Consolidated financial statements of

MTY FOOD GROUP INC.

November 30, 2010

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Auditors' report

To the Shareholders of
MTY Food Group Inc.

We have audited the consolidated balance sheets of MTY Food Group Inc. (the "Company") as at November 30, 2010 and 2009 and the consolidated statements of earnings and comprehensive income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

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

Montreal, February 7, 2011

[1] Chartered accountant auditor permit No. 17456

MTY FOOD GROUP INC.

Consolidated statements of earnings and comprehensive income

years ended November 30

	2010	2009
	$	$
Revenue		
Franchise locations (Note 17)	**58,233,878**	42,185,577
Corporate owned locations	**8,652,563**	9,352,211
	66,886,441	51,537,788
Expenses		
Other operating expenses	**33,360,073**	21,336,098
Corporate owned locations	**7,730,568**	8,806,712
Amortization – capital assets	**1,045,931**	980,437
Amortization – intangible assets	**3,024,716**	2,825,282
	45,161,288	33,948,529
Other income		
(Loss) Gain on foreign exchange	**(14,221)**	1,720
Interest income	**195,897**	212,945
Gain on disposal of capital assets	**396,885**	123,784
	578,561	338,449
Income before income taxes and non-controlling interest	**22,303,714**	17,927,708
Income taxes (Note 21)		
Current	**6,006,792**	4,640,215
Future	**776,405**	979,513
	6,783,197	5,619,728
Income before non-controlling interest	**15,520,517**	12,307,980
Non-controlling interest	**(73,723)**	(46,477)
Net income and comprehensive income	**15,446,794**	12,261,503

Earnings per share (Note 22)		
Basic	**0.81**	0.64
Diluted	**0.81**	0.64

See accompanying notes to consolidated financial statements

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

	2010	2009
	$	$
Balance, beginning of year	**41,338,029**	29,076,526
Net income	**15,446,794**	12,261,503
Dividends	**(860,426)**	-
Balance, end of year	**55,924,397**	41,338,029

See accompanying notes to consolidated financial statements

MTY FOOD GROUP INC.
Consolidated balance sheets
as at November 30

	2010	2009
	$	$
Assets		
Current assets		
Cash	**5,636,912**	1,245,844
Temporary investments (Note 4)	**23,383,261**	14,631,473
Accounts receivable	**7,577,435**	6,675,037
Inventories (Note 5)	**645,528**	392,995
Franchise locations under construction held for resale	**1,091,488**	1,005,816
Loans receivable (Note 6)	**336,067**	153,643
Prepaid expenses	**140,549**	91,210
Deposits	**45,292**	-
Future income taxes (Note 21)	**3,561,864**	1,272,003
	42,418,396	25,468,021
Loans receivable (Note 6)	**908,619**	383,771
Other receivable (Note 3)	**2,697,762**	2,697,762
Capital assets (Note 7)	**7,138,466**	3,734,657
Intangible assets (Note 8)	**36,266,114**	35,092,165
Goodwill (Note 9)	**7,124,751**	6,834,249
Future income taxes (Note 21)	**-**	2,324,834
	96,554,108	76,535,459
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**12,529,748**	9,293,003
Income taxes payable	**851,138**	44,032
Deferred revenue and deposits (Note 11)	**1,485,295**	1,593,704
Current portion of long-term debt (Note 12)	**1,873,213**	1,435,859
	16,739,394	12,366,598
Deferred revenue and deposits (Note 11)	**8,708**	82,918
Long-term debt (Note 12)	**930,000**	545,518
Future income taxes (Note 21)	**2,605,882**	1,834,793
Non-controlling interest	**71,939**	93,815
	20,355,923	14,923,642
Commitments, guarantees and contingent liabilities (Notes 18, 19 and 20)		
Shareholders' equity		
Capital stock (Note 13)	**19,792,468**	19,792,468
Contributed surplus	**481,320**	481,320
Retained earnings	**55,924,397**	41,338,029
	76,198,185	61,611,817
	96,554,108	76,535,459

See accompanying notes to consolidated financial statements

Approved by the Board …*``Stanley Ma``*………Director ……*``Claude St-Pierre``*….Director

MTY FOOD GROUP INC.
Consolidated statements of cash flows
years ended November 30

	2010	2009
	$	$
Operating activities		
Net income	**15,446,794**	12,261,503
Items not affecting cash:		
Amortization – capital assets	**1,045,931**	980,437
Amortization – intangible assets	**3,024,716**	2,825,282
Deferred revenue	**(287,479)**	751,607
Investment from non-controlling interest in a subsidiary company	**55**	510
Non-controlling interest	**73,723**	46,477
Dividends paid to non-controlling shareholders of subsidiaries	**(75,000)**	(40,000)
Gain on disposal of capital assets	**(396,885)**	(123,784)
Future income taxes	**776,405**	979,513
	19,608,260	17,681,545
Changes in non-cash working capital items (Note 23)	**2,192,748**	(1,537,108)
	21,801,008	16,144,437
Investing activities		
Business acquisitions (Note 3)	**(4,023,698)**	(7,838,501)
Repayment of long-term debt arising from acquisition (Note 3)	**(402,571)**	(6,750,000)
Acquisition of properties resulting from business acquisition (Note 3)	**(3,372,000)**	-
Temporary investments	**(8,751,788)**	(176,817)
Additions to capital assets	**(1,203,616)**	(642,464)
Proceeds on disposal of capital assets	**1,473,525**	527,574
	(16,280,148)	(14,880,208)
Financing activities		
Dividends	**(860,426)**	-
Issuance of long-term debt to non-controlling shareholders of subsidiaries (Note 12)	**110,000**	204,000
Repayment of long-term debt	**(379,366)**	(1,041,734)
	(1,129,792)	(837,734)
Net increase in cash	**4,391,068**	426,495
Cash, beginning of year	**1,245,844**	819,349
Cash, end of year	**5,636,912**	1,245,844

See accompanying notes to consolidated financial statements

1. Description of the business

MTY Food Group Inc. (the "Company") is a franchisor in the quick service food industry. Its activities consist of franchising and operating corporate-owned locations under a multitude of banners.

During its 2010 fiscal year, the company has opened 191 stores and acquired 95, bringing the total number of stores to 1,727. Of this number, 26 were corporate stores at the end of period. At the end of 2009, the Company had 1,570 stores in operations, including 20 corporate locations.

2. Accounting policies

a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries from the date of their acquisition. In addition, the consolidated financial statements include the accounts of three subsidiaries in which it owns between 50% and 67% of the controlling shares and two other subsidiaries in which it owns 49% and 45% of the controlling shares respectively and exercises effective control. All significant intercompany accounts and transactions have been eliminated upon consolidation.

The consolidated financial statements must include the variable interest entities ("VIEs"). VIEs are entities in which equity investors do not have controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties. VIEs are consolidated by their primary beneficiary (i.e., the party that receives the majority of the expected residual returns and/or absorbs the majority of the entity's losses). Management of the Company conducted a review of the ownership and contractual interest in entities and determined that no significant VIEs exist as of November 30, 2010.

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

b) Use of estimates

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

2. Accounting policies (cont.)

b) Use of estimates (cont.)

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

c) Inventories

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

d) Franchise locations under construction held for resale

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

e) Capital assets

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

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

f) Goodwill

Goodwill represents the excess of the purchase price over the fair values assigned to identifiable net assets acquired. Goodwill, which is not amortized, is tested for impairment annually or more frequently if impairment indicators arise to determine whether the fair value of each reporting unit to which goodwill has been attributed is less than the carrying value of the reporting unit's net assets including goodwill, thus indicating impairment. The fair value of a reporting unit is calculated based on future cash flows. Any impairment is then calculated as the difference between the fair value of the reporting unit and the carrying value, and is recorded as a separate charge against income and a reduction of the carrying value of goodwill. An impairment adjustment in the carrying value of goodwill was not required for the years ended November 30, 2010 and 2009.

2. Accounting policies (cont.)

g) Intangible assets

Franchise rights and master franchise rights

The franchise rights and master franchise rights represent the fair value of the future revenue stream related to the acquisition of franchises. The franchise rights and master franchise rights are generally amortized on a straight-line basis over the term of the agreements which range between 10 to 20 years. Master franchise rights with an indefinite life are not amortized. They are tested for impairment annually or more frequently when events or circumstances indicate that the master franchise rights might be impaired. An impairment adjustment in the carrying value of franchise rights was not required for the years ended November 30, 2010 and 2009.

Trademarks

Trademarks represent the cost incurred to operate under a trade name and are not amortized as they have an indefinite life. They are tested annually for impairment or more frequently when events or circumstances indicate that the trademarks might be impaired. The impairment test compares the carrying amount of the trademarks with their fair value. An impairment adjustment in the carrying amount of trademarks was not required for the years ended November 30, 2010 and 2009.

Leases

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

Other

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

h) Impairment of long-lived assets

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

2. Accounting policies (cont.)

i) Revenue recognition

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

i. Revenue from franchise locations

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

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

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

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

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

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

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

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

ii. Revenue from corporate-owned locations

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

j) Foreign currency

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

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

2. Accounting policies (cont.)

k) Income taxes

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

l) Financial instruments

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

Classification

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

Held for trading

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

Loans and receivables

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

Other liabilities

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

2. Accounting policies (cont.)

l) Financial instruments (cont.)

Effective interest method

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

Embedded derivatives

An embedded derivative is a component of a contract with characteristics similar to a derivative. Management of the Company conducted a review of its contracts and determined that no embedded derivatives exist as at November 30, 2010 and 2009.

Derivative financial instruments

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

m) Future accounting policies

i. International Financial Reporting Standards

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

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. The Company is currently preparing its IFRS conversion. The Company is currently assessing the impact of the new reporting framework on its consolidated financial statements and is developing an implementation strategy.

ii. Business Combinations

In January 2009, the CICA issued the following new Handbook sections: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests which replace Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements. These new Sections will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption is permitted to the extent the three new Sections are adopted simultaneously. Together, the new Sections establish standards for the accounting for a business combination, the preparation of consolidated financial statements and the accounting for a non-controlling interest in subsidiary in consolidated financial statements subsequent to a business combination. The Company is currently evaluating the impact of the adoption of these new Sections on its consolidated financial statements. The Company has elected not to adopt these Sections early.

3. Business acquisitions

1) 2010 acquisitions

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

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

Of the consideration above, the Company has retained $961,518 as holdbacks (Note 11).

The preliminary purchase price allocation is as follows:

Net assets acquired:	
Current Assets	
Cash	4,336
Accounts receivable	499,247
Inventory	324,962
Franchise locations under construction held for resale	270,631
Current portion of loans receivable	117,695
Prepaid expenses	26,246
	1,243,117
Loans receivable	232,735
Property, plant and equipment	4,322,764
Franchise rights	860,770
Trademark	3,337,895
Goodwill (not tax deductible)	1,446,061
Minority interest	20,657
	11,463,999
Current Liabilities	
Accounts payable	1,193,109
Income taxes payable	87,005
Loans payable	129,683
Unearned revenue	104,860
	1,514,657
Future income taxes	1,185,216
Total purchase price	8,764,126

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

3. Business acquisitions (cont.)

II) 2009 acquisition

On May 1, 2009, the Company's wholly-owned subsidiary, MTY Tiki Ming Enterprises Inc., acquired all of the issued and outstanding shares of Country Style Food Services Holdings Inc., the second largest coffee and baked goods franchisor in Ontario's quick service restaurant sector, for a total consideration of $13,810,564. The Company has paid $7,936,791 in cash and $6,750,000 as repayment of long-term debt on closing and retained the amounts of $997,868 and $794,576 as holdbacks and withholding taxes respectively. An amount of $2,697,762 of post-closing adjustments is to be reimbursed by the sellers to the Company in accordance with the provisions of the purchase agreement. The post-closing adjustments are under litigation.

The allocation of the purchase price of the acquisition is as follows:

	$
Consideration paid	
Share purchase	9,729,235
Repayment of long-term debt	6,750,000
Post closing adjustments	(2,697,762)
Acquisition costs	29,091
Total purchase price	13,810,564

Net assets acquired:	
Current Assets	
Cash	127,381
Accounts receivable	2,039,936
Inventory	368,768
Franchise locations under construction held for resale	627,542
Prepaid expenses	196,000
Future income taxes	1,290,000
	4,649,627
Future income taxes	4,458,559
Property, plant and equipment	1,584,724
Franchise rights	1,016,000
Trademarks	4,096,000
Distribution agreements	272,000
Goodwill (not tax deductible)	1,704,441
	17,781,351
Current Liabilities	
Accounts payable and accrued liabilities	3,970,787
Total purchase price	13,810,564

The final purchase price for this acquisition has not been finalized.

3. Business acquisitions (cont.)

II) 2009 acquisition (cont.)

During the period, the Company has adjusted the future income tax asset following a revision of the excess of the fair value of eligible assets over their tax value at the date of the change of control. Tax returns have been amended accordingly. The impact of this adjustment was to increase future income tax assets by $1,155,559 and reduce goodwill by an equivalent amount.

4. Temporary investments

Temporary investments are comprised of short-term notes recorded at fair value. They have maturity dates between December 2010 and August 2011 and have rates of return between 0.82% and 1.45% (0.35% to 1.01% in November 2009).

5. Inventories

Inventories expensed during the year amount to $14,640,623 (2009 - $10,083,911).

6. Loans receivable

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

	November 30, 2010	November 30, 2009
	$	$
Loans receivable bearing interest between nil and 9% per annum, receivable in monthly instalments of $44,780 in aggregate, including principal and interest, ending in April 2017	**1,244,686**	537,414
	1,244,686	537,414
Current portion	**(336,067)**	(153,643)
	908,619	383,771

The capital repayments in subsequent years will be:

	$
12 months ending November 2011	**336,067**
12 months ending November 2012	**331.816**
12 months ending November 2013	**175,826**
12 months ending November 2014	**153,469**
12 months ending November 2015	**75,645**
Thereafter	**171,863**
	1,244,686

7. Capital assets

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

	November 30, 2009		
	Cost	Accumulated amortization	Net book value
	$	**$**	**$**
Corporate-owned locations			
Equipment	1,426,763	698,478	728,285
Leasehold improvements	2,226,297	811,351	1,414,946
Computer hardware	96,975	55,824	41,151
Equipment	340,962	103,635	237,327
Computer hardware	252,975	162,928	90,047
Computer software	109,164	75,899	33,265
Leasehold improvements	1,469,000	298,187	1,170,813
Rolling stock	24,119	5,296	18,823
	5,946,255	2,211,598	3,734,657

8. Intangible assets

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

	November 30, 2009		
	Cost	Accumulated amortization	Net book value
	$	$	$
Franchise and master franchise rights[1]	30,514,834	7,827,977	22,686,857
Trademarks	11,518,960	-	11,518,960
Leases	1,000,000	332,760	667,240
Other	504,725	285,617	219,108
	43,538,519	8,446,354	35,092,165

(1) Franchise and master franchise rights include an amount of $1,500,000 ($1,500,000 in November 2009) of unamortizable master franchise right.

9. Goodwill

The changes in the carrying amount of goodwill for the years ended November 30, 2010 and 2009 are as follows:

	2010	2009
	$	$
Balance, beginning of the year	**6,834,249**	3,974,249
Goodwill acquired during the year (Note 3)	**1,446,061**	2,860,000
Reduction of goodwill due to adjustment in future income taxes (Note 3)	**(1,155,559)**	-
Balance, end of year	**7,124,751**	6,834,249

Goodwill has been tested for impairment during the year. No adjustment for impairment was required.

10. Bank indebtedness

As at November 30, 2010, the Company has an authorized operating line of credit of $5,000,000. Bank indebtedness is secured by a moveable hypothec on all the assets of the Company. The interest rate charged is the bank's annual prime rate (3.00% on November 30, 2010) plus 1.00%. Under the terms of the line of credit, the Company must satisfy a funded debt to EBITDA ratio of 1 to 1, a current ratio of 1.45 to 1, and a debt service coverage ratio of 1.8 to 1. The company is in compliance with all these ratios. The operating line of credit is payable on demand and is renewable annually.

11. Deferred revenue and deposits

	November 30, 2010	November 30, 2009
	$	$
Franchise fee deposits	**903,876**	1,241,500
Distribution rights	**590,127**	435,122
	1,494,003	1,676,622
Current portion	**(1,485,295)**	(1,593,704)
	8,708	82,918

12. Long-term debt

	November 30, 2010	November 30, 2009
	$	$
Non-interest bearing holdbacks on acquisition, repayable in semi-annual instalments of $100,000 ending 2010	**179,070**	189,415
Non-interest bearing holdbacks on acquisition, repayable between December 2010 and September 2013	**961,518**	-
Bank loans bearing interest at prime plus 1.75%, backed by the assets of two subsidiaries, payable in monthly instalments of $3,917. Both loans are expected to be completely paid off during 2011.	**125,916**	-
Non-interest bearing holdbacks and withholding taxes on the acquisition of Country Style Food Services Holdings Inc., repayable at various dates, due no later than 2011.	**1,253,309**	1,587,962
Non-interest bearing loans from non-controlling shareholders of subsidiaries with no terms of repayment	**283,400**	204,000
	2,803,213	1,981,377
Current portion	**(1,873,213)**	(1,435,859)
	930,000	545,518

13. Capital stock

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

	November 30, 2010		November 30, 2009	
	Number	Amount	Number	Amount
		$		$
Balance, beginning and end of period	**19,120,567**	**19,792,468**	19,120,567	19,792,468

14. Stock options

Under various plans, the Company may grant stock options on the common shares at the discretion of the Board of Directors, to senior executives, directors and certain key employees. Of the 3,000,000 common shares initially reserved for issuance, 699,500 were available for issuance under the share option plan as at November 30, 2010. There are no options outstanding as at November 30, 2010.

15. Financial instruments

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

Fair value of recognized financial instruments

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

	November 30, 2010		November 30, 2009	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Financial assets				
Cash	5,636,912	5,636,912	1,245,844	1,245,844
Temporary investments	23,383,261	23,383,261	14,631,473	14,631,473
Accounts receivable	7,577,435	7,577,435	6,675,037	6,675,037
Loans receivable	1,244,686	1,244,686	537,414	537,414
Other receivable	2,697,762	N/A	2,697,762	N/A
Deposits	45,292	45,292	-	-
Financial liabilities				
Accounts payable and accrued liabilities	12,529,748	12,529,748	9,293,003	9,293,003
Long-term debt	2,803,213	2,786,336	1,981,377	1,977,559

Determination of fair value

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

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

Cash and temporary investments - The carrying amounts are reflected at market values, which are determined by quoted prices in active markets for identical securities (Level 1).

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

Other receivable - The other receivable is currently under litigation (Note 3). As a result, the timing of the cash flows is undetermined, and it bears no interest.

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 rate of return on its treasury bank accounts.

15. Financial instruments (cont.)

Risk management policies

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at the balance sheet date of November 2010.

Credit risk

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

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

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

	November 30, 2010	November 30, 2009
	$	$
Total accounts receivable	**8,360,696**	7,429,147
Less: Allowance for doubtful accounts	**783,261**	754,110
Total accounts receivable, net	**7,577,435**	6,675,037
Of which:		
Not past due	**5,665,888**	5,003,899
Past due for more than one day but for no more than 30 days	**255,948**	147,782
Past due for more than 31 days but for no more than 60 days	**217,314**	616,139
Past due for more than 61 days	**1,438,285**	907,217
Total accounts receivable, net	**7,577,435**	6,675,037
Allowance for doubtful accounts beginning of year	**754,110**	648,934
Additions	**384,531**	443,939
Acquisition	**-**	115,107
Write-off	**(355,380)**	(453,870)
Allowance for doubtful accounts end of period	**783,261**	754,110

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

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

15. Financial instruments (cont.)

Foreign exchange risk

The Company has entered into a contract to minimize its exposure to fluctuations in foreign currencies, mainly on purchases of coffee. As of November 30, 2010, the total value of such contracts, which range between December 2010 and March 2011, was approximately $1,222,000. Immediate liquidation of the contracts at November 30, 2010 would have resulted in a gain of approximately $6,000.

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.

Interest rate risk

The Company is exposed to interest rate risk with regards to cash, temporary investments and its operating line of credit.

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, 2010:

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

The following are the contractual maturities of financial liabilities as at November 30, 2009:

	Carrying Amount	Contractual Cash Flows	0 to 6 Months	6 to 12 Months	12 to 24 Months
	$	$	$	$	$
Accounts payable and accrued liabilities	9,293,003	9,293,003	9,293,003	-	-
Long-term debt	1,981,377	1,981,377	1,142,444	293,415	545,518
	11,274,380	11,274,380	10,435,447	293,415	545,518

16. Capital Disclosures

The Company's objectives when managing capital are:

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

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

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

The Company monitors capital on the basis of the debt-to-equity ratio. The debt-to-equity ratios at November 30, 2010 and November 30, 2009 were as follows:

	November 30, 2010 **$**	November 30, 2009 $
Debt	**20,283,984**	14,829,827
Equity	**76,198,185**	61,611,817
Debt-to-equity ratio	**0.27**	0.24

The increase is due primarily to the holdbacks created with the acquisition of Groupe Valentine Inc. The Company intends to reduce its total debt with the positive cash flows generated from its operations. Maintaining a low debt-to-equity ratio is a priority in order to permit the Company to secure financing at a reasonable cost for future acquisitions.

17. Franchise fees

Included in revenue from franchise locations are initial franchise fees in the amount of $3,019,913 ($1,675,719 in 2009).

18. Commitments

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

	Lease commitments	Sub leases	Net commitments
	$	$	$
12 months ending November 2011	35,212,273	33,278,644	1,933,629
12 months ending November 2012	33,166,853	31,137,437	2,029,416
12 months ending November 2013	30,203,909	28,451,184	1,752,725
12 months ending November 2014	27,546,737	25,925,468	1,621,269
12 months ending November 2015	24,079,381	22,629,503	1,449,878
Thereafter	68,484,611	63,573,893	4,910,718
	218,693,764	204,996,129	13,697,635

The Company has entered into supplier agreements for purchases of coffee beans, wheat, sugar and shortening for delivery between December 2010 and March 2011. The total commitment amounts to approximately $820,000. Based on market rates at November 30, 2010, a gain of $77,049 would result from immediate liquidation of all contracts.

19. Guarantee

The Company has provided a guarantee in the form of a letter of credit for an amount of $45,000. It has also guaranteed payment of construction costs incurred by an area developer in the amount of approximately $125,000.

20. Contingent liabilities

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

21. 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, 2010		November 30, 2009	
	$	**%**	$	%
Statutory income tax rate	**6,713,418**	**30.1**	5,606,630	31.2
Add effect of:				
Impact of disposition of capital property	**(25,115)**	**(0.1)**	17,885	0.1
Permanent impact of tax assessment	**52,310**	**0.2**	-	-
Non-deductible interest	**19,130**	**0.1**	-	-
Non-deductible meals	**10,250**	**0.1**	-	-
Non-deductible car rental expenses	**6,365**	**0.0**		
Other – net	**6,839**	**0.0**	(4,787)	(0.0)
Provision for income taxes	**6,783,197**	**30.4**	5,619,728	31.3

As at November 30, 2010 there were approximately $6,706,035 of net allowable capital losses which may be applied against capital gains for future years and be carried forward indefinitely. The future income tax benefit of these capital losses has not been recognized. The Company also has non-capital losses carry-forwards of $11,268,131 which may be used to reduce future years' taxable income. The future income tax benefit of the non capital losses has been recognized.

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

	November 30, 2010	November 30, 2009
	$	$
Future income tax assets		
Non-capital loss carry-forward	**3,561,864**	3,596,837
Future income tax liabilities		
Capital assets	**(61,834)**	65,092
Intangible assets	**2,667,716**	1,769,701
	2,605,882	1,834,793

22. Earnings per share

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

	November 30, 2010	November 30, 2009
Weighted daily average number of common shares	**19,120,567**	19,120,567
Diluted effect of stock options	-	-
Weighted average number of diluted common shares	**19,120,567**	19,120,567

23. Statement of cash flows

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

	November 30, 2010	November 30, 2009
Accounts receivable	**(403,151)**	(609,278)
Income taxes receivable	**-**	184,134
Inventory	**72,429**	439,984
Franchise locations under construction held for resale	**184,959**	(105,019)
Loans receivable	**(356,842)**	(116,439)
Prepaid expenses	**(23,093)**	150,469
Deposits	**(45,291)**	-
Accounts payable and accrued liabilities	**2,043,636**	(1,524,991)
Income taxes payable	**720,101**	44,032
	2,192,748	(1,537,108)

Supplemental disclosure of cash flows

Income taxes paid	**5,466,254**	4,412,049
Income tax refund received	**266,569**	-

24. Comparative Figures

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

25. Subsequent Events

Subsequent to year-end, the Company acquired 51% of a food processing plant for approximately $3.6 million. The acquisition was completely financed by a bank loan.