Condensed interim consolidated financial statements of

MTY FOOD GROUP INC.

February 29, 2012

MTY FOOD GROUP INC.

Condensed interim consolidated statements of comprehensive income

three-month periods ended February 29, 2012 and February 28, 2011
(unaudited)
(in thousands of Canadian dollars except per share amounts)

Notice: The condensed interim consolidated financial statements of MTY Food Group Inc. for the three-month periods ended February 29, 2012 and February 28, 2011 have not been reviewed by an external auditor.

	February 29, 2012	February 28, 2011
	$	$
Revenue (Notes 23 and 31)	**21,945**	16,761
Expenses		
Operating expenses (Note 24)	**14,565**	11,468
Depreciation – property, plant and equipment	**295**	346
Amortization – intangible assets	**961**	760
Interest on long-term debt	**73**	37
	15,894	12,611
Other income		
Foreign exchange loss	(**40**)	(41)
Interest income	**50**	93
Gain on bargain purchase (Note 35)	**-**	140
Gain on disposal of assets	**102**	710
	112	902
Income before taxes	**6,163**	5,052
Income taxes (Note 30)		
Current	**2,030**	133
Deferred	**(206)**	1,140
	1,824	1,273
Net income and comprehensive income	**4,339**	**3,779**
Net income (loss) and comprehensive income (loss) attributable to:		
Owners	**4,392**	3,490
Non-controlling interest	**(53)**	289
	4,339	3,779
Earnings per share (Note 20)		
Basic	**0.23**	0.18
Diluted	**0.23**	0.18

See accompanying notes to condensed interim consolidated financial statements

MTY FOOD GROUP INC.

Condensed interim consolidated statements of financial position

as at February 29, 2012, November 30, 2011 and December 1, 2010
(unaudited)
(in thousands of Canadian dollars except per share amounts)

	February 29, 2012	November 30, 2011	December 1, 2010
	$	**$**	$
Assets			
Current assets			
Cash	**6,935**	5,995	5,637
Temporary investments (Note 7)	**9,154**	4,632	23,383
Accounts receivable (Note 9)	**9,598**	10,496	8,156
Income taxes receivable	**777**	1,419	-
Inventories (Note 8)	**1,614**	1,568	795
Loans receivable (Note 10)	**347**	414	336
Prepaid expenses and deposits	**414**	312	186
	28,839	24,836	38,493
Loans receivable (Note 10)	**732**	705	909
Other receivable	-	-	2,698
Property, plant and equipment (Note 11)	**9,837**	10,185	6,941
Intangible assets (Note 12)	**58,605**	59,566	36,208
Deferred income taxes (Note 30)	**77**	70	116
Goodwill (Note 13)	**20,266**	20,266	7,125
	118,356	115,628	92,490
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	**12,022**	13,540	10,992
Provisions (Note 15)	**1,067**	1,150	1,034
Income taxes payable	**-**	-	851
Deferred revenue and deposits (Note 16)	**2,841**	1,561	1,485
Current portion of long-term debt (Note 17)	**2,438**	1,665	1,873
	18,368	17,916	16,235
Deferred revenue and deposits (Note 16)	**-**	11	9
Long-term debt (Note 17)	**6,609**	7,343	853
Deferred income taxes (Note 30)	**1,982**	2,248	-
	26,959	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
Reserves	**481**	481	481
Retained earnings	**71,140**	67,800	55,048
	91,413	88,073	75,321
Equity attributable to non-controlling interest	**(16)**	37	72
	91,397	88,110	75,393
	118,356	115,628	92,490

See accompanying notes to condensed interim consolidated financial statements

Approved by the Board

*……."Stanley Ma"……………*Director   *…… "Claude St-Pierre"…..* Director

MTY FOOD GROUP INC.

Condensed interim consolidated statements of changes in shareholders' equity

three-month periods ended February 29, 2012 and February 28, 2011
(unaudited)
(in thousands of Canadian dollars except per share amounts)

	Equity attributable to owners				Equity attributable to non-controlling interest	Total
	Share capital	Reserves	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 three-month period ended February 28, 2011	-	-	3,490	3,490	289	3,779
Dividends	-	-	(860)	(860)	(15)	(875)
Balance as at February 28, 2011	19,792	481	57,678	77,951	346	78,297
Net income and comprehensive income for the nine-month period from March 1 2011 to November 30, 2011	-	-	12,704	12,704	37	12,741
Dividends	-	-	(2,582)	(2,582)	(346)	(2,928)
Balance as at November 30, 2011	19,792	481	67,800	88,073	37	88,110
Net income and comprehensive income	-	-	4,392	4,392	(53)	4,339
Dividends	-	-	(1,052)	(1,052)	-	(1,052)
Balance as at February 29, 2012	**19,792**	**481**	**71,140**	**91,413**	**(16)**	**91,397**

The following dividends were declared and paid by the Company:

	February 29, 2012	February 28, 2011
	$	$
$0.055 per common share (2011 - $0.045 per common share)	**1,052**	860

See accompanying notes to condensed interim consolidated financial statements

MTY FOOD GROUP INC.

Condensed interim consolidated statements of cash flows

three-month periods ended February 29, 2012 and February 28, 2011
(unaudited)
(in thousands of Canadian dollars except per share amounts)

	February 29, 2012	February 28, 2011
	$	$
Operating activities		
Net income and comprehensive income	**4,339**	3,779
Items not affecting cash:		
Interest on long-term debt	**73**	37
Depreciation – property, plant and equipment	**295**	346
Amortization – intangible assets	**961**	760
Gain on disposal of assets	**(102)**	(710)
Gain on bargain purchase	**-**	(140)
Income tax expense	**1,824**	1,273
Deferred revenue	**1,269**	(118)
	8,658	5,227
Income taxes paid	**(1,454)**	(2,251)
Interest paid	**(40)**	(26)
Changes in non-cash working capital items (Note 32)	**(811)**	(686)
Cash flows provided by operating activities	**6,353**	2,264
Investing activities		
Net cash outflow on acquisitions (Note 6)	**-**	(3,497)
Temporary investments	**(4,522)**	(2,067)
Additions to property, plant and equipment	**(46)**	(187)
Proceeds on disposal of assets	**201**	1,145
Cash flows (used in) provided by investing activities	**(4,367)**	(4,606)
Financing activities		
Issuance of long-term debt	**7**	3,500
Repayment of long-term debt	**(1)**	(203)
Dividends paid to non-controlling shareholders of subsidiaries	**-**	(15)
Dividends paid	**(1,052)**	(860)
Cash flows (used in) provided by financing activities	**(1,046)**	2,422
Net increase in cash	**940**	80
Cash, beginning of period	**5,995**	5,637
Cash, end of period	**6,935**	5,716

See accompanying notes to condensed interim consolidated financial statements

1. Description of the business

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

The address of its registered office is disclosed in the annual report.

2. Basis of preparation

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and temporary investments that have been measured at fair value. The condensed interim 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

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, which include interpretations as issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Standards ("IFRS") Interpretation Committee.

These are our first condensed interim consolidated financial statements prepared under IAS34, and IFRS 1 – First-time Adoption of IFRS has been applied. The condensed interim consolidated financial statements do not include all of the notes required in the annual financial statements.

An explanation of how the transition to IFRS has affected our reported financial position, financial performance and cash flows is provided in Note 35, Transition to IFRS.

These unaudited interim financial statements were authorized for issue by the Board of Directors on April 26, 2012, and they should be read in conjunction with the Company's annual financial statements for the year ended November 30, 2011, which were prepared under former Canadian GAAP.

3. Significant Accounting policies

Basis of consolidation

The condensed interim 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.

Income and expenses of subsidiaries acquired during the year are included in the condensed interim 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, income 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 condensed interim 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, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, 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.

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.

3. Significant accounting policies (continued)

Business combinations (continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation 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, 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.

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.

3. Significant accounting policies (continued)

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 condensed interim 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 of 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.

3. Significant accounting policies (continued)

Revenue recognition (continued)

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. 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, 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.

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; the Company’s policy is described below.

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

3. Significant accounting policies (continued)

Revenu recognition (continued)

ii. Revenue from distribution center

Distribution revenues are recognized when goods have been delivered and it is probable that the economic benefit associated with the transaction will flow to the Company.

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. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the condensed interim consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

3. Significant accounting policies (continued)

Leasing (continued)

The Company as lessee (continued)

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 retranslated 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

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 condensed interim 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.

3. Significant accounting policies (continued)

Taxation (continued)

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the condensed interim 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.

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.

3. Significant accounting policies (continued)

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 condensed interim 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, computer hardware and software 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 and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, 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
Computer software	Straight-line	3 to 5 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 life and amortization method are reviewed at the end of each reporting period, 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

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

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 minus impairment charges, 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.

An average remaining life of 10 years is used to amortize the franchise rights acquired through business combinations. Master franchise rights with an indefinite life are not amortized, while other master franchise rights are amortized over the life of the contracts they relate to.

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

3. Significant accounting policies (continued)

Intangible assets (continued)

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.

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 are being amortized over the remaining life of the contracts (three years at the date of acquisition).

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

3. Significant accounting policies (continued)

Intangible assets (continued)

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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Impairment of goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its 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.

Inventories

Inventories are measured at the lower of cost and net realisable 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 realisable value.

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

3. Significant accounting policies (continued)

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.

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.

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 in accordance with IAS 18 Revenue.

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.

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.

<u>Classification</u>

Cash	Loans and receivables
Temporary investments	Fair value through profit or loss
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 amortised 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.

3. Significant accounting policies (continued)

Financial assets (continued)

Effective interest method (continued)

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

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, bank balances and cash, and deposits) are measured at amortised 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.

3. Significant accounting policies (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For financial assets carried at amortised 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.

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 amortised 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 amortised cost would have been had the impairment not been recognized.

Derecognition of financial assets

The Company derecognises 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.

3. Significant accounting policies (continued)

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'.

Other financial liabilities

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

Derecognition of financial liabilities

The Company derecognises 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 notes 21 and 27.

3. Significant accounting policies (continued)

Derivative financial instruments(continued)

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 December 1, 2010, November 30, 2011 and February 29, 2012.

Promotional fund

The Company manages the promotional funds of its concepts. They are established specifically for each banner to collect and administer funds dedicated for use in advertising and promotional programs as well as some 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 $2,650 (November 30, 2011 - $2,902; December 1, 2010 - $2,556). These amounts are included in accounts payable and accrued liabilities.

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.

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

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 condensed interim 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, 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 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.

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

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 condensed interim 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. An impairment charge of $229 was recognized to reduce the value of the impaired assets at the date of transition. The impairment assessments were established using a 17% discount rate on the corporate store assets and 15% on the trademarks and franchise rights. No further impairment charges were required as at November 30, 2011 and February 29, 2012.

These calculations use 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.

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

Key sources of estimation uncertainty (continued)

Impairment of non-financial assets (continued)

A decrease in annual cash flows of 1% would result in an additional impairment of $0. Similarly, increasing the discount rate by 1% would result in an additional impairment of $4.

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 February 29, 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.

A decrease of 1% in cash flows or an increase of 1% of the discount rate would have resulted in no impairment of the Company's goodwill.

Useful lives of property, plant and equipment

As described at Note 3 above, the Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period and assesses whether the useful lives of certain items of equipment should be shortened or extended, due to various factors including technology, competition and revised service offerings. During Q1, 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.

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

Key sources of estimation uncertainty (continued)

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. Note 21 provides detailed information about the key assumptions used in the determination of the fair value 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 our business that could affect some of our operating segments. Pending litigations represent potential loss to our business.

We accrue potential losses if we 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. We estimate the amount of the loss by analyzing potential outcomes and assuming various litigation and settlement strategies.

(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 February 29, 2012, and have not been applied in preparing these condensed interim 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 structures 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) 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**

6. Business acquisitions (continued)

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

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.

During the first 15 months of operations following the acquisition, the business has generated $8,334 in revenues and $282 in pre-tax loss.

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)

II) 2011 acquisition

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

The preliminary purchase price allocation is as follows:

Net assets acquired:

Current assets	
Cash	**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**

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

6. Business acquisitions (continued)

II) 2011 acquisition (continued)

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.

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, 2011 to February 29, 2012, the business has generated $1,718 in revenues and $654 in pre-tax profits.

(in thousands of Canadian dollars except per share amounts)

6. Business acquisitions (continued)

III) 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 preliminary 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**

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

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.

(in thousands of Canadian dollars except per share amounts)

6. Business acquisitions (continued)

III) 2011 acquisition (continued)

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, 2011 to February 29, 2012, the business has generated $2,958 in revenues and $1,831 in pre-tax profits.

IV) 2011 acquisition

On November 10, 2011, the Company's wholly-owned subsidiary, MTY Tiki-Ming Enterprises Inc., acquired the assets of Koryo Korean BBQ Franchise Corp. for a total consideration of $1.8 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**

(in thousands of Canadian dollars except per share amounts)

6. Business acquisitions (continued)

IV) 2011 acquisition (continued)

The preliminary 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**

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

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

From November 1, 2011 to February 29, 2012, the business has generated $215 in revenues and $110 in pre-tax profits.

7. Temporary investments

Temporary investments are comprised of short-term notes and guaranteed investment certificates recorded at fair value. They have maturity dates between March 2012 and June 2012 and have rates of return between 1.02% and 1.62% (1.02% to 1.62% in November 2011; 0.82% to 1.45% on December 1, 2010). All investments had original maturities of 365 days or less.

(in thousands of Canadian dollars except per share amounts)

8. Inventories

	February 29, 2012	November 30, 2011	December 1, 2010
	$	$	$
Raw materials	**1,331**	1,348	646
Work in progress	**61**	27	149
Finished goods	**222**	193	-
Total inventories	**1,614**	1,568	795

Inventories are presented net of a $26 allowance for obsolescence. All of the inventories are expected to be sold within the next twelve months.

Inventories expensed during the three-month period ended February 29, 2012 were $6,025 respectively (2011 - $3,977).

9. 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:

	February 29, 2012	November 30, 2011	December 1, 2010
	$	$	$
Total accounts receivable	**10,638**	11,352	8,939
Less: Allowance for doubtful accounts	**1,040**	856	783
Total accounts receivable, net	**9,598**	10,496	8,156
Of which:			
Not past due	**7,216**	8,024	6,245
Past due for more than one day but for no more than 30 days	**559**	739	256
Past due for more than 31 days but for no more than 60 days	**229**	215	217
Past due for more than 61 days	**1,594**	1,518	1,438
Total accounts receivable, net	**9,598**	10,496	8,156
Allowance for doubtful accounts beginning of year	**856**	783	754
Additions	**223**	336	384
Write-off	**(39)**	(263)	(355)
Allowance for doubtful accounts end of year	**1,040**	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.

(in thousands of Canadian dollars except per share amounts)

9. Accounts receivable (continued)

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 were 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.

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:

	February 29, 2012	November 30, 2011	December 1, 2010
	$	$	$
Loans receivable, carrying no interest and without terms of repayment	**43**	45	-
Loans receivable bearing interest between nil and 10% per annum, receivable in monthly instalments of $25,101 in aggregate, including principal and interest, ending in April 2017	**1,036**	1,074	1,245
	1,079	1,119	1,245
Current portion	**(347)**	(414)	(336)
	732	705	909

The capital repayments in subsequent years will be:

	$
2013	**347**
2014	**241**
2015	**206**
2016	**106**
2017	**52**
Thereafter	**127**
	1,079

(in thousands of Canadian dollars except per share amounts)

11. Property, plant and equipment

Cost	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware and software	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	**-**	**5**	**-**	**16**	**27**	**-**	**48**
Disposals	**-**	**-**	**(7)**	**(98)**	**(5)**	**-**	**(110)**
Balance at February 29, 2012	**1,975**	**3,783**	**2,770**	**3,626**	**528**	**40**	**12,722**

(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 and software	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	435	100	12	1,233
Balance at November 30, 2011	-	167	1,462	732	216	22	2,599
Eliminated on disposal of assets	**-**	**-**	**(1)**	**(5)**	**(1)**	**-**	**(7)**
Depreciation expense	**-**	**44**	**90**	**130**	**27**	**3**	**295**
Balance at February29, 2012	**-**	**211**	**1,551**	**857**	**241**	**25**	**2,885**
Carrying amounts							
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
February 29, 2012	**1,975**	**3,572**	**1,219**	**2,769**	**287**	**16**	**9,837**

Land, buildings and equipment with a carrying amount of $3,206 as at February 29, 2012 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)]	Trade-marks	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, November 30, 2011 and February 29, 2012	**40,045**	**32,666**	**1,000**	**272**	**73,983**

Accumulated amortization	Franchise and master franchise rights	Trade-marks	Leases	Other	Total
	$	**$**	**$**	**$**	**$**
Balance at December 1, 2010	10,614	-	481	143	11,238
Amortization	2,941	-	147	91	3,179
Balance, November 30, 2011	13,555	-	628	234	14,417
Amortization	917	-	21	23	961
Balance, February 29, 2012	**14,472**	**-**	**649**	**257**	**15,378**
Carrying amounts					
December 1, 2010	20,761	14,799	519	129	36,208
November 30, 2011	26,490	32,666	372	38	59,566
February 29, 2012	**25,578**	**32,666**	**351**	**14**	**58,605**

(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.

(in thousands of Canadian dollars except per share amounts)

12. Intangible assets (continued)

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

	February 29, 2012	November 30, 2011	December 1, 2010
	$	$	$
Master franchise right – Taco Time	**1,500**	1,500	1,500
Trademark – La Crémière	**9**	9	9
Trademark – Croissant Plus	**125**	125	125
Trademark – Cultures	**500**	500	500
Trademark – Thai Express	**145**	145	145
Trademark – Mrs Vanelli's	**2,700**	2,700	2,700
Trademark – Sushi Shop	**1,600**	1,600	1,600
Trademark – Tutti Frutti	**1,100**	1,100	1,100
Trademark – Koya	**1,187**	1,187	1,187
Trademark – Country Style	**4,096**	4,096	4,096
Trademark – Valentine	**3,338**	3,338	3,338
Trademark – Jugo Juice	**5,425**	5,425	-
Trademark – Mr. Sub	**11,307**	11,307	-
Trademark – Koryo	**1,135**	1,135	-
	34,166	34,166	16,299

13. Goodwill

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

	February 29, 2012	November 30, 2011
	$	$
Balance, beginning of the year	**20,266**	7,125
Goodwill acquired during the year (Note 6)	**-**	11,691
Adjustment of purchase price following settlement of litigation (Note 6)	**-**	1,450
Balance, end of period	**20,266**	20,266

(in thousands of Canadian dollars except per share amounts)

13. Goodwill (continued)

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

	February 29, 2012	November 30, 2011	December 1, 2010
	$	$	$
Food processing plant	**200**	200	-
Valentine	**1,446**	1,446	1,446
Rest of franchising activities (1)	**18,620**	18,620	5,679
	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 component 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 Valentine and of the food processing plant, which operate relatively independently, goodwill will be tested as a whole, at the conglomerate level.

14. Bank indebtedness

As at February 29, 2012, 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 February 29, 2012) 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 operating line of credit is payable on demand and is renewable annually. As at February 29, 2012, the Company is in compliance with the facility's covenants.

(in thousands of Canadian dollars except per share amounts)

15. Provisions

Included in provisions are the following amounts:

	February 29, 2012	November 30, 2011	December 1, 2010
	$	$	$
Litigations and disputes	**100**	195	553
Closed stores	**236**	211	196
Gift card liabilities/ loyalty programs liabilities	**560**	493	239
Restructuring	**125**	205	-
Other	**46**	46	46
Total	**1,067**	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.

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 will be fully extinguished during 2012.

In the provisions above, no amounts were unused and reversed into income. The amounts used in the period include $258 of the provisions for litigation and disputes and closed stores; this amount was used for the settlement of litigation and for the termination of the lease of a closed store.

Additions during the period include $175 to the litigation and closed stores provisions. The provisions were increased to reflect new information available to management.

(in thousands of Canadian dollars except per share amounts)

16. Deferred revenue and deposits

	February 29, 2012	November 30, 2011	December 1, 2010
	$	$	$
Franchise fee deposits	**1,608**	1,023	904
Distribution rights and other allowances	**1,233**	549	590
	2,841	1,572	1,494
Current portion	**(2,841)**	(1,561)	(1,485)
	-	11	9

17. Long-term debt

	February 29, 2012	November 30, 2011	December 1, 2010
	$	$	$
Non-interest bearing holdbacks on acquisition	**-**	-	179
Non-interest bearing holdbacks on acquisition, repayable between March 2012 and September 2013	**902**	892	885
Non-interest bearing holdbacks on acquisition, repayable between February 2012 and August 2014	**1,676**	1,662	-
Non-interest bearing holdback on acquisition, repayable in November 2013	**2,310**	2,294	-
Non-interest bearing holdback on acquisition, repayable between March 2012 and November 2013	**349**	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

(in thousands of Canadian dollars except per share amounts)

17. Long-term debt (continued)

	February 29, 2012	November 30, 2011	December 1, 2010
	$	$	$
Bank loan 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 $24,305.56 plus interest. The first capital repayment is due in June 2012[i]. As of February 29, 2012, the bank's prime rate is 4%	**3,500**	3,500	-
Mandatorily redeemable preferred shares, non-cumulative, redeemable in three yearly installments beginning December 2011,with redemption value based on the performance of a subsidiary	**200**	200	-
Non-interest bearing loans from non-controlling shareholders of subsidiaries with no terms of repayment	**110**	110	283
	9,047	9,008	2,726
Current portion	**(2,438)**	(1,665)	(1,873)
	6,609	7,343	853

[i] This loan is subject to restrictive covenants that have to be respected by November 30, 2012. The requirements are to maintain certain working capital, interest coverage and debt to equity ratios. As of February 29, 2012, one of the covenants was not met.

18. Capital stock

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

	February 29, 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

(in thousands of Canadian dollars except per share amounts)

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 February 29, 2012. There are no options outstanding as at February 29, 2012.

20. Earnings per share

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

	February 29, 2012	February 28, 2011
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

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.

(in thousands of Canadian dollars except per share amounts)

21. Financial instruments (continued)

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:

	February 29, 2012		November 30, 2011		December 1, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	$	**$**	$	$	$	$
Financial assets						
Cash	**6,935**	**6,935**	5,995	5,995	5,637	5,637
Temporary investments	**9,154**	**9,154**	4,632	4,632	23,383	23,383
Accounts receivable	**9,598**	**9,598**	10,496	10,496	8,156	8,156
Loans receivable	**1,079**	**1,079**	1,119	1,119	1,245	1,245
Other receivable	**-**	**-**	-	-	2,698	N/A
Deposits	**414**	**414**	312	312	186	186
Financial liabilities						
Accounts payable and accrued liabilities	**12,022**	**12,022**	13,540	13,540	10,992	10,992
Long-term debt	**9,047**	**9,047**	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:

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 fair values, which are determined by quoted prices in active markets for identical securities.

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

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

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

21. Financial instruments (continued)

Determination of fair value (continued)

All financial instruments recognized at fair value on the consolidated condensed interim statement of financial position must be measured based on the three fair value hierarchy levels, which are as follows:

Level 1 - quote prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company considers that its temporary investments are classified as Level 1 under the fair value hierarchy.

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 February 29, 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 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.

21. Financial instruments (continued)

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 February 29, 2012, the total value of such contracts was approximately $1,593. Immediate liquidation of the contracts at February 29, 2012 would have resulted in a loss of $26.

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 February 29, 2012, the Company carried US$ cash of US$856 and had net accounts receivable of US$557. As a result, a 1% change in foreign exchange rates would result in a change net comprehensive income of $14 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 $35 per annum on the outstanding bank loan.

(in thousands of Canadian dollars except per share amounts)

21. Financial instruments (continued)

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 February 29, 2012:

	Carrying amount	Contractual cash flows	0 to 6 months	0 to 12 months	12 to 24 months
	$	**$**	**$**	**$**	**$**
Accounts payable and accrued liabilities	**12,022**	**12,022**	**11,765**	**257**	**-**
Long-term debt	**9,047**	**9,325**	**1,809**	**629**	**3,897**
Interest on long-term debt	**-**	**-**	**78**	**75**	**140**
	21,069	**21,347**	**13,652**	**961**	**4,037**

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 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.

(in thousands of Canadian dollars except per share amounts)

22. Capital disclosures (continued)

The Company monitors capital on the basis of the debt-to-equity ratio. The debt-to-equity ratios at February 29, 2012, November 30, 2011 and December 1, 2010 were as follows:

	February 29, 2012	November 30, 2011	December 1, 2010
	$	$	$
Debt	**26,959**	27,518	17,097
Equity	**91,397**	88,110	75,393
Debt-to-equity ratio	**0.29**	0.31	0.23

During the three-months ended February 29, 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 secure financing at a reasonable cost for future acquisitions.

As at February 29, 2012, the Company does not have any debt outstanding that is subject to its consolidated debt to equity ratio.

23. Revenues

The Company's revenues are made of the following major components:

	February 29, 2012	February 28, 2011
	$	$
Royalties	**8,156**	5,752
Initial franchise fees	**544**	448
Rent	**1,295**	1,455
Sale of goods, including construction revenues	**8,126**	6,336
Other	**3,824**	2,770
	21,945	16,761

(in thousands of Canadian dollars except per share amounts)

24. Operating expenses

Operating expenses are broken down as follows:

	February 29, 2012	February 28, 2011
	$	$
Cost of goods sold	**8,314**	6,566
Wages and benefits	**3,349**	2,427
Consulting and professional fees	**928**	761
Royalties	**201**	184
Other	**1,773**	1,530
	14,565	11,468

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 February 29, 2012, $125 remains in liabilities.

26. Operating lease arrangements

Operating leases 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.

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	**46,954**	**44,134**	**2,820**
2014	**44,235**	**41,520**	**2,715**
2015	**40,580**	**38,350**	**2,230**
2016	**36,250**	**34,296**	**1,954**
2017	**31,621**	**29,899**	**1,722**
Thereafter	**83,923**	**79,535**	**4,388**
	283,563	**267,734**	**15,829**

26. Operating lease arrangements (continued)

Payments recognized as an expense during the period amount to $1,928 (2011 - $1,878).

Operating leases 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 year and 15 years. None of the agreements contain clauses that would enable the lessee or sub-lessee to acquire the property.

During the period, the company has earned rental income of $1,295 (2011 - $1,455).

The Company has recognized a liability of $236 (November 30, 2011 - $211) for the leases of premises in which it no longer operates 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 March 2012 to December 2012. The total commitment amounts to approximately $1,474. Based on market rates at February 29, 2012, a loss of $65 would result from immediate liquidation of all contracts.

28. Guarantee

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

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.

(in thousands of Canadian dollars except per share amounts)

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:

	February 29, 2012		February 28, 2011	
	$	**%**	$	%
Combined income tax rate	**1,670**	**27.1**	1,455	28.8
Add effect of:				
Impact of disposition of capital property	**(28)**	**(0.4)**	(102)	(2.0)
Non-deductible items	**3**	**0.1**	4	0.1
Variation in tax reserves	**62**	**1.0**	(90)	(1.8)
Losses in a subsidiary for which no deferred income tax asset was recorded	**59**	**0.9**	-	-
Adjustment to 2011 provisions	**37**	**0.6**	-	-
Other – net	**21**	**0.3**	6	0.1
Provision for income taxes	**1,824**	**29.6**	1,273	25.2

As at February 29, 2012 there were approximately $6,706 of net allowable 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.

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

	February 29, 2012	November 30, 2011	December 1, 2010
	$	$	$
Deferred income tax assets			
Property, plant and equipment	**39**	41	(55)
Interest on holdbacks	**-**	-	(22)
Intangible assets	-	-	(3,305)
Financial statements reserves	**(12)**	(21)	(64)
Non-capital loss carry-forward	**50**	50	3,562
	77	70	116
Deferred income tax liabilities			
Property, plant and equipment	**388**	343	-
Interest on holdbacks	**76**	85	-
Intangible assets	**2,340**	2,258	-
Reserves	**(822)**	(438)	-
	1,982	2,248	-

30. Income taxes (continued)

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 $50 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.

During the first quarter, the Company revised an estimate used to calculate the provision for income taxes as at November 30, 2011. This change in estimate caused a charge of $64 to the Company's results during the quarter and resulted in a reduction of $555 to the income taxes receivable presented as at November 30, 2011, most of which was reallocated to deferred income taxes.

The Company currently has no contingencies related to disputes or unresolved issues with taxations authorities.

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.

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.

(in thousands of Canadian dollars except per share amounts)

31. Segmented information (continued)

Below is a summary of each segment`s performance during the period:

Three-month period ended February 29, 2012:

	Franchising	Corporate	Distribution	Processing	Inter-company	Total
	$	$	$	$	$	$
Operating revenues	**15,459**	**3,350**	**1,273**	**2,005**	**(142)**	**21,945**
Operating expenses	**8,079**	**3,441**	**1,214**	**1,973**	**(142)**	**14,565**
Operating margin	**7,380**	**(91)**	**59**	**32**	**-**	**7,380**
Other expenses						
Depreciation - property, plant and equipment	**165**	**72**	**2**	**56**	**-**	**295**
Amortization - intangible assets	**961**	**-**	**-**	**-**	**-**	**961**
Interest on long-term debt	**34**	**-**	**-**	**39**	**-**	**73**
Other income						
Foreign exchange loss	**(40)**	**-**	**-**	**-**	**-**	**(40)**
Interest income	**50**	**-**	**-**	**-**	**-**	**50**
Gain on disposal	**102**	**-**	**-**	**-**	**-**	**102**
Operating income	**6,332**	**(163)**	**57**	**(63)**	**-**	**6,163**
Current income taxes	**2,053**	**(39)**	**16**	**-**	**-**	**2,030**
Deferred income taxes	**(235)**	**-**	**-**	**29**	**-**	**(206)**
Net income and comprehensive income	**4,514**	**(124)**	**41**	**(92)**	**-**	**4,339**
Total assets	**109,343**	**3,012**	**754**	**5,247**	**-**	**118,356**
Total liabilities	**20,171**	**1,018**	**375**	**5,395**	**-**	**26,959**

(in thousands of Canadian dollars except per share amounts)

31. Segmented information (continued)

Three-month period ended February 28, 2011:

	Franchising	Corporate	Distribution	Processing	Inter-company	Total
	$	$	$	$	$	$
Operating revenues	12,063	2,497	1,177	1,024	-	16,761
Operating expenses	6,756	2,481	1,068	1,163	-	11,468
Operating margin	5,307	16	109	(139)	-	5,293
Other expenses						
Depreciation - property, plant and equipment	143	135	2	66	-	346
Amortization - intangible assets	760	-	-	-	-	760
Interest on long-term debt	11	-	-	26	-	37
Other income						
Foreign exchange (loss)	(41)	-	-	-	-	(41)
Interest income	93	-	-	-	-	93
Gain on disposal	710	-	-	-	-	710
Gain on bargain purchase	-	-	-	140	-	140
Operating income	5,155	(119)	107	(91)	-	5,052
Current income taxes	102	-	31	-	-	133
Deferred income taxes	1,201	(34)	-	(27)	-	1,140
Net income and comprehensive income	3,852	(85)	76	(64)	-	3,779
Total assets	88,735	4,552	590	4,543	-	98,420
Total liabilities	14,112	1,133	276	4,602	-	20,123

During the three-months ended February 29, 2012, one customer of the food processing segment accounted for 31% 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:

	February 29, 2012	February 28, 2011
	$	$
Accounts receivable	**898**	416
Inventories	**(46)**	(125)
Loans receivable	**40**	(59)
Prepaid expenses and deposits	**(102)**	(128)
Provisions	**(83)**	116
Accounts payable and accrued liabilities	**(1,518)**	(907)
	(811)	(686)

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:

	February 29, 2012	February 28, 2011
	$	$
Short-term benefits	**139**	138
Post-employment benefits, share-based payments and other long-term benefits	**-**	-
Total remuneration of key management personnel	**139**	138

Key management personnel is composed of the Company's CEO 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:

	February 29, 2012	February 28, 2011
	$	$
Short-term benefits	**98**	89
Post-employment benefits, share-based payments and other long-term benefits	-	-
Total remuneration of employees related to key management personnel	**98**	89

A corporation owned by individuals related to key management personal has participation in two of the Company's subsidiaries. During the period, dividends of nil (2011- nil) were paid by those subsidiaries to the above-mentioned company, and advances of nil (2011- nil) were repaid.

34. Subsequent event

On March 27, 2012 in its 2012 budget, the Ontario government announced a corporate income tax rate freeze at 11.5% until the province's budget is balanced. The previously announced corporate income tax rate reductions to 11% effective July 1, 2012 and 10% effective July 1, 2013 would resume at a later date. Management considers this corporate income tax rate not substantively enacted, based notably on the minority government in place.

35. Transition to IFRS

Our accounting policies presented in Note 3, Significant accounting policies, have been applied in preparing the consolidated condensed interim financial statements for the three months ended February 29, 2012, the comparative information for the period ended February 28, 2011, the year ended November 30, 2011 and the opening statement of financial position at December 1, 2010.

The Company has applied IFRS 1 – First time adoption of IFRS in preparing the condensed interim consolidated statement of financial position as at December 1, 2010. The effect of the transition to IFRS on equity and total comprehensive income are presented in this note. Prior to December 1, 2010, our consolidated financial statements were prepared in accordance with the previous Canadian GAAP.

35. Transition to IFRS (continued)

To prepare its opening balance consolidated statement of financial position under IFRS, the Company had to adjust amounts previously presented in its Canadian GAAP consolidated financial statements. Furthermore, the Company applied certain exemptions and exceptions available under IFRS 1 to prepare its opening consolidated statement of financial position.

The Company has applied all of the mandatory exceptions to full retrospective application as required under IFRS 1.

First-time adoption elections
In accordance with IFRS transitional provisions, the Company has applied the following transition optional exemptions to full retrospective application of IFRS:

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 payments retrospectively to transactions that occurred prior to transition date.

c. The Company has elected not to apply IAS 32 – Compound financial instruments retrospectively to transactions that occurred prior to transition date.

d. The Company has elected not to apply IAS 37 – Decommissioning liabilities retrospectively to transactions that occurred prior to transition date.

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.

(in thousands of Canadian dollars except per share amounts)

35. Transition to IFRS (continued)

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

	Notes	Canadian GAAP	Reclassi-fications	Adjustments	IFRS
		$	$	$	$
Assets					
Current assets					
Cash		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	bcd	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	adefg	2,606	(3,446)	840	-
		20,284	(3,446)	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
		76,269	-	(876)	75,393
		96,553	(3,446)	(617)	92,490

(in thousands of Canadian dollars except per share amounts)

35. Transition to IFRS (continued)

Reconciliation of the consolidated statement of financial position as at February 28, 2011

	Notes	Canadian GAAP	Reclassi-fications	Adjustments	IFRS
		$	$	$	$
Assets					
Current assets					
Cash		5,716	-	-	5,716
Temporary investments		25,450	-	-	25,450
Accounts receivable	a	7,412	-	328	7,740
Income taxes receivable		1,267	-	-	1,267
Inventories	a	1,070	189	-	1,259
Franchise locations under construction	a	378	(189)	(189)	-
Loans receivable		353	-	-	353
Prepaid expenses and deposits		344	-	-	344
Deferred income taxes		2,403	(2,403)	-	-
		44,393	(2,403)	139	42,129
Loans receivable		951	-	-	951
Other receivable		2,698	-	-	2,698
Property, plant and equipment	bcd	9,811	-	(86)	9,725
Intangible assets	de	35,506	-	(58)	35,448
Deferred income taxes		-	44	-	44
Goodwill		7,425	-	-	7,425
		100,783	(2,359)	(4)	98,420
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	a	11,274	(1,150)	139	10,263
Provision		-	1,150	-	1,150
Deferred revenue and deposits		1,371	-	-	1,371
Current portion of long-term debt		1,844	-	-	1,844
		14,489	-	139	14,628
Deferred revenue and deposits		5	-	-	5
Long-term debt	g	4,557	-	(68)	4,489
Deferred income taxes	cdefg	2,624	(2,359)	736	1,001
		21,675	(2,359)	807	20,123
Shareholders' equity					
Equity attributable to owners					
Capital stock		19,792	-	-	19,792
Contributed surplus		481	-	-	481
Retained earnings		58,532	-	(854)	57,678
		78,805		(854)	77,951
Equity attributable to non-controlling interest	c	302	-	44	346
		79,108	-	(810)	78,297
		100,783	(2,359)	(4)	98,420

(in thousands of Canadian dollars except per share amounts)

35. 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		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		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	cdefg	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
		88,911	-	(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)

35. 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 assets	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)

35. Transition to IFRS (continued)

Reconciliation of the consolidated statement of comprehensive income for the first quarter ended February 28, 2011

	Notes	Canadian GAAP	Reclassi-fications	Adjustments	IFRS
		$	$	$	$
Revenues	a	17,476	-	(715)	16,761
Expenses					
Operating expenses	a	12,043	-	(575)	11,468
Depreciation – property, plant and equipment	bc	348	-	(2)	346
Amortization – intangible assets		760	-	-	760
Interest on long-term debt	g	28	-	9	37
		13,179	-	(568)	12,611
Other income					
Gain (loss) on foreign exchange		(40)	(1)	-	(41)
Interest income		93	-	-	93
Gain on bargain purchase	c	-	-	140	140
Gain (loss) on disposal of assets	b	708	-	2	710
		761	(1)	142	902
Income before taxes		5,059	(1)	(5)	5,052
Income taxes					
Current		133	-	-	133
Deferred	f	1,221	-	(81)	1,140
		1,354	-	(81)	1,273
Net income and comprehensive income		3,705	(1)	76	3,779

Net income and comprehensive income attributable to:

	Canadian GAAP	Reclassi-fications	Adjustments	IFRS
Owners	3,468	(1)	23	3,490
Non-controlling interest	236	-	53	289
	3,705	(1)	76	3,779
Basic and diluted earnings per share (Note 20)	0.18			0.18

(in thousands of Canadian dollars except per share amounts)

35. Transition to IFRS (continued)

Notes to the reconciliation tables:

a. Franchise locations under construction held for resale

Under IAS 18, the Company is required to use the percentage of completion method to recognise 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

	February 28, 2011	November 30, 2011
	$ (3 months)	$
Change in revenues	(715)	(107)
Change in operating expenses	(575)	109
Change in income before taxes	(140)	(216)

Statement of financial position

	February 28, 2011	November 30, 2011	December 1, 2010
	$	$	$
Change in accounts receivable	328	947	579
Change in inventories	189	28	150
Change in franchise locations under construction held for resale	(378)	(1,202)	(1,091)
Change in accounts payable and accrued liabilities	139	(228)	(504)
Change in deferred income tax liability	-	-	39

(in thousands of Canadian dollars except per share amounts)

35. Transition to IFRS (continued)

b. Property, plant and equipment

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

Statement of comprehensive income

	February 28, 2011	November 30, 2011
	$ (3 months)	$
Change in depreciation expense	(4)	(34)
Change in gains/losses on disposals of assets	2	90
Change in income before taxes	6	124

Statement of financial position

	February 28, 2011	November 30, 2011	December 1, 2010
	$	$	$
Change in property, plant and equipment	(62)	32	(35)
Change in deferred income tax liability	(8)	(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

	February 28, 2011	November 30, 2011
	$ (3 months)	$
Gain on bargain purchase	140	140
Change in depreciation of property, plant and equipment	2	5
Change in income before taxes	138	135

(in thousands of Canadian dollars except per share amounts)

35. Transition to IFRS (continued)

Statement of financial position

	February 28, 2011	November 30, 2011	December 1, 2010
	$	$	$
Change in property, plant and equipment	138	135	-
Change in deferred income tax liability	30	28	-
Equity attributable to non-controlling interest	50	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

	February 28, 2011	November 30, 2011	December 1, 2010
	$	$	$
Change in property, plant and equipment	(162)	(162)	(162)
Change in intangible assets	(67)	(67)	(67)
Change in deferred income tax liability	(64)	(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 September 1, 2011 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

	February 28, 2011	November 30, 2011	December 1, 2010
	$	$	$
Change in intangible assets	9	9	9
Change in deferred income tax liability	2	2	2

(in thousands of Canadian dollars except per share amounts)

35. 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

	February 28, 2011 $ (3 months)	November 30, 2011 $
Deferred income taxes	(90)	(90)

Statement of financial position

	February 28, 2011 $	November 30, 2011 $	December 1, 2010 $
Change in goodwill	-	980	-
Change in deferred income tax liability	758	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

	February 28, 2011 $ (3 months)	November 30, 2011 $
Interests on long-term debt	9	63
Change in income before taxes	(9)	(63)

(in thousands of Canadian dollars except per share amounts)

35. Transition to IFRS (continued)

Statement of financial position

	February 28, 2011	November 30, 2011	December 1, 2010
	$	$	$
Change in goodwill	-	(223)	-
Change in long-term debt	(68)	(317)	(77)
Change in deferred income tax liability	19	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.