income	**282**	357
Gain on bargain purchase	**-**	140
Gain on preferred share redemption (note 17)	**100**	-
Gain on loan forgiveness of a non-controlling shareholder of a subsidiary (note 17)	**110**	-
Impairment of property, plant and equipment (note 4)	**(68)**	-
Gain on disposal of property, plant and equipment	**511**	948
	908	1,463
Income before taxes	**30,504**	22,821
Income taxes (note 30)		
Current	**8,511**	2,957
Deferred	**(61)**	3,344
	8,450	6,301
Net income and comprehensive income	**22,054**	16,520
Net income (loss) and comprehensive income (loss) attributable to:		
Owners	**22,067**	16,194
Non controlling interest	**(13)**	326
	22,054	16,520
Earnings per share (note 20)		
Basic	**1.15**	0.85
Diluted	**1.15**	0.85

See accompanying notes to the consolidated financial statements

MTY FOOD GROUP INC.
Consolidated statements of financial position
as at November 30, 2012 and 2011
(in thousands of Canadian dollars except per share amounts)

	November 30, 2012	November 30, 2011	December 1, 2010
	$	$	$
Assets			
Current assets			
Cash and cash equivalents (note 7)	**33,036**	5,995	5,637
Temporary investments	**-**	4,632	23,383
Accounts receivable (note 8)	**13,631**	10,496	8,156
Income taxes receivable	**-**	1,419	-
Inventories (note 9)	**1,609**	1,568	795
Loans receivable (note 10)	**358**	414	336
Prepaid expenses and deposits	**338**	312	186
	48,972	24,836	38,493
Loans receivable (note 10)	**561**	705	909
Other receivable	**-**	-	2,698
Property, plant and equipment (note 11)	**9,382**	10,185	6,941
Intangible assets (note 12)	**57,213**	59,566	36,208
Deferred income taxes (note 30)	**167**	70	116
Goodwill (note 13)	**20,266**	20,266	7,125
	136,561	115,628	92,490
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	**13,426**	13,540	10,992
Provisions (note 15)	**2,266**	1,150	1,034
Income taxes payable	**2,863**	–	851
Deferred revenue and deposits (note 16)	**2,169**	1,561	1,485
Current portion of long-term debt (note 17)	**7,199**	1,958	1,873
	27,923	18,209	16,235
Deferred revenue and deposits (note 16)	**-**	11	9
Long-term debt (note 17)	**277**	7,050	853
Deferred income taxes (note 30)	**2,298**	2,248	-
	30,498	27,518	17,097
Commitments, guarantee and contingent liabilities (notes 26, 27, 28 and 29)			
Shareholders' equity			
Equity attributable to owners			
Capital stock (note 18)	**19,792**	19,792	19,792
Contributed surplus	**481**	481	481
Retained earnings	**85,635**	67,800	55,048
	105,908	88,073	75,321
Equity attributable to non-controlling interest	**155**	37	72
	106,063	88,110	75,393
	136,561	115,628	92,490

See accompanying notes to the consolidated financial statements

Approved by the Board on February 13, 2013
*……"Stanley Ma"……………*Director …… *"Claude St-Pierre"…..* Director

MTY FOOD GROUP INC.
Consolidated statements of changes in shareholders' equity
For the years ended November 30, 2012 and 2011
(in thousands of Canadian dollars except per share amounts)

	Equity attributable to owners				Equity attributable to non-controlling interest	Total
	Share capital	Contributed surplus	Retained earnings	Total		
	$	**$**	**$**	**$**	**$**	**$**
Balance as at December 1, 2010	19,792	481	55,048	75,321	72	75,393
Net income and comprehensive income for the year ended November 30, 2011	–	–	16,194	16,194	326	16,520
Dividends	–	–	(3,442)	(3,442)	(361)	(3,803)
Balance as at November 30, 2011	19,792	481	67,800	88,073	37	88,110
Net income and comprehensive income for the year ended November 30, 2012	-	-	22,067	22,067	(13)	22,054
Investment in common stock of a subsidiary by non-controlling interest	-	-	-	-	147	147
Equity transaction with non-controlling interest	-	-	(26)	(26)	34	8
Dividends	-	-	(4,206)	(4,206)	(50)	(4,256)
Balance as at November 30, 2012	**19,792**	**481**	**85,635**	**105,908**	**155**	**106,063**

The following dividends were declared and paid by the Company:

	For the year ended November 30, 2012	For the year ended November 30, 2011
	$	$
$0.220 per common share (2011 - $0.180 per common share)	**4,206**	3,442

See accompanying notes to the consolidated financial statements

MTY FOOD GROUP INC.
Consolidated statements of cash flows
For the years ended November 30, 2012 and 2011
(in thousands of Canadian dollars except per share amounts)

	November 30, 2012	November 30, 2011
	$	$
Operating activities		
Net income and comprehensive income	**22,054**	16,520
Items not affecting cash:		
Interest on long-term debt	**335**	213
Depreciation – property, plant and equipment	**1,128**	1,233
Amortization – intangible assets	**3,867**	3,179
Gain on disposal of property, plant and equipment	**(511)**	(948)
Impairment of property, plant and equipment	**68**	-
Gain on bargain purchase	**-**	(140)
Gain on preferred share redemption	**(100)**	-
Gain on loan forgiveness of a non-controlling shareholder of a subsidiary	**(110)**	-
Income tax expense	**8,450**	6,301
Deferred revenue	**608**	(143)
	35,789	26,215
Income tax refunds received	**1,041**	321
Income taxes paid	**(5,269)**	(5,479)
Interest paid	**(162)**	(143)
Changes in non-cash working capital items (note 32)	**(2,002)**	(2,905)
Cash flows provided by operating activities	**29,397**	18,009
Investing activities		
Net cash outflow on acquisitions	**(748)**	(36,088)
Temporary investments	**4,632**	18,751
Additions to property, plant and equipment	**(1,057)**	(954)
Additions to intangible assets	**(518)**	–
Proceeds on disposal of property, plant and equipment	**1,108**	1,655
Cash flows provided by (used in) investing activities	**3,417**	(16,636)
Financing activities		
Share buy-back paid to non-controlling shareholders of subsidiaries	**-**	(16)
Issuance of long-term debt	**58**	3,500
Repayment of long-term debt	**(1,722)**	(721)
Issuance of shares to non-controlling interest of subsidiaries	**147**	25
Dividends paid to non-controlling shareholders of subsidiaries	**(50)**	(361)
Dividends paid	**(4,206)**	(3,442)
Cash flows used in financing activities	**(5,773)**	(1,015)
Net increase in cash and cash equivalents	**27,041**	358
Cash and cash equivalents, beginning of period	**5,995**	5,637
Cash and cash equivalents, end of period	**33,036**	5,995

See accompanying notes to the consolidated financial statements

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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.

The Company is incorporated under the Canada Business Corporations Act and is listed on the Toronto Stock Exchange. The Company's head office is located at 8150, Autoroute Transcanadienne, Suite 200, Ville Saint-Laurent, Quebec.

2. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company, and tabular amounts are rounded to the nearest thousand ($000) except when otherwise indicated.

Statement of compliance

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which include interpretations as issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Standards Interpretation Committee. They are the first annual consolidated financial statements prepared in accordance with IFRS and IFRS 1 *First Time Adoption of IFRS*. The IFRS transition date was December 1, 2010.

The Company's consolidated financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The transition from previous GAAP to IFRS had impacts on the Company's financial position, financial performance and cash flows. An explanation of how the transition to IFRS has affected these is provided in Note 34, Transition to IFRS.

These consolidated financial statements were authorized for issue by the Board of Directors on February 13, 2013.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements and in preparing the opening consolidated statement of financial position as at December 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated (note 34).

Basis of consolidation

The consolidated financial statements include the accounts of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Principal subsidiaries are as follows:

Principal subsidiaries	Percentage of equity interest
	%
MTY Tiki Ming Enterprises Inc.	100
7687567 Canada Inc	51
154338 Canada Inc.	50

Income and expenses of subsidiaries acquired during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intercompany transactions, balances, revenues and expenses are eliminated in full on consolidation.

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 comprehensive income, but rather as operations in the accounts payable to the promotional fund.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value. This is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company and liabilities incurred by the Company to the former owners of the acquiree in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except for deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements, which are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively.

3. Significant accounting policies (continued)

Business combinations (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. This may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 Financial Instruments: recognition and measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

3. Significant accounting policies (continued)

Business combinations (continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Changes of ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions, with no effect on net earnings or on other comprehensive income.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation and the portion of the cash-generating unit retained.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty.

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

3. Significant accounting policies (continued)

Revenue recognition (continued)

i. Revenue from franchise locations

Royalties are based either on a percentage of gross sales as reported by the franchisees or on a fixed monthly fee. They are recognized on an accrual basis in accordance with the substance of the relevant agreement, provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

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 is recognized by reference to the stage of completion of the contract activity at the end of the reporting period. This is measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable. When it is probable that total contract costs will exceed contract revenue, the expected loss is recognized as an expense immediately. When the outcome of the project cannot be estimated reliably, revenues are recognized to the extent of expenses recognized in the period. The excess of revenue recognized over amounts billed is recorded as part of accounts receivable.

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, which is recorded in initial franchise fees (note 23).

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. This revenue is recorded in other revenue (note 23).

The Company earns rent revenues on certain leases it holds and sign rental revenues; the Company’s policy is described below.

The Company receives considerations from certain suppliers. Supplier contributions are recognized as revenues as they are earned and are recorded in other franchising revenue (note 23).

ii. Revenue from distribution center

Distribution revenues are recognized when goods have been delivered or when significant risks and rewards of ownership have been transferred and it is probable that the economic benefit associated with the transaction will flow to the Company.

3. Significant accounting policies (continued)

Revenue recognition (continued)

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 and it is probable that the economic benefit associated with the transaction will flow to the Company.

iv. Revenue from corporate-owned locations

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Company as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

3. Significant accounting policies (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. Significant accounting policies (continued)

Taxation (continued)

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their historical costs less accumulated depreciation (buildings) and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly attributable to bringing the asset to a working condition for its intended use.

Equipment, leasehold improvements, rolling stock and computer hardware are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost or valuation of assets (other than land) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Depreciation is based on the following terms:

Buildings		
Structure and components	Straight-line	25 to 50 years
Equipment	Straight-line	3 to 10 years
Leasehold improvements and signs	Straight-line	Term of the lease
Rolling stock	Straight-line	5 to 7 years
Computer hardware	Straight-line	3 to 7 years

3. Significant accounting policies (continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful lives and amortization methods are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets having a finite life acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets having an indefinite life are not amortized and are therefore carried at cost less accumulated impairment losses, if applicable.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

The Company currently carries the following intangible assets in its books:

Franchise rights and master franchise rights

The franchise rights and master franchise rights acquired through business combinations were recognized at the fair value of the estimated 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 typically range between 10 to 20 years.

Some master franchise rights have no specific terms; as a result, those are not amortized as they have an indefinite life.

Trademarks

Trademarks acquired through business combinations were recognized at their fair value at the time of the acquisition and are not amortized. Trademarks were determined to have an indefinite useful life based on their strong brand recognition and their ability to generate revenues through changing economic conditions with no foreseeable time limit.

3. Significant accounting policies (continued)

Intangible assets (continued)

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 distributions rights obtained from the acquisition of Country Style Food Services Inc., which were being amortized over the remaining life of the contracts. The distribution rights were fully amortized at the end of the period.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

3. Significant accounting policies (continued)

Intangible assets (continued)

Impairment of goodwill

At the end of each reporting period, the Company reviews the carrying amounts of goodwill to determine whether there is any indication that it has suffered an impairment loss. If any such indication exists, the recoverable amount of the cash-generating unit to which goodwill is allocated is estimated in order to determine the extent of the impairment loss (if any). Regardless of whether there is an indication of impairment or not, goodwill is tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of the cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the goodwill is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Cash and cash equivalents

Cash and cash equivalents item includes cash on hand and short-term investments, if any, with maturities upon acquisition of generally three months or less or that are redeemable at any time at full value and for which the risk of a change in value is not significant.

Inventories

Inventories are measured at the lower of cost and net realizable value. Costs of inventories are determined on a first-in-first-out basis and include acquisition costs, conversion costs and other costs incurred to bring inventories to their present location and condition. The cost of finished goods includes a pro rata share of production overhead based on normal production capacity.

In the normal course of business, the Company enters into contracts for the construction and sale of franchise locations. The related work in progress inventory includes all direct costs relating to the construction of these locations, and is recorded at the lower of cost and net realizable value.

Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

3. Significant accounting policies (continued)

Provisions (continued)

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Gift card and loyalty program liabilities

Gift card liability represents liabilities related to unused balances on reloadable payment cards. Loyalty program liabilities represent the dollar value of the loyalty points earned and unused by customers.

Restructuring

A restructuring provision is recognized when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Litigation, disputes and closed stores

Provisions for the expected cost of litigation, disputes and the cost of settling leases for closed stores are recognized when it becomes probable the Company will be required to settle the obligation, at management’s best estimate of the expenditure required to settle the Company’s obligation.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less cumulative amortization recognized.

3. Significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognized when an entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The subsequent measurement of financial assets and financial liabilities 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 and cash equivalents and temporary investments	Loans and receivables
Accounts receivable	Loans and receivables
Deposits	Loans and receivables
Loans receivable and other receivables	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

3. Significant accounting policies (continued)

Financial assets (continued)

Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, cash and cash equivalents and deposits) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past a certain credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

3. Significant accounting policies (continued)

Financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Derecognition of financial assets

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

Financial liabilities

Classification as debt or equity

Debt and equity instruments issued by an entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities ‘at FVTPL’ or ‘other financial liabilities’.

3. Significant accounting policies (continued)

Financial liablities (continued)

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

Derecognition of financial liabilities

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

Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to the volatility in the price of certain commodities and foreign exchange rate risks, including foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in note 21.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company currently has no designated hedges.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. The Company does not have any embedded derivatives as at November 30, 2012 and November 30, 2011.

Promotional funds

The Company manages the promotional funds of its banners. They are established specifically for each banner to collect and administer funds dedicated for use in advertising and promotional programs as well as other initiatives designed to increase sales and enhance the image and reputation of the banners. Contributions to the funds are made based on a percentage of sales. The revenue and expenses of the promotional funds are not included in the Company's Statement of Comprehensive Income because the contributions to these funds are segregated and designated for specific purposes. The combined amount payable resulting from the promotional fund reserves amounts to $2,726 (November 30, 2011 - $2,902; December 1, 2010 - $2,556). These amounts are included in accounts payable and accrued liabilities.

3. Significant accounting policies (continued)

Segment disclosure

An operating segment is a distinguishable component of the Company that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Company's other components, and for which separate financial information is available. Segment disclosures are provided for the Company's operating segments (note 31). The operating segments are determined based on the Company's management and internal reporting structure. All operating segments' operating results are regularly reviewed by management to make decisions on resources to be allocated to the segment and to assess its performance. The Company operates in four separate segments: franchising, corporate, distribution and processing.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Identification of cash-generating units

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting period date. Doing so requires the identification of cash-generating units; the determination is done based on management's best estimation of what constitutes the lowest level at which an asset or group of asset has the possibility of generating cash inflows.

Revenue recognition

In making their judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods and for construction contracts set out in IAS 18 Revenue and IAS 11 Construction contracts and, in particular, whether the Company had transferred to the buyer the significant risks and rewards of ownership of the goods.

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Critical judgements in applying accounting policies (continued)

Consolidation of special purpose entities

In determining which entities are required to be consolidated in the fashion described above, the Company must exercise judgment to determine who has *de facto* control of the entities being considered. Such judgment is reassessed yearly to take into account the most recent facts relevant to each entity's situation.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Business combinations

For business combinations, the Company must make assumptions and estimates to determine the purchase price allocation of the business being acquired. To do so, the Company must determine the acquisition-date fair value of the identifiable assets acquired, including such intangible assets as franchise rights and trademarks, and liabilities assumed. Goodwill is measured as the excess of the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree over the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. These assumptions and estimates have an impact on the asset and liability amounts recorded in the consolidated statement of financial position on the acquisition date. In addition, the estimated useful lives of the acquired amortizable assets, the identification of intangible assets and the determination of the indefinite or finite useful lives of intangible assets acquired will have an impact on the Company's future profit or loss.

Impairment of non-financial assets

The recoverable amounts of the Company's assets is generally estimated based on value-in-use calculations as this was determined to be higher than fair value less cost to sell, except for certain corporate store assets for which fair value less cost to sell was higher than their value in use. The fair value less cost to sell of corporate stores is generally determined by estimating the liquidation value of the restaurant equipment.

Other than the value of the assets of certain corporate stores and of one of the company's trademarks, the value in use of cash-generating units ("CGUs") tested was higher or equal to the carrying value of the assets. Impairment assessments were established using a 17% discount rate on the corporate store CGU's and 15% on the trademarks and franchise rights. Discount rates are based on pre-tax rates that reflect the current market assessments, taking the time value of money and the risks specific to the CGU into account.

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

Impairment of non-financial assets (continued)

During the year, the Company recognized impairments on the property, plant and equipment related to eight of its CGUs following a decline in their performance. All eight CGUs are groups of assets related to corporate-owned stores. The total impairment of $135 represents a write down of the carrying value of the leasehold improvements and equipment to their fair value less cost to sell, which was higher than their value in use.

These calculations take into account our best estimate of future cash flows, using previous year's cash flows for each CGU to extrapolate a CGU's future performance to the earlier of the termination of the lease (if applicable) or 5 years and a terminal value is calculated beyond this period, assuming no growth to the cash flows of previous periods. A cash flow period of 5 years was used as predictability for future periods cannot be estimated with reasonable accuracy.

A 1% change to the discount rate used in the calculation of the impairment would result in an additional impairment of $41 on the trademarks and franchise rights and $7 on the property, plant and equipment of our corporate stores.

During the year, the Company also reversed an impairment of $67 related to the trademark of one of its brands. The reversal, which is shown on the consolidated statement of comprehensive income on the "impairment of property, plant and equipment" line, represents the full original impairment taken on the asset and is based on new estimated future cash flows of the CGU.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. It was determined that goodwill is not impaired as at November 30, 2012, November 30, 2011 and December 1, 2010.

The Company used a 13% discount rate for its assessment of goodwill. No growth was applied to the cash flows used to estimate the terminal value.

Useful lives of property, plant and equipment and intangible assets

As described in Note 3 above, the Company reviews the estimated useful lives of property, plant and equipment and intangible assets with definite useful lives at the end of each year and assesses whether the useful lives of certain items should be shortened or extended, due to various factors including technology, competition and revised service offerings. During the years ended November 30, 2012 and 2011, the Company was not required to adjust the useful lives of any assets based on the factors described above.

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

Provisions

The Company makes assumptions and estimations based on its current knowledge of future disbursements it will have to make in connection with various events that have occurred in the past and for which the amount to be disbursed and the timing of such disbursement are uncertain at the date of producing its financial statements.

Revenue recognition for construction and renovation contracts

Restaurant construction and renovation revenue is recognized by reference to the stage of completion of the contract activity at the end of the reporting period. Management makes an estimate on the percentage of completion based on costs incurred to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion.

Valuation of financial instruments

The Company uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments.

Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Consolidation of special purpose entities

The Company is required to consolidate a small number of special purpose entities. In doing so, the Company must make assumptions with respect to some information that is either not readily available or that is not available within reporting time frames. As a result, assumptions and estimates are made to establish a value for the current assets, current and long-term liabilities and results of operations in general.

Onerous contracts

A provision for onerous contracts is recognized when the unavoidable costs of meeting our obligations under the contract exceed the expected benefits to be received from the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of completing the contract.

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

Contingencies

The Company is involved in various litigations and disputes as a part of our business that could affect some of our operating segments. Pending litigations represent potential losses to the business.

Management accrues potential losses if they believe the loss is probable and can be reasonably estimated, based on information that is available at the time. Any accrual would be charged to earnings and included in provisions. Any cash settlement would be deducted from cash from operating activities. Management estimate the amount of the losses by analyzing potential outcomes and assuming various litigation and settlement strategies.

Accounts receivable

The Company recognizes an allowance for doubtful accounts based on past experience, outlet-specific situation, counterparty's current financial situation and age of the receivables.

Trade receivables include amounts that are past due at the end of the reporting period and for which the Company has not recognized an allowance for doubtful accounts because there was no significant change in the credit quality of the counterparty and the amounts are therefore considered recoverable.

(in thousands of Canadian dollars except per share amounts)

5. Future accounting changes

A number of new standards, interpretations and amendments to existing standards were issued by the International Accounting Standard Board ("IASB") that are not yet effective for the period ended November 30, 2012, and have not been applied in preparing these consolidated financial statements.

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

Effective for annual periods starting on or after:

Amendment to IFRS 7 Financial Instruments: Disclosures	January 1, 2013	Early adoption permitted
IFRS 9 Financial Instruments	January 1, 2015	Early adoption permitted
IFRS 10 Consolidated Financial Statements	January 1, 2013	Early adoption permitted
IFRS 12 Disclosure of Interests in Other Entities	January 1, 2013	Early adoption permitted
IFRS 13 Fair Value Measurement	January 1, 2013	Early adoption permitted
Amendments to IAS 1 Presentation of Financial Statements	January 1, 2013	Early adoption permitted
Amendments to IAS 19 Employee Benefits	January 1, 2013	Early adoption permitted
Amendments to IAS 32 Financial Instruments: Presentation	January 1, 2014	Early adoption permitted

IFRS 7 was amended to harmonize the disclosure requirements with those of the Financial Accounting Standard Board ("FASB").

IFRS 9 replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities. The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. This is the first phase of that project.

IFRS 10 replaces the consolidation requirements in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. It provides a single model to be applied in the control analysis for all investees.

IFRS 12 establishes disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.

IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. The standard clarifies the definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements.

(in thousands of Canadian dollars except per share amounts)

5. Future accounting changes (continued)

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income ("OCI") that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss.

The Company is in the process of determining the extent of the impact of these standards on its consolidated financial statements.

6. Business acquisitions

I) 2012 acquisition

On September 26, 2012, the Company's wholly-owned subsidiary, MTY Tiki-Ming Enterprises Inc., acquired the assets of Mr. Souvlaki Ltd. for a total consideration of $0.9 million. The acquisition was effective September 26, 2012. The purpose of the acquisition was to diversify the Company's range of offering as well as to complement existing MTY brands.

	$
Consideration paid	
Purchase price	**915**
Net obligations assumed	**(2)**
Net purchase price	**913**
Holdbacks	**165**
Net cash outflow	**748**

The preliminary purchase price allocation is as follows:

	$
Net assets acquired:	
Current assets	
Franchise rights	**629**
Trademark	**300**
	929
Current liabilities	
Accounts payable	**2**
	2
Deferred income taxes	**14**
	16
Net purchase price	**913**

Included in the above-mentioned results are $nil in expensed acquisition-related costs.

(in thousands of Canadian dollars except per share amounts)

6. Business acquisitions (continued)

I) 2012 acquisition (continued)

From September 26 to November 30, 2012, the business has generated $43 in revenues and $27 in pre-tax profits. Had the acquisition occurred December 1, 2011, consolidated revenues and pre-tax profits would have been $96,477 and $30,698 respectively.

II) 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 purpose of the acquisition is to further integrate MTY's business and enable the production of certain goods destined to the retail markets. The acquisition was financed by a long-term bank loan of $3,500 (Note 17).

	$
Consideration paid	**3,497**

The purchase price allocation is as follows:

Net assets acquired:	
Current assets	
Inventories	**340**
Deferred expenses	**30**
	370
Land	**690**
Building	**1,210**
Equipment	**1,470**
Deferred income tax asset	**42**
Goodwill	**200**
	3,982
Current liabilities	
Accounts payable	**178**
	178
Mandatorily redeemable preferred shares	**200**
Fair value of net assets acquired	**3,604**
Less: Gain on bargain purchase, net of deferred tax impact	**107**
Total purchase price	**3,497**

At the date of the acquisition of the plant, a gain was recognized as the consideration paid for the identifiable tangible assets acquired was lower than their fair value, as determined by an independent valuation specialist.

(in thousands of Canadian dollars except per share amounts)

6. Business acquisitions (continued)

II) 2011 acquisition (continued)

The goodwill was fully deducted for tax purposes as this acquisition was an asset purchase.

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. One third of the issued preferred shares is redeemable annually, at a price contingent on the performance of the plant for the three years following the inception of business. Management estimates the contingent consideration at $200, with a range of redemption values comprised between $100 and $300.

From December 17 to November 30, 2011, the business generated $6,330 in revenues and $219 in pre-tax loss.

Included in the above-mentioned results are $nil in expensed acquisition-related costs.

III) 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. The acquisition was effective August 18, 2011. The purpose of the acquisition was to diversify the Company's range of offering as well as to complement existing MTY brands.

Consideration paid	$
Purchase price	**15,450**
Discount on non-interest bearing holdbacks	**(99)**
Net obligations assumed	**(609)**
Net purchase price	**14,742**
Holdbacks	**1,636**
Balance of sale	**1,200**
Net cash outflow	**11,906**

(in thousands of Canadian dollars except per share amounts)

6. Business acquisitions (continued)

III) 2011 acquisition (continued)

The purchase price allocation is as follows:

Net assets acquired:	$
Current assets	
Cash and cash equivalents	**1**
Inventories	**46**
Current portion of loans receivable	**62**
Deposits	**10**
	119
Loans receivable	**60**
Property, plant and equipment	**551**
Franchise rights	**3,273**
Trademark	**5,425**
Goodwill	**5,533**
Deferred income taxes	**569**
	15,530
Current liabilities	
Accounts payable	**587**
Unearned revenue	**201**
	788
Net purchase price	**14,742**

Acquisition-related costs of approximately $50 have been expensed during the Company's 2011 fiscal period.

The goodwill created by the transaction primarily results from the anticipated synergies in revenue creation resulting from the combination of Jugo Juice's strong brand and network to MTY's expertise and experience in franchising quick service restaurant. The full amount of goodwill was deducted for tax purposes.

Non-interest bearing holdbacks were discounted using a rate of 4.5%, which is the rate paid on the bank loan used to acquire the food processing plant.

From August 18 to November 30, 2011, the business generated $855 in revenues and $184 in pre-tax profits.

(in thousands of Canadian dollars except per share amounts)

6. Business acquisitions (continued)

IV) 2011 acquisition

On November 1, 2011, the Company's wholly-owned subsidiary, MTY Tiki-Ming Enterprises Inc., acquired the assets of Mr Submarine Ltd. and Mr Submarine Realty Ltd. for a total consideration of $23 million. The purpose of the acquisition was to diversify the Company's range of offering as well as to complement existing MTY brands.

Consideration paid	$
Purchase price	**23,000**
Discount on non-interest bearing holdback	**(272)**
Net obligations assumed	**(1,233)**
Net purchase price	**21,495**
Holdbacks	**2,228**
Net cash outflow	**19,267**

The purchase price allocation is as follows:

Net assets acquired:	
Current assets	
Prepaid and deposits	**417**
	417
Property, plant and equipment	**332**
Franchise rights	**4,745**
Trademark	**11,307**
Goodwill	**5,957**
Deferred income taxes	**395**
	23,153
Current liabilities	
Accounts payable	**1,650**
	1,650
Deferred income taxes	**8**
	1,658
Net purchase price	**21,495**

Acquisition-related costs of approximately $50 have been expensed during the Company's 2011 fiscal period.

The goodwill created by the transaction primarily results from the anticipated synergies in revenue creation resulting from the combination of Mr Sub's strong brand and network to MTY's expertise and experience in franchising quick service restaurant. The full amount of goodwill was deducted for tax purposes.

Non-interest bearing holdbacks were discounted using a rate of 4.5%, which is the rate paid on the bank loan used to acquire the food processing plant.

From November 1 to November 30, 2011, the business generated $662 in revenues and $419 in pre-tax profits.

(in thousands of Canadian dollars except per share amounts)

6. Business acquisitions (continued)

V) 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 $1.8 million. The acquisition was effective November 1, 2011. The purpose of the acquisition was to diversify the Company's range of offering as well as to complement existing MTY brands.

Consideration paid	$
Purchase price	**1,800**
Net obligations assumed	**(33)**
Net purchase price	**1,767**
Holdbacks	**350**
Net cash outflow	**1,417**

The purchase price allocation is as follows:

Net assets acquired:	$
Current assets	
Inventories	**2**
	2
Property, plant and equipment	**20**
Franchise rights	**652**
Trademark	**1,135**
	1,809
Current liabilities	
Accounts payable	**13**
Unearned revenues	**20**
	33
Deferred income taxes	**9**
	42
Net purchase price	**1,767**

Acquisition-related costs of approximately $10 have been expensed during the Company's 2011 fiscal period.

From November 1 to November 30, 2011, the business generated $38 in revenues and $32 in pre-tax profits.

On a consolidated basis, had the four 2011 acquisitions occurred December 1, 2010, the revenues and pre-tax profits of the Company would have been approximately $96,475 and $29,069 respectively.

(in thousands of Canadian dollars except per share amounts)

7. Cash and cash equivalents

	November 30, 2012	November 30, 2011	December 1, 2010
	$	$	$
Cash	**13,345**	2,962	5,637
Cash equivalents	**19,691**	3,033	-
Total cash and cash equivalents	**33,036**	5,995	5,637

8. Accounts receivable

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

	November 30, 2012	November 30, 2011	December 1, 2010
	$	$	$
Total accounts receivable	**14,799**	11,352	8,939
Less : Allowance for doubtful accounts	**1,168**	856	783
Total accounts receivable, net	**13,631**	10,496	8,156
Of which:			
Not past due	**8,045**	8,024	6,245
Past due for more than one day but for no more than 30 days	**2,579**	739	256
Past due for more than 31 days but for no more than 60 days	**676**	215	217
Past due for more than 61 days	**2,331**	1,518	1,438
Total accounts receivable, net	**13,631**	10,496	8,156
Allowance for doubtful accounts beginning of year	**856**	783	754
Additions	**692**	336	384
Write-off	**(380)**	(263)	(355)
Allowance for doubtful accounts end of year	**1,168**	856	783

The Company has recognized an allowance for doubtful accounts based on past experience, outlet-specific situation, counterparty's current financial situation and age of the receivables.

Trade receivables disclosed above include amounts that are past due at the end of the reporting period and for which the Company has not recognized an allowance for doubtful accounts because there was no significant change in the credit quality of the counterparty and the amounts are therefore considered recoverable. The Company does not hold any collateral or other credit enhancements over these balances nor does it have the legal right of offset against any amounts owed by the Company to the counterparty.

The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

(in thousands of Canadian dollars except per share amounts)

9. Inventories

	November 30, 2012	November 30, 2011	December 1, 2010
	$	$	$
Raw materials	**1,363**	1,348	646
Work in progress	**34**	27	149
Finished goods	**212**	193	-
Total inventories	**1,609**	1,568	795

Inventories are presented net of an $11 allowance for obsolescence ($26 as at November 30, 2011 and $30 as at December 1, 2010). All of the inventories are expected to be sold within the next twelve months.

Inventories expensed during the year ended November 30, 2012 was $22,952 (2011 - $19,327).

10. Loans receivable

The loans receivable generally result from the sales of franchises and of various advances to certain franchisees and consist of the following:

	November 30, 2012	November 30, 2011	December 1, 2010
	$	$	$
Loans receivable, carrying no interest and without terms of repayment	**31**	45	-
Loans receivable bearing interest between nil and 10% per annum, receivable in monthly instalments of $28 in aggregate, including principal and interest, ending in April 2017	**888**	1,074	1,245
	919	1,119	1,245
Current portion	**(358)**	(414)	(336)
	561	705	909

The capital repayments in subsequent years will be:

	$
2013	**358**
2014	**222**
2015	**155**
2016	**64**
2017	**28**
Thereafter	**92**
	919

(in thousands of Canadian dollars except per share amounts)

11. Property, plant and equipment

Cost	Land	Buildings	Leasehold improvements	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
Balance at December 1, 2010	1,285	2,064	3,152	1,947	392	40	8,880
Additions	-	73	355	378	93	-	899
Disposals	-	(4)	(819)	(435)	(10)	-	(1,268)
Acquisition through business combinations	690	1,645	89	1,818	31	-	4,273
Balance at November 30, 2011	1,975	3,778	2,777	3,708	506	40	12,784
Additions	-	57	392	540	81	-	1,070
Disposals	-	-	(642)	(615)	(47)	-	(1,304)
Impairment	-	-	(111)	(24)	-	-	(135)
Balance at November 30, 2012	1,975	3,835	2,416	3,609	540	40	12,415

(in thousands of Canadian dollars except per share amounts)

11. Property, plant and equipment (continued)

Accumulated depreciation	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
Balance at December 1, 2010	-	19	1,289	501	120	10	1,939
Eliminated on disposal of assets	-	(3)	(363)	(203)	(4)	-	(573)
Depreciation expense	-	151	536	434	100	12	1,233
Balance at November 30, 2011	-	167	1,462	732	216	22	2,599
Eliminated on disposal of assets	-	-	(443)	(224)	(27)	-	(694)
Depreciation expense	-	178	339	485	115	11	1,128
Balance at November 30, 2012	-	345	1,358	993	304	33	3,033

Carrying amounts	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
December 1, 2010	1,285	2,045	1,863	1,446	272	30	6,941
November 30, 2011	1,975	3,611	1,315	2,976	290	18	10,185
November 30, 2012	**1,975**	**3,490**	**1,058**	**2,616**	**236**	**7**	**9,382**

Land, buildings and equipment with a carrying amount of $3,294 as at November 30, 2012 ($3,262 as at November 30, 2011 and $nil as at December 1, 2010) have been pledged as security to secure borrowings of the Company's food processing division.

(in thousands of Canadian dollars except per share amounts)

12. Intangible assets

Cost	Franchise and master franchise rights(1)	Trademarks	Leases	Other	Total
	$	$	$	$	$
Balance at December 1, 2010	31,375	14,799	1,000	272	47,446
Acquisition through business combinations	8,670	17,867	-	-	26,537
Balance at November 30, 2011	40,045	32,666	1,000	272	73,983
Additions (2)	500	-	-	18	518
Reversal of impairment	-	67	-	-	67
Acquisition through business combinations	629	300	-	-	929
Balance at November 30, 2012	41,174	33,033	1,000	290	75,497

Accumulated amortization	Franchise and master franchise rights(1)	Trademarks	Leases	Other	Total
	$	$	$	$	$
Balance at December 1, 2010	10,614	-	481	143	11,238
Amortization	2,941	-	147	91	3,179
Balance at November 30, 2011	13,555	-	628	234	14,417
Amortization	3,723	-	105	39	3,867
Balance at November 30, 2012	17,278	-	733	273	18,284

(in thousands of Canadian dollars except per share amounts)

12. Intangible assets (continued)

Carrying amounts	Franchise and master franchise rights[1]	Trademarks	Leases	Other	Total
	$	$	$	$	$
December 1, 2010	20,761	14,799	519	129	36,208
November 30, 2011	26,490	32,666	372	38	59,566
November 30, 2012	**23,896**	**33,033**	**267**	**17**	**57,213**

[1] Franchise and master franchise rights include an amount of $1,500 ($1,500 in November 2011 and December 1, 2010) of unamortizable master franchise right. The master franchise right has no specific terms and is valid for as long as MTY does not default on the agreement.
[2] Additions in 2012 are comprised of purchased franchise rights of $500 and purchased software of $18.

Indefinite life intangibles have been allocated for impairment testing purposes to the following cash generating units:

	November 30, 2012	November 30, 2011	December 1, 2010
	$	$	$
Taco Time	**1,500**	1,500	1,500
La Crémière	**9**	9	9
Croissant Plus	**125**	125	125
Cultures	**500**	500	500
Thai Express	**145**	145	145
Mrs Vanelli’s	**2,700**	2,700	2,700
Sushi Shop	**1,600**	1,600	1,600
Tutti Frutti	**1,100**	1,100	1,100
Koya	**1,253**	1,186	1,186
Country Style	**4,096**	4,096	4,096
Valentine	**3,338**	3,338	3,338
Jugo Juice	**5,425**	5,425	-
Mr. Sub	**11,307**	11,307	-
Koryo	**1,135**	1,135	-
Mr. Souvlaki	**300**	-	-
	34,533	34,166	16,299

(in thousands of Canadian dollars except per share amounts)

13. Goodwill

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

	November 30, 2012	November 30, 2011
	$	$
Balance, beginning of year	**20,266**	7,125
Goodwill acquired during the year through business acquisitions (note 6)	**-**	11,691
Adjustment of purchase price following settlement of litigation [(1)]	**-**	1,450
Balance, end of period	**20,266**	**20,266**

(1) An amount of $2,698 of post-closing adjustments was claimed to the sellers following the acquisition of Country Style Food Services Holdings Inc. In May of 2011, a settlement was reached that ended the litigation whereby MTY Tiki Ming Enterprises Inc. received a compensation of $1,247 from the sellers, which was made of $205 received in cash (note 32) and $1,042 as an offset from the remaining holdbacks and withholding taxes. The resulting adjustment was recorded as goodwill.

Goodwill has been allocated for impairment testing purposes to the following cash generating units or groups of cash generating units:

	November 30, 2012	November 30, 2011	December 1, 2010
	$	$	$
Food processing plant	**200**	200	-
Franchising activities [(1)]	**20,066**	20,066	7,125
	20,266	20,266	7,125

(1) This portion of goodwill was not allocated to individual CGUs; the Company has determined that the valuation of goodwill cannot be done at the CGU level, since the strength of the network comes from grouping the many banners from which the goodwill arose from. As a result, except for the goodwill related to the acquisitions of the food processing plant, which operate relatively independently, goodwill will be tested as a whole, at the franchising operating segment level.

14. Credit facilities

As at November 30, 2012, the Company has access to an authorized revolving credit facility of $10,000 and a treasury risk facility of $1,000. Bank indebtedness's are secured by a moveable hypothec on all the assets of the Company.

(in thousands of Canadian dollars except per share amounts)

14. Credit facilities (continued)

The revolving credit facility bears interest at the bank's prime rate for advances in C$ (or the bank's U.S. base rate for advance in US$) plus a margin not exceeding 0.5% established based on the Company's funded debt/EBITDA ratio. As at November 30, 2012, the bank's prime rate was 3.25%.

The treasury risk facility bears interest at the market rate as determined by the lender's treasury department.

Under the terms of the credit facilities, the Company must satisfy a funded debt to EBITDA ratio of 2 to 1 and a minimum interest coverage ratio of 4.5:1. The credit facility is payable on demand and is renewable annually. As at November 30, 2012, no amounts were drawn from the facilities and the Company is in compliance with the facility's covenants.

15. Provisions

Included in provisions are the following amounts:

	November 30, 2012	November 30, 2011	December 1, 2010
	$	$	$
Litigations and disputes	**433**	195	553
Closed stores	**923**	211	196
Gift card liabilities/loyalty programs liabilities	**910**	493	239
Restructuring	**-**	205	-
Other	**-**	46	46
Total	**2,266**	1,150	1,034

The provision for litigation and disputes represent management's best estimate of the outcome of litigations and disputes that are on-going or that are expected to happen at the date of the statement of financial position. This provision is made of multiple items; the timing of the settlement of this provision is unknown given its nature, as the Company does not control the litigation timelines.

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

(in thousands of Canadian dollars except per share amounts)

15. Provisions (continued)

The gift card and loyalty programs liabilities are the estimated value in gift cards and points outstanding at the date of the statement of financial position. The timing of the reversal of this provision is dependent on customer behaviour and therefore outside of the Company's control.

The restructuring provision is made of amounts that remain payable following the restructuring of the Country Style activities that occurred during our 2011 fiscal period. This provision was fully extinguished during the third quarter of 2012 (note 25).

In the provisions above, $121 was unused and reversed into income. The amounts used in the period include $393 of the provisions for restructuring and disputes and closed stores; this amount was used for the settlement of litigation and for the termination of the leases of closed stores.

Additions during the year include $1,464 to the litigation and closed stores provisions. The provisions were increased to reflect new information available to management.

16. Deferred revenue and deposits

	November 30, 2012	November 30, 2011	December 1, 2010
	$	$	$
Franchise fee deposits	**1,825**	1,023	904
Deferred landlord lease incentives	**72**	-	-
Supplier contributions and other allowances	**272**	549	590
	2,169	1,572	1,494
Current portion	**(2,169)**	(1,561)	(1,485)
	-	11	9

(in thousands of Canadian dollars except per share amounts)

17. Long-term debt

	November 30, 2012	November 30, 2011	December 1, 2010
	$	$	$
Non-interest bearing holdbacks on acquisition	**-**	-	179
Non-interest bearing holdbacks on acquisition, repayable September 2013. The effective interest rate is 4.50%.	**351**	892	885
Non-interest bearing holdbacks on acquisition, repayable between February 2013 and August 2014. The effective interest rate is 4.50%.	**810**	1,662	-
Non-interest bearing holdback on acquisition, repayable in November 2013. The effective interest rate is 4.50%.	**2,399**	2,294	-
Non-interest bearing holdback on acquisition, repayable between December 2012 and November 2013	**248**	350	-
Bank loans backed by the assets of two subsidiaries	**-**	-	126
Non-interest bearing holdbacks and withholding taxes on the acquisition of Country Style Food Services Holdings Inc.	**-**	-	1,253
Non-interest bearing holdbacks on acquisition of Mr. Souvlaki, repayable September 2014	**165**	-	-
Bank loan[(i)] bearing interest at the bank's prime plus 0.50%, secured by the property, plant and equipment of a subsidiary, repayable in fixed monthly capital repayments at $24 plus interest with a maturity date of November 1, 2015. As of November 30, 2012, the bank's prime rate is 4.00%	**3,403**	3,500	-
Mandatorily redeemable preferred shares[(ii)], non-cumulative, redeemable in three yearly instalments beginning December 2011,with redemption value based on the performance of a subsidiary	**100**	200	-

(in thousands of Canadian dollars except per share amounts)

17. Long-term debt (continued)

	November 30, 2012	November 30, 2011	December 1, 2010
	$	$	$
Non-interest bearing loans[(iii)] from non-controlling shareholders of subsidiaries with no terms of repayment	-	110	283
	7,476	9,008	2,726
Current portion	**(7,199)**	(1,958)	(1,873)
	277	7,050	853

(i) This loan is subject to restrictive covenants that have to be respected as at November 30, 2012. The requirements are for a subsidiary of the corporation to maintain certain working capital, interest coverage and debt to equity ratios. As of November 30, 2012, two of the covenants were not met. As a result of the breach in covenant, the debt was classified as current on the consolidated statement of financial position.

(ii) The Company recorded a gain of $100 for the redemption of the preferred shares as the shares were redeemed for a value of $0 given the performance of the subsidiary.

(iii) The Company recorded a gain of $110 for the loan forgiveness of a non-controlling shareholder of a subsidiary of one of its corporate stores which was franchised during the year.

18. Capital stock

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

	November 30, 2012		November 30, 2011		December 1, 2010	
	Number	**Amount**	Number	Amount	Number	Amount
		$		$		$
Balance at beginning and end of period	**19,120,567**	**19,792**	19,120,567	19,792	19,120,567	19,792

19. 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, 2012. There are no options outstanding as at November 30, 2012, November 2011 or December 1, 2010.

(in thousands of Canadian dollars except per share amounts)

20. Earnings per share

The following table provides the weighted average number of common shares used in the calculation of basic earnings per share and that used for the purpose of diluted earnings per share:

	November 30, 2012	November 30, 2011
Weighted daily average number of common shares	**19,120,567**	19,120,567

21. 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, 2012		November 30, 2011		December 1, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	$	**$**	$	$	$	$
Financial assets						
Cash and cash equivalents	**33,036**	**33,036**	5,995	5,995	5,637	5,637
Temporary investments	**-**	**-**	4,632	4,632	23,383	23,383
Accounts receivable	**13,631**	**13,631**	10,496	10,496	8,156	8,156
Loans receivable	**919**	**919**	1,119	1,119	1,245	1,245
Other receivable	**-**	**-**	-	-	2,698	N/A
Prepaid expense and deposits	**338**	**338**	312	312	186	186
Financial liabilities						
Accounts payable and accrued liabilities	**13,426**	**13,426**	13,540	13,540	10,992	10,992
Long-term debt	**7,476**	**7,476**	9,008	9,008	2,726	2,726

Determination of fair value

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

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

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

21. Financial instruments (continued)

Determination of fair value (continued)

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 the Company's current estimated borrowing rate for a similar debt.

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 November 30, 2012.

Credit risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the statement of financial position 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:

- Other than receivables from international locations, the Company's broad client base is spread mostly across Canada, which limits the concentration of credit risk.
- The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual account receivable.

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

The credit risk on the loans receivable is similar to that of accounts receivable. There is currently an allowance for doubtful accounts recorded for loans receivable of $55 ($nil as at November 30, 2011 and December 1, 2010).

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, 2012, the total value of such contracts was approximately $458.

(in thousands of Canadian dollars except per share amounts)

21. Financial instruments (continued)

Foreign exchange risk (continued)

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.

As of November 30, 2012, the Company carried US$ cash of CAD$425 and had net accounts receivable of CAD$429. As a result, a 1% change in foreign exchange rates would result in a change in net comprehensive income of $9 Canadian dollars.

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 is also exposed to interest rate risk with its revolving credit facility and treasury risk facility 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.

A 100 basis points increase in the bank's prime rate would result in additional interest of $34 per annum on the outstanding bank loan.

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, 2012:

	Carrying amount	Contractual cash flows	0 to 6 months	0 to 12 months	12 to 24 months
	$	**$**	**$**	**$**	**$**
Accounts payable and accrued liabilities	**13,426**	**13,426**	**13,426**	**-**	**-**
Long-term debt	**7,476**	**7,621**	**3,733**	**3,601**	**287**
Interest on long-term debt	**-**	**-**	**151**	**130**	**137**
	20,902	**21,047**	**17,310**	**3,731**	**424**

(in thousands of Canadian dollars except per share amounts)

22. 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 cash equivalents 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, 2012, November 30, 2011 and December 1, 2010 were as follows:

	November 30, 2012	November 30, 2011	December 1, 2010
	$	$	$
Debt	**30,498**	27,518	17,097
Equity	**106,063**	88,110	75,393
Debt-to-equity ratio	**0.29**	0.31	0.23

During the year ended November 30, 2012, the Company has generated cash flows that have enabled it to improve its debt-to-equity ratio to 0.29. Maintaining a low debt to equity ratio is a priority in order to preserve the Company's ability to secure financing at a reasonable cost for future acquisitions.

As at November 30, 2012, the Company does not have any debt outstanding that is subject to its consolidated debt to equity ratio.

(in thousands of Canadian dollars except per share amounts)

23. Revenues

The Company's revenues include:

	November 30, 2012	November 30, 2011
	$	$
Royalties	**34,483**	25,671
Initial franchise fees	**2,890**	1,852
Rent	**5,173**	5,865
Sale of goods, including construction revenues	**35,132**	30,432
Other franchising revenue	**15,163**	11,024
Other	**3,379**	3,514
	96,220	78,358

24. Operating expenses

Operating expenses are broken down as follows:

	November 30, 2012	November 30, 2011
	$	$
Cost of goods sold and rent	**36,503**	30,575
Wages and benefits	**13,343**	11,003
Consulting and professional fees	**3,445**	1,678
Royalties	**778**	2,222
Other	**7,225**	6,450
	61,294	51,928

25. Restructuring

During the second quarter of 2011, the Company has undertaken a restructuring of its Country Style operations following unsatisfactory performances. The total cost of the terminations incurred at that time was $447. As at November 30, 2012, the full liability has been paid.

26. Operating lease arrangements

Operating leases as lessee relate to leases of premises in relation to the Company's operations. Leases typically have terms ranging between 5 and 10 years at inception. The Company does not have options to purchase the premises on any of its operating leases.

(in thousands of Canadian dollars except per share amounts)

26. Operating lease arrangements (continued)

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
	$	$	$
2013	**49,368**	**47,110**	**2,258**
2014	**46,607**	**44,405**	**2,202**
2015	**42,573**	**40,690**	**1,883**
2016	**37,951**	**36,281**	**1,670**
2017	**32,517**	**31,162**	**1,355**
Thereafter	**84,227**	**80,309**	**3,918**
	293,243	**279,957**	**13,286**

Payments recognized as a net expense during the year ended November 30, 2012 amount to $8,260 (2011 - $6,681).

Operating leases as lessor relate to the properties leased or owned by the Company, with lease terms ranging between 5 to 10 years. Some have options to extend the duration of the agreements, for periods ranging between 1 and 15 years. None of the agreements contain clauses that would enable the lessee or sub-lessee to acquire the property.

During the year ended November 30, 2012, the company has earned rental income of $5,173 (2011 - $5,865).

The Company has recognized a liability of $923 (November 30, 2011 - $211) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement (Note 15).

27. Commitments

The Company has entered into supplier agreements for purchases of coffee beans, wheat, sugar and shortening for delivery dates ranging from December 2012 to March 2013. The total commitment amounts to approximately $1,042.

28. Guarantee

The Company has provided a guarantee in the form of a letter of credit for an amount of $45 ($45 as at November 30, 2011 and December 1, 2010).

(in thousands of Canadian dollars except per share amounts)

29. Contingent liabilities

The Company is involved in legal claims associated with its current business activities. The Company's estimate of the outcome of these claims is disclosed in Note 15. The timing of the outflows, if any, is out of the control of the Company and is as a result undetermined at the moment.

30. 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, 2012		November 30, 2011	
	$	**%**	$	%
Combined income tax rate	**8,205**	**26.9**	6,458	28.3
Add effect of:				
Impact of disposition of capital property	**(69)**	**(0.2)**	(134)	(0.6)
Non-deductible items	**26**	**0.1**	16	0.1
Losses in a subsidiaries for which no deferred income tax asset was recorded	**(46)**	**(0.2)**	(114)	(0.5)
Change in applicable tax rate	**(200)**	**(0.7)**	218	0.9
Adjustment to prior year provisions	**543**	**1.8**	(142)	(0.6)
Other – net	**(9)**	**0.0**	(1)	(0.0)
Provision for income taxes	**8,450**	**27.7**	6,301	27.6

The statutory tax rate has decreased in 2012 as a result of the reduction in the applicable Federal tax rate.

Included in the adjustment to prior year provisions is an amount of $171 in deferred income taxes resulting from an income tax reassessment, while $372 is an adjustment to current income taxes.

The variation in deferred income taxes during the year were as follows:

2012

	November 30, 2011	Recognized in profit or loss	Acquisition	November 30, 2012
Net deferred tax assets (liabilities) in relation to:				
Property, plant and equipment	(302)	506	-	204
Provisions	417	40	-	457
Holdbacks	(85)	46	-	(39)
Non-capital losses	50	82	-	132
Intangible assets	(2,258)	(613)	(14)	(2,885)
	(2,178)	61	(14)	(2,131)

(in thousands of Canadian dollars except per share amounts)

30. Income taxes (continued)

2011

	December 1, 2010	Recognized in profit or loss	Acquisitions	Other	November 30, 2011
Net deferred tax assets (liabilities) in relation to:					
Property, plant and equipment	55	(447)	90	-	(302)
Provisions	279	138	-	-	417
Holdbacks	(22)	19	(82)	-	(85)
Revenue recognition	(39)	39	-	-	-
Non-capital losses	3,562	(3,512)	-	-	50
Intangible assets	(3,719)	419	981	61	(2,258)
	116	(3,344)	989	61	(2,178)

Included in deferred income taxes are non-capital losses of a subsidiary which suffered a loss in its previous fiscal period. The realization of the $132 deferred income tax asset is dependent on the realization of future taxable profits. The Company is confident that sufficient taxable income will be generated to use the non-capital losses.

As at November 30, 2012 there were approximately $6,706 of capital losses which may be applied against capital gains for future years and be carried forward indefinitely. The deferred income tax benefit of these capital losses has not been recognized.

As at November 30, 2012, there were approximately $110 (2011- $60) in non-capital losses accumulated in one of the Company’s subsidiaries for which no deferred income tax asset was recognized. These losses will expire in 2030 and 2031.

The deductible temporary difference in relation to an investment in a subsidiary for which a deferred tax asset has not been recognized amounts to $120 (2011 - $28).

31. Segmented information

The Company’s activities are comprised of Franchise operations, Corporate store operations, Distribution operations and Food processing operations. Operating segments were established based on the differences in the types of products or services offered by each division.

The products and services offered by each segment are as follows:

Franchising operations

The franchising business mainly generates revenues from royalties, supplier contributions, franchise fees, rent and the sale of turnkeys.

Corporate store operations

Corporate stores generate revenues from the direct sale of prepared food to customers.

(in thousands of Canadian dollars except per share amounts)

31. Segmented information (continued)

Distribution operations

The distribution operations generate revenues by distributing raw materials to restaurants of our Valentine and Franx banners.

Food processing operations

The Food processing plant generates revenues from the sale of ingredients and prepared food to restaurant chains, distributors and retailers.

Below is a summary of each segment's performance during the periods.

For the year ended November 30, 2012:

	Franchising	Corporate	Distribution	Processing	Inter-company	Total
	$	**$**	**$**	**$**	**$**	**$**
Operating revenues	**70,909**	**12,174**	**6,076**	**8,051**	**(990)**	**96,220**
Operating expenses	**36,332**	**12,352**	**5,630**	**7,970**	**(990)**	**61,294**
	34,577	**(178)**	**446**	**81**	**–**	**34,926**
Other expenses						
Depreciation - property, plant and equipment	**436**	**441**	**8**	**243**	**–**	**1,128**
Amortization – intangible assets	**3,867**	**–**	**–**	**–**	**–**	**3,867**
Interest on long-term debt	**173**	**–**	**–**	**162**	**–**	**335**
Other income						
Foreign exchange (loss) gain	**(28)**	**–**	**–**	**1**	**–**	**(27)**
Interest income	**282**	**–**	**–**	**–**	**–**	**282**
Gain on preferred share redemption	**–**	**–**	**–**	**100**	**–**	**100**
Gain on shareholder loan forgiveness	**–**	**110**	**–**	**–**	**–**	**110**
Impairment of property, plant and equipment	**67**	**(135)**	**–**	**–**	**–**	**(68)**
Gain on disposal of property, plant and equipment	**566**	**(55)**	**–**	**–**	**–**	**511**
Operating income	**30,988**	**(699)**	**438**	**(223)**	**–**	**30,504**
Current income taxes	**8,581**	**(188)**	**118**	**–**	**–**	**8,511**
Deferred income taxes	**56**	**(64)**	**–**	**(53)**	**–**	**(61)**
Net income and comprehensive income	**22,351**	**(447)**	**320**	**(170)**	**–**	**22,054**
Total assets	**128,457**	**2,988**	**1,296**	**5,437**	**(1,617)**	**136,561**
Total liabilities	**25,385**	**429**	**508**	**4,318**	**(142)**	**30,498**

(in thousands of Canadian dollars except per share amounts)

31. Segmented information (continued)

For the year ended November 30, 2011:

	Franchising	Corporate	Distribution	Processing	Inter-company	Total
	$	**$**	**$**	**$**	**$**	**$**
Operating revenues	55,954	10,775	6,063	6,330	(764)	78,358
Operating expenses	30,234	10,728	5,528	6,202	(764)	51,928
	25,720	47	535	128	–	26,430
Other expenses						
Depreciation - property, plant and equipment	617	401	7	208	–	1,233
Amortization – intangible assets	3,179	–	–	–	–	3,179
Restructuring	447	–	–	–	–	447
Interest on long-term debt	63	9	–	141	–	213
Other income						
Foreign exchange gain	18	–	–	–	–	18
Interest income	357	–	–	–	–	357
Gain on bargain purchase	–	–	–	140	–	140
Gain on disposal of property, plant and equipment	948	–	–	–	–	948
Operating income	22,737	(363)	528	(81)	–	22,821
Current income taxes	2,807	–	150	–	–	2,957
Deferred income taxes	3,470	(103)	–	(23)	–	3,344
Net income and comprehensive income	16,460	(260)	378	(58)	–	16,520
Total assets	108,432	3,604	1,163	4,295	(1,866)	115,628
Total liabilities	22,285	637	409	4,187	–	27,518

During the year ended November 30, 2012, two customers of the food processing segment respectively accounted for 25% and 13% of the revenues of the segment.

None of the other segments had customers who represented more than 10% of their revenues.

(in thousands of Canadian dollars except per share amounts)

32. Statement of cash flows

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

	November 30, 2012	November 30, 2011
	$	$
Accounts receivable	**(3,135)**	(2,340)
Inventories	**(41)**	(385)
Loans receivable	**200**	248
Other receivable (note 13)	**–**	205
Prepaid expenses and deposits	**(26)**	331
Accounts payable and accrued liabilities	**(116)**	(1,080)
Provisions	**1,116**	116
	(2,002)	(2,905)

The Company acquired the remaining control in one of the corporate stores through a non-cash transaction. This resulted in a reversal of NCI of $26 which is not reflected in the consolidated statements of cash flows.

33. Related party transactions

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

Compensation of key management personnel

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

	November 30, 2012	November 30, 2011
	$	$
Short-term benefits	**659**	581
Post-employment benefits, share-based payments and other long-term benefits	**–**	–
Board member fees	**40**	40
Total remuneration of key management personnel	**699**	621

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

Given its widely held share base, the Company does not have an ultimate controlling party; its most important shareholder is its CEO, who controls 26% of the outstanding shares.

(in thousands of Canadian dollars except per share amounts)

33. Related party transactions (continued)

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

	November 30, 2012	November 30, 2011
	$	$
Short-term benefits	**472**	447
Post-employment benefits, share-based payments and other long-term benefits	**–**	–
Total remuneration of individuals related to key management personnel	**472**	447

A corporation owned by individuals related to key management personnel has participation in two of the Company's subsidiaries. During the year ended November 30, 2012, dividends of nil (2011- $140) were paid by those subsidiaries to the above-mentioned company, and advances of nil (2011- $78) were repaid. During the year, one of the Company's subsidiaries loan payable was forgiven by two members for an amount of $50.

34. Transition to IFRS

Our accounting policies presented in Note 3, Significant accounting policies, have been applied in preparing the consolidated financial statements for the year ended November 30, 2012, the comparative information for the year ended November 30, 2011 and the opening statement of financial position at December 1, 2010.

First-time adoption elections

As the burden of issuers adopting IFRS for the first time could be significant, IFRS 1 provides for a limited number of mandatory exceptions required to apply the mandatory exceptions, but they have a choice to apply or not the optional exemptions. The Company has applied all mandatory exceptions and has applied certain of the optional exemptions, resulting in the prospective application of IFRS related to these exceptions and exemptions. The following are the transition optional exemptions which have been applied:

a. The Company has elected not to apply IFRS 3 – Business combinations retrospectively to business combinations that occurred prior to transition date.

b. The Company has elected not to apply IFRS 2 – Share-based payment for equity settled share-based payments granted on or before November 7th, 2002, nor to share-based payments granted after November 7th, 2002 but that vested before the date of transition.

c. The Company has elected not to apply IAS 32 – Financial Instruments: Presentation to its compound financial instruments for which the liability component did not exists at the transition date.

d. The Company has elected not to apply IAS 37 – Provision, contingent liabilities and contingent assets, to its decommissioning liabilities retrospectively to changes in such liabilities that occurred before the date of transition.

(in thousands of Canadian dollars except per share amounts)

34. Transition to IFRS (continued)

The following tables and accompanying notes provide explanations on how the transition from previous GAAP to IFRS impacted the Company's financial position, financial performance and cash flows.

Reconciliation of the consolidated statement of financial position as at December 1, 2010

	Notes	Canadian GAAP	Reclassi-fications	Adjustments	IFRS
		$	$	$	$
Assets					
Current assets					
Cash and cash equivalents		5,637	-	-	5,637
Temporary investments		23,383	-	-	23,383
Accounts receivable	a	7,577	-	579	8,156
Inventories	a	645	150	-	795
Franchise locations under construction	a	1,091	(150)	(941)	-
Loans receivable		336	-	-	336
Prepaid expenses and deposits		186	-	-	186
Deferred income taxes		3,562	(3,562)	-	-
		42,417	(3,562)	(362)	38,493
Loans receivable		909	-	-	909
Other receivable		2,698	-	-	2,698
Property, plant and equipment	bd	7,138	-	(197)	6,941
Intangible assets	de	36,266	-	(58)	36,208
Deferred income taxes		-	116	-	116
Goodwill		7,125	-	-	7,125
		96,553	(3,446)	(617)	92,490
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	a	12,530	(1,034)	(504)	10,992
Provisions		-	1,034	-	1,034
Income taxes payable		851	-	-	851
Deferred revenue and deposits		1,485	-	-	1,485
Current portion of long-term debt		1,873	-	-	1,873
		16,739	-	(504)	16,235
Deferred revenue and deposits		9	-	-	9
Long-term debt	g	930	-	(77)	853
Deferred income taxes	abdefg	2,606	(3,446)	840	-
Non-controlling interest		72	(72)	-	-
		20,356	(3,518)	259	17,097
Shareholders' equity					
Equity attributable to owners					
Capital stock		19,792	-	-	19,792
Contributed surplus		481	-	-	481
Retained earnings		55,924	-	(876)	55,048
		76,197	-	(876)	75,321
Equity attributable to non-controlling interest		-	72	-	72
		76,197	72	(876)	75,393
		96,553	(3,446)	(617)	92,490

(in thousands of Canadian dollars except per share amounts)

34. Transition to IFRS (continued)

Reconciliation of the consolidated statement of financial position as at November 30, 2011

	Notes	Canadian GAAP	Reclassi-fications	Adjustments	IFRS
		$	$	$	$
Assets					
Current assets					
Cash and cash equivalents		5,995	-	-	5,995
Temporary investments		4,632	-	-	4,632
Accounts receivable	a	9,549	-	947	10,496
Income taxes receivable		1,419	-	-	1,419
Inventories	a	1,540	28	-	1,568
Franchise locations under construction	a	1,202	(28)	(1,174)	-
Loans receivable		414	-	-	414
Prepaid expenses and deposits		312	-	-	312
Deferred income taxes		440	(440)	-	-
		25,503	(440)	(227)	24,836
Loans receivable		705	-	-	705
Property, plant and equipment	bcd	10,180	-	5	10,185
Intangible assets	de	59,624	-	(58)	59,566
Deferred income taxes	f	1,531	(564)	(897)	70
Goodwill	fg	19,509	-	757	20,266
		117,053	(1,004)	(420)	115,628
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	a	14,908	(1,140)	(228)	13,540
Provisions		-	1,150	-	1,150
Deferred revenue and deposits		1,561	-	-	1,561
Current portion of long-term debt	g	1,982	-	(24)	1,958
		18,451	10	(252)	18,209
Deferred revenue and deposits		11	-	-	11
Long-term debt	g	7,343	-	(293)	7,050
Deferred income taxes	bcdefg	2,337	(1,004)	915	2,248
		28,142	(994)	370	27,518
Shareholders' equity					
Equity attributable to owners					
Capital stock		19,792	-	-	19,792
Contributed surplus		481	-	-	481
Retained earnings		68,637	-	(837)	67,800
		88,910	-	(837)	88,073
Equity attributable to non-controlling interest	c	-	(10)	47	37
		88,911	(10)	(790)	88,110
		117,053	(1,004)	(420)	115,628

(in thousands of Canadian dollars except per share amounts)

34. Transition to IFRS (continued)

Reconciliation of the consolidated statement of comprehensive income for the year ended November 30, 2011:

	Notes	Canadian GAAP	Reclassi-fications	Adjustments	IFRS
		$	$	$	$
Revenues	a	78,465	-	(107)	78,358
Expenses					
Operating expenses	a	51,819	-	109	51,928
Depreciation – property, plant and equipment	bc	1,262	-	(29)	1,233
Amortization – intangible assets		3,179	-	-	3,179
Restructuring		447	-	-	447
Interest on long-term debt	g	150	-	63	213
		56,858	-	143	57,000
Other income					
Gain (loss) on foreign exchange		18	-	-	18
Interest income		357	-	-	357
Gain on bargain purchase	c	-	-	140	140
Gain (loss) on disposal of property, plant and equipment	b	858	-	90	948
		1,233	-	230	1,463
Income before taxes		22,841	-	(20)	22,821
Income taxes					
Current		2,957	-	-	2,957
Deferred	f	3,467	-	(123)	3,344
		6,424	-	(123)	6,301
Net income and comprehensive income		16,417	-	103	16,520
Net income and comprehensive income attributable to:					
Owners		16,154	-	40	16,194
Non-controlling interest		263	-	63	326
		16,417	-	103	16,520
Basic and diluted earnings per share (Note 20)		0.84			0.85

(in thousands of Canadian dollars except per share amounts)

34. Transition to IFRS (continued)

Notes to the reconciliation tables:

a. Franchise locations under construction held for resale

Under IAS 11, the Company is required to use the percentage of completion method to recognize revenues and expenses on projects for which construction is in progress, whereas under Canadian GAAP the completion method was used to recognize such revenues and expenses. When retrospectively applying IAS 18, the Company increased revenues and expenses and impacted accounts receivable, accrued liabilities and retained earnings in the process, while creating a reduction in the amount capitalized for such projects on the statement of financial position.

Statement of comprehensive income

	November 30, 2011
	$
Change in revenues	(107)
Change in operating expenses	109
Change in income before taxes	(216)

Statement of financial position

	November 30, 2011	December 1, 2010
	$	$
Change in accounts receivable	947	579
Change in inventories	28	150
Change in franchise locations under construction held for resale	(1,202)	(1,091)
Change in accounts payable and accrued liabilities	(228)	(504)
Change in deferred income tax liability	-	39

(in thousands of Canadian dollars except per share amounts)

34. Transition to IFRS (continued)

b. Property, plant and equipment

As part of the conversion to IAS 16, the Company identified different components for some items of property, plant and equipment and therefore adjusted its depreciation methods to reflect the consumption pattern of these components.

Statement of comprehensive income

	November 30, 2011
	$
Change in depreciation of property, plant and equipment	(34)
Change in gains (losses) on disposals of assets	90
Change in income before taxes	124

Statement of financial position

	November 30, 2011	December 1, 2010
	$	$
Change in property, plant and equipment	32	(35)
Change in deferred income tax liability	(8)	(9)

c. Bargain purchase

In December 2010, the Company, through a subsidiary, acquired a food processing plant; in the transaction the fair value of the assets acquired, as determined by an independent evaluator, exceeded the consideration paid. Under previous GAAP, the discrepancy was allocated over non-monetary assets as a proportion of their carrying value; under IFRS 3, such discrepancy is recorded as a gain on the statement of comprehensive income. This results in higher property, plant and equipment and therefore has an impact on deferred income taxes. Because the Company owns 51% of the subsidiary, the gain on the bargain purchase and the increase in the depreciation of the identifiable assets acquired with finite useful lives it created have an impact on the equity attributable to non-controlling interest.

Statement of comprehensive income

	November 30, 2011
	$
Gain on bargain purchase	140
Change in depreciation of property, plant and equipment	5
Change in income before taxes	135

(in thousands of Canadian dollars except per share amounts)

34. Transition to IFRS (continued)

Statement of financial position

	November 30, 2011	December 1, 2010
	$	$
Change in property, plant and equipment	135	-
Change in deferred income tax liability	28	-
Equity attributable to non-controlling interest	47	-

d. Impairment of assets

At transition date, the Company had to perform impairment tests on its assets based on discounted cash flows, as required by IAS 36, whereas under Canadian GAAP, the primary tests for assets with a finite life were performed using undiscounted cash flows. This resulted in impairments being recorded on one of the Company's trademarks as well as on some property, plant and equipment used for corporate restaurant operations.

Statement of financial position

	November 30, 2011	December 1, 2010
	$	$
Change in property, plant and equipment	(162)	(162)
Change in intangible assets	(67)	(67)
Change in deferred income tax liability	(64)	(64)

e. Intangible assets

Under IFRS, intangible assets with indefinite useful lives are not amortized but tested at least annually for impairment. IAS 38, Intangible assets, requires retrospective application of those requirements. Under Canadian GAAP, those assets were amortized until November 30, 2002 and transitional provisions did not require the reversal of amortization previously recorded. Therefore, at the date of transition, the Company reversed all amortization recorded in respect of intangible assets with indefinite lives. The impact of the change is as follows:

Statement of financial position

	November 30, 2011	December 1, 2010
	$	$
Change in intangible assets	9	9
Change in deferred income tax liability	2	2

(in thousands of Canadian dollars except per share amounts)

34. Transition to IFRS (continued)

f. Deferred income tax assets and liabilities

The retrospective application of IAS 12 resulted in decreases in deferred income taxes assets and increases in deferred income tax liabilities, mainly as a result of the accounting treatment of permanent differences between accounting and tax values on certain intangible assets and goodwill.

Statement of comprehensive income

	November 30, 2011
	$
Change in deferred income taxes	(90)

Statement of financial position

	November 30, 2011	December 1, 2010
	$	$
Change in goodwill	980	-
Change in deferred income tax liability	872	848
Change in deferred income tax asset	(897)	-

g. Long-term debt

Under IAS 39, holdbacks on business acquisitions are required to be discounted using an interest rate similar to one the Company could obtain on open markets. Under previous GAAP, the effective interest method was not used because the timing of the cash outflows could not be easily determined in cases in which the holdbacks were to be applied against transactions prescribed in the asset purchase agreements. The resulting adjustment reduces the value of the consideration paid (lower value attributed to holdbacks) and therefore reduces the amount of goodwill on the transactions. It also gives rise to periodic interest charges and the resulting deferred income tax impact.

Statement of comprehensive income

	November 30, 2011
	$
Interest on long-term debt	63

(in thousands of Canadian dollars except per share amounts)

34. Transition to IFRS (continued)

Statement of financial position

	November 30, 2011	December 1, 2010
	$	$
Change in goodwill	(223)	-
Change in long-term debt	(317)	(77)
Change in deferred income tax liability	85	22

h. Goodwill

Goodwill was impacted by the variations of the deferred income tax assets and liabilities described in Note f. above relating to acquisitions realised during the 2010 and 2011 fiscal periods. It was also impacted by the difference in the recognized amounts for holdbacks, described in Note g. above. Goodwill being the difference between the consideration paid and the fair value of the identifiable net assets acquired (which include deferred income taxes), variations in the value of deferred income taxes result in direct impacts on the value attributed to goodwill.

Other than the transition to IAS12, the Company has chosen not to present the income tax impact of the other reconciling items presented above.

Reconciliation of the statement of cash flows

There were no material changes to the statement of cash flows on adoption of IFRS other than the changes to presentation of certain elements, including interest on long-term debt and income taxes.

35. Subsequent events

On January 23, 2013, the Company declared dividends of $0.07 per share payable February 15, 2013. This will result in a total payment of $1,338.

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