Condensed interim consolidated financial statements of

MTY FOOD GROUP INC.

For the six-month period ended May 31, 2012

MTY FOOD GROUP INC.

Condensed interim consolidated statements of comprehensive income

For the three and six-month periods ended May 31, 2012 and May 31, 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 six-month periods ended May 31, 2012 and May 31, 2011 have not been reviewed by an external auditor.

	Three months ended May 31, 2012	**Six months ended May 31, 2012**	Three months ended May 31, 2011	Six months ended May 31, 2011
	$	**$**	$	$
Revenue (Notes 15 and 22)	**23,689**	**45,634**	18,629	35,390
Expenses				
Operating expenses (Notes 16 and 22)	**15,057**	**29,622**	12,383	23,851
Depreciation – property, plant and equipment	**287**	**582**	360	706
Amortization – intangible assets	**974**	**1,935**	760	1,520
Restructuring	**-**	**-**	397	397
Interest on long-term debt	**101**	**174**	45	82
	16,419	**32,313**	13,945	26,556
Other income				
Foreign exchange gain (loss)	**44**	**4**	4	(37)
Interest income	**67**	**117**	89	182
Gain on bargain purchase (Note 25)	**-**	**-**	-	140
Gain (loss) on disposal of assets	**347**	**449**	(38)	672
	458	**570**	55	957
Income before taxes	**7,728**	**13,891**	4,739	9,791
Income taxes (Note 21)				
Current	**1,558**	**3,588**	181	314
Deferred	**903**	**698**	1,020	2,160
	2,461	**4,286**	1,201	2,474
Net income and comprehensive income	**5,267**	**9,605**	3,538	7,317
Net income (loss) and comprehensive income (loss) attributable to:				
Owners	**5,283**	**9,674**	3,583	7,073
Non-controlling interest	**(16)**	**(69)**	(45)	244
	5,267	**9,605**	3,538	7,317
Earnings per share (Note 14)				
Basic	0.28	0.51	0.19	0.37
Diluted	0.28	0.51	0.19	0.37

See accompanying notes to condensed interim consolidated financial statements

MTY FOOD GROUP INC.

Condensed interim consolidated statements of financial position

as at May 31, 2012 and November 30, 2011
(unaudited)
(in thousands of Canadian dollars except per share amounts)

	May 31, 2012	November 30, 2011
	$	$
Assets		
Current assets		
Cash	**9,115**	5,995
Temporary investments (Note 6)	**12,607**	4,632
Accounts receivable (Note 8)	**10,438**	10,496
Income taxes receivable	-	1,419
Inventories (Note 7)	**1,699**	1,568
Loans receivable (Note 9)	**412**	414
Prepaid expenses and deposits	**436**	312
	34,707	24,836
Loans receivable (Note 9)	**777**	705
Property, plant and equipment	**9,311**	10,185
Intangible assets (Note 10)	**58,131**	59,566
Deferred income taxes	**73**	70
Goodwill	**20,266**	20,266
	123,265	115,628
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**11,740**	13,540
Provisions (Note 12)	**1,237**	1,150
Income taxes payable	**657**	-
Deferred revenue and deposits	**3,063**	1,561
Current portion of long-term debt (Note 13)	**1,820**	1,665
	18,517	17,916
Deferred revenue and deposits	-	11
Long-term debt (Note 13)	**6,731**	7,343
Deferred income taxes	**2,430**	2,248
	27,678	27,518
Commitments, guarantee and contingent liabilities (Notes 17, 18, 19 and 20)		
Shareholders' equity		
Equity attributable to owners		
Capital stock	**19,792**	19,792
Reserves	**481**	481
Retained earnings	**75,371**	67,800
	95,644	88,073
Equity attributable to non-controlling interest	**(57)**	37
	95,587	88,110
	123,265	115,628

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

six-month periods ended May 31, 2012 and May 31, 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 six-month period ended May 31, 2011	-	-	7,073	7,073	244	7,317
Dividends	-	-	(1,721)	(1,721)	(336)	(2,057)
Balance as at May 31, 2011	19,792	481	60,400	80,673	(20)	80,653
Net income and comprehensive income for the six-month period from June 1 2011 to November 30, 2011	-	-	9,121	9,121	82	9,203
Dividends	-	-	(1,721)	(1,721)	(25)	(1,746)
Balance as at November 30, 2011	19,792	481	67,800	88,073	37	88,110
Net income and comprehensive income for the six-month period ended May 31, 2012	-	-	9,674	9,674	(69)	9,605
Dividends	-	-	(2,103)	(2,103)	(25)	(2,128)
Balance as at May 31, 2012	**19,792**	**481**	**75,371**	**95,644**	**(57)**	**95,587**

The following dividends were declared and paid by the Company:

	Six months ended May 31, 2012	Six months ended May 31, 2011
	$	$
$0.110 per common share (2011 - $0.090 per common share)	**2,103**	1,721

See accompanying notes to condensed interim consolidated financial statements

MTY FOOD GROUP INC.

Condensed interim consolidated statements of cash flows

three and six-month periods ended May 31, 2012 and May 31, 2011
(unaudited)
(in thousands of Canadian dollars except per share amounts)

	Three months ended May 31, 2012	**Six months ended May 31, 2012**	Three months ended May 31, 2011	Six months ended May 31, 2011
	$	$	$	$
Operating activities				
Net income and comprehensive income	**5,267**	**9,605**	3,538	7,317
Items not affecting cash:				
Interest on long-term debt	**101**	**174**	45	82
Depreciation – property, plant and equipment	**287**	**582**	360	706
Amortization – intangible assets	**974**	**1,935**	760	1,520
Loss (gain) on disposal of assets	**(347)**	**(449)**	38	(672)
Gain on bargain purchase	-	-	-	(140)
Income tax expense	**2,461**	**4,286**	1,201	2,474
Deferred revenue	**222**	**1,491**	(176)	(294)
	8,965	**17,624**	5,766	10,993
Income taxes paid	**(577)**	**(2,031)**	(1,107)	(3,358)
Interest paid	**(39)**	**(79)**	(37)	(63)
Changes in non-cash working capital items (Note 23)	**(1,168)**	**(1,980)**	(1,780)	(2,466)
Cash flows provided by operating activities	**7,181**	**13,534**	2,842	5,106
Investing activities				
Net cash outflow on acquisitions	-	-	-	(3,497)
Temporary investments	**(3,453)**	**(7,975)**	(4,021)	(6,088)
Additions to property, plant and equipment	**(25)**	**(71)**	(416)	(603)
Additions to intangibles	**(500)**	**(500)**	**-**	**-**
Proceeds on disposal of assets	**611**	**812**	(4)	1,141
Cash flows (used in) provided by investing activities	**(3,367)**	**(7,734)**	(4,441)	(9,047)
Financing activities				
Issuance of long-term debt	-	**7**	-	3,500
Repayment of long-term debt	**(558)**	**(559)**	(339)	(542)
Issuance of shares to non-controlling interest	-	-	25	25
Dividends paid to non-controlling shareholders of subsidiaries	**(25)**	**(25)**	(321)	(336)
Dividends paid	**(1,051)**	**(2,103)**	(860)	(1,721)
Cash flows (used in) provided by financing activities	**(1,634)**	**(2,680)**	(1,495)	926
Net increase (decrease) in cash	**2,180**	**3,120**	(3,094)	(3,015)
Cash, beginning of period	**6,935**	**5,995**	5,716	5,637
Cash, end of period	**9,115**	**9,115**	2,622	2,622

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 interim condensed financial statements do not include all of the information requested under IFRS for complete financial statements. They should therefore be read in conjunction with the Company`s annual consolidated financial statements for the year ended November 30, 2011, prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP), and with the Company's interim condensed consolidated financial statement for the first quarter ended February 29, 2012, prepared in accordance with IFRS. These financial statements are available on the SEDAR website at **www.sedar.com** and on the Company's website at **www.mtygroup.com**.

An explanation of how the transition to IFRS has affected our reported financial position, financial performance and cash flows is provided in Note 25, Transition to IFRS.

These unaudited interim financial statements were authorized for issue by the Board of Directors on July 3, 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. This is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company and liabilities incurred by the Company to the former owners of the acquiree in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

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

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

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

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

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

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 and the portion of the cash-generating unit retained.

Revenue recognition

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

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

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.

3. Significant accounting policies (continued)

Revenu recognition (continued)

i. Revenue from franchise locations (continued)

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

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

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

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.

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.

3. Significant accounting policies (continued)

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.

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.

3. Significant accounting policies (continued)

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.

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.

3. Significant accounting policies (continued)

Taxation (continued)

Deferred tax (continued)

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.

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.

3. Significant accounting policies (continued)

Property, plant and equipment (continued)

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

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.

3. Significant accounting policies (continued)

Intangible assets (continued)

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.

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.

3. Significant accounting policies (continued)

Intangible assets (continued)

Impairment of tangible and intangible assets other than goodwill (continued)

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.

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.

3. Significant accounting policies (continued)

Inventories

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

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

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

Provisions

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

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.

3. Significant accounting policies (continued)

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.

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

3. Significant accounting policies (continued)

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.

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.

3. Significant accounting policies (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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

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

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

For financial assets carried at 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.

3. Significant accounting policies (continued)

Financial assets (continued)

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.

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.

3. Significant accounting policies (continued)

Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to the volatility in the price of certain commodities and foreign exchange rate risks, including foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in note 18.

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 May 31, 2012 and November 30, 2011.

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 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 $2,156 (November 30, 2011 - $2,902). 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.

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.

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

Key sources of estimation uncertainty (continued)

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. Impairment assessments were established using a 17% discount rate on the corporate store assets and 15% on the trademarks and franchise rights. No impairment charges were required as at November 30, 2011 and May 31, 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 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 May 31, 2012 and November 30, 2011.

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

Useful lives of property, plant and equipment

As described in 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 Q2, the Company was not required to adjust the useful lives of any assets based on the factors described above.

Provisions

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

Valuation of financial instruments

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

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

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

Key sources of estimation uncertainty (continued)

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 litigations 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 May 31, 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 structured entities.

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

(in thousands of Canadian dollars except per share amounts)

5. Future accounting changes (continued)

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

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

6. Temporary investments

Temporary investments are comprised of short-term notes and guaranteed investment certificates recorded at fair value. They have maturity dates between June 2012 and August 2012 and have rates of return between 1.02% and 1.60% (1.02% to 1.62% in November 2011). All investments had original maturities of 365 days or less.

7. Inventories

	May 31, 2012	November 30, 2011
	$	$
Raw materials	**1,278**	1,348
Work in progress	**170**	27
Finished goods	**251**	193
Total inventories	**1,699**	1,568

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

Inventories expensed during the three and six-month periods ended May 31, 2012 were $6,110 and $12,135 respectively (2011 - $4,038 and $8,015).

(in thousands of Canadian dollars except per share amounts)

8. Accounts receivable

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

	May 31, 2012	November 30, 2011
	$	$
Total accounts receivable	**11,666**	11,352
Less: Allowance for doubtful accounts	**1,228**	856
Total accounts receivable, net	**10,438**	10,496
Of which:		
Not past due	**6,799**	8,024
Past due for more than one day but for no more than 30 days	**683**	739
Past due for more than 31 days but for no more than 60 days	**781**	215
Past due for more than 61 days	**2,175**	1,518
Total accounts receivable, net	**10,438**	10,496
Allowance for doubtful accounts beginning of year	**856**	783
Additions	**535**	336
Write-off	**(163)**	(263)
Allowance for doubtful accounts end of year	**1,228**	856

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

Trade receivables disclosed above include amounts that are past due at the end of the reporting period and for which the Company has not recognized an allowance for doubtful accounts because there 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.

(in thousands of Canadian dollars except per share amounts)

9. Loans receivable

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

	May 31, 2012	November 30, 2011
	$	$
Loans receivable, carrying no interest and without terms of repayment	**41**	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	**1,148**	1,074
	1,189	1,119
Current portion	**(412)**	(414)
	777	705

The capital repayments in subsequent years will be:

	$
2013	**412**
2014	**267**
2015	**218**
2016	**114**
2017	**60**
Thereafter	**118**
	1,189

(in thousands of Canadian dollars except per share amounts)

10. Intangible assets

The changes in the carrying amount of intangible assets are as follows:

	May 31, 2012	November 30, 2011
	$	$
Balance, beginning of the year	**59,566**	36,208
Acquisition of franchise rights from master franchisee	**500**	26,537
Amortization expense	**(1,935)**	(3,179)
Balance, end of period	**58,131**	59,566

11. Bank indebtedness

As at May 31, 2012, the Company has an authorized operating line of credit of $5,000. 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 May 31, 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 May 31, 2012, the Company is in compliance with the facility's covenants.

(in thousands of Canadian dollars except per share amounts)

12. Provisions

Included in provisions are the following amounts:

	May 31, 2012	November 30, 2011
	$	$
Litigations and disputes	150	195
Closed stores	405	211
Gift card liabilities/ loyalty programs liabilities	584	493
Restructuring	52	205
Other	46	46
Total	1,237	1,150

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, $25 was unused and reversed into income. The amounts used in the period include $280 of the provisions for restructuring and disputes and closed stores; this amount was used for the settlement of litigation and for the termination of the lease of a closed store.

Additions during the period include $454 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)

13. Long-term debt

	May 31, 2012	November 30, 2011
	$	$
Non-interest bearing holdbacks on acquisition, repayable September 2013	**350**	892
Non-interest bearing holdbacks on acquisition, repayable between February 2012 and August 2014	**1,696**	1,662
Non-interest bearing holdback on acquisition, repayable in November 2013	**2,346**	2,294
Non-interest bearing holdback on acquisition, repayable between June 2012 and November 2013	**349**	350
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 May 31, 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
	8,551	9,008
Current portion	**(1,820)**	(1,665)
	6,731	7,343

[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 May 31, 2012, one of the covenants was not met.

(in thousands of Canadian dollars except per share amounts)

14. 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:

	May 31, 2012	May 31, 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

15. Revenues

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

	Three months ended May 31, 2012	**Six months ended May 31, 2012**	Three months ended May 31, 2011	Six months ended May 31, 2011
	$	**$**	$	$
Royalties	**8,779**	**16,935**	6,166	11,918
Initial franchise fees	**138**	**682**	486	934
Rent	**1,290**	**2,585**	1,394	2,849
Sale of goods, including construction revenues	**7,928**	**16,054**	7,310	13,646
Other	**5,554**	**9,378**	3,273	6,043
	23,689	**45,634**	18,629	35,390

(in thousands of Canadian dollars except per share amounts)

16. Operating expenses

Operating expenses are broken down as follows:

	Three months ended May 31, 2012	**Six months ended May 31, 2012**	Three months ended May 31, 2011	Six months ended May 31, 2011
	$	$	$	$
Cost of goods sold	**8,762**	**17,076**	7,304	13,870
Wages and benefits	**3,421**	**6,770**	2,906	5,333
Consulting and professional fees	**702**	**1,630**	689	1,450
Royalties	**153**	**354**	189	373
Other	**2,019**	**3,792**	1,295	2,825
	15,057	**29,622**	12,383	23,851

17. 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	**47,254**	**44,639**	**2,615**
2014	**44,332**	**41,961**	**2,371**
2015	**40,784**	**38,760**	**2,024**
2016	**36,101**	**34,467**	**1,634**
2017	**31,673**	**30,363**	**1,310**
Thereafter	**81,355**	**79,256**	**2,099**
	281,499	**269,446**	**12,053**

17. Operating lease arrangements (continued)

Payments recognized as an expense during the three and six-month periods amount to $1,925 and $3,853 respectively (2011 - $1,727 and $3,605 respectively).

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 three and six-month periods, the company has earned rental income of $1,290 and $2,585 respectively (2011 - $1,394 and $2,849 respectively).

The Company has recognized a liability of $405 (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 12).

18. Commitments

The Company has entered into supplier agreements for purchases of coffee beans, wheat, sugar and shortening for delivery dates ranging from June 2012 to December 2012. The total commitment amounts to approximately $992. Based on market rates at May 31, 2012, a loss of $35 would result from immediate liquidation of all contracts.

19. Guarantee

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

20. 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 12. 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)

21. Income taxes

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

	May 31, 2012		May 31, 2011	
	$	**%**	$	%
Combined income tax rate	**3,737**	**26.9**	2,790	28.5
Add effect of:				
Impact of disposition of capital property	**(91)**	**(0.6)**	(96)	(1.0)
Non-deductible items	**11**	**0.1**	8	0.0
Variation in tax reserves	**132**	**1.0**	(146)	(1.5)
Losses in a subsidiary for which no deferred income tax asset was recorded	**61**	**0.4**	14	0.1
Change in applicable tax rate	**-**	**-**	(31)	(0.3)
Adjustment to prior year provisions	**448**	**3.2**	(38)	(0.4)
Other – net	**(12)**	**(0.1)**	(27)	(0.3)
Provision for income taxes	**4,286**	**30.9**	2,474	25.3

22. 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.

(in thousands of Canadian dollars except per share amounts)

22. Segmented information (continued)

Food processing operations

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

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

Six-month period ended May 31, 2012:

	Franchising	Corporate	Distribution	Processing	Inter-company	Total
	$	**$**	**$**	**$**	**$**	**$**
Operating revenues	32,055	7,030	2,716	4,034	(201)	45,634
Operating expenses	16,194	7,178	2,535	3,916	(201)	29,622
Operating margin	15,861	(148)	181	118	-	16,012
Other expenses						
Depreciation - property, plant and equipment	297	163	4	118	-	582
Amortization - intangible assets	1,935	-	-	-	-	1,935
Interest on long-term debt	95	-	-	79	-	174
Other income						
Foreign exchange loss	4	-	-	-	-	4
Interest income	117	-	-	-	-	117
Gain on disposal	449	-	-	-	-	449
Operating income	14,103	(311)	177	(78)	-	13,891
Current income taxes	3,601	(61)	48	-	-	3,588
Deferred income taxes	719	-	-	(21)	-	698
Net income and comprehensive income	9,783	(250)	129	(57)	-	9,605

(in thousands of Canadian dollars except per share amounts)

22. Segmented information (continued)

Six-month period ended May 31, 2011:

	Franchising	Corporate	Distribution	Processing	Inter-company	Total
	$	$	$	$	$	$
Operating revenues	25,304	4,928	2,772	2,765	(379)	35,390
Operating expenses	13,983	4,924	2,476	2,847	(379)	23,851
Operating margin	11,321	4	296	(82)	-	11,539
Other expenses						
Depreciation - property, plant and equipment	319	226	4	157	-	706
Amortization - intangible assets	1,520	-	-	-	-	1,520
Restructuring	397	-	-	-	-	397
Interest on long-term debt	-	1	-	81	-	82
Other income						
Foreign exchange (loss)	(37)	-	-	-	-	(37)
Interest income	182	-	-	-	-	182
Gain on bargain purchase	-	-	-	140	-	140
Gain on disposal	672	-	-	-	-	672
Operating income	9,902	(224)	292	(179)	-	9,791
Current income taxes	231	-	83	-	-	314
Deferred income taxes	2,275	(64)	-	(51)	-	2,160
Net income and comprehensive income	7,396	(160)	209	(128)		7,317

During the six-months ended May 31, 2012, one customer of the food processing segment accounted for 32% 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)

23. Statement of cash flows

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

	Three months ended May 31, 2012	**Six months ended May 31, 2012**	Three months ended May 31, 2011	Six months ended May 31, 2011
	$	$	$	$
Accounts receivable	**(840)**	**58**	(1,810)	(1,394)
Inventories	**(85)**	**(131)**	30	(95)
Loans receivable	**(110)**	**(70)**	138	79
Other receivable	**-**	**-**	205	205
Prepaid expenses and deposits	**(22)**	**(124)**	(8)	(136)
Provisions	**170**	**87**	(116)	-
Accounts payable and accrued liabilities	**(282)**	**(1,800)**	(218)	(1,125)
	(1,168)	**(1,980)**	(1,780)	(2,466)

24. 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:

	Three months ended May 31, 2012	**Six months ended May 31, 2012**	Three months ended May 31, 2011	Six months ended May 31, 2011
	$	**$**	$	$
Short-term benefits	161	300	161	299
Post-employment benefits, share-based payments and other long-term benefits	nil	nil	nil	nil
Total remuneration of key management personnel	161	300	161	299

Key management personnel are 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)

24. 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:

	Three months ended May 31, 2012	**Six months ended May 31, 2012**	Three months ended May 31, 2011	Six months ended May 31, 2011
	$	**$**	$	$
Short-term benefits	132	230	127	216
Post-employment benefits, share-based payments and other long-term benefits	nil	nil	nil	nil
Total remuneration of employees related to key management personnel	132	230	127	216

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- $140) were paid by those subsidiaries to the above-mentioned company, and advances of nil (2011- $78) were repaid.

25. 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 six months ended May 31, 2012, the comparative information for the period ended May 31, 2011, the year ended November 30, 2011 and the opening statement of financial position at December 1, 2010.

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)

25. Transition to IFRS (continued)

Reconciliation of the consolidated statement of financial position as at May 31, 2011

	Notes	Canadian GAAP	Reclassi-fications	Adjustments	IFRS
		$	$	$	$
Assets					
Current assets					
Cash		2,622	-	-	2,622
Temporary investments		29,471	-	-	29,471
Accounts receivable	a	8,910	-	640	9,550
Income taxes receivable		2,193	-	-	2,193
Inventories	a	1,178	52	-	1,230
Franchise locations under construction	a	1,031	(52)	(979)	-
Loans receivable		383	-	-	383
Prepaid expenses and deposits		352	-	-	352
Deferred income taxes		1,265	(1,265)	-	-
		47,405	(1,265)	(339)	45,801
Loans receivable		783	-	-	783
Property, plant and equipment	bcd	9,815	-	(66)	9,749
Intangible assets	de	34,746	-	(58)	34,688
Deferred income taxes		-	1,236	-	1,236
Goodwill		8,875	-	-	8,875
		101,625	(29)	(463)	101,132
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	a	11,417	(1,087)	(338)	9,992
Provision		-	1,087	-	1,087
Deferred revenue and deposits		1,193	-	-	1,193
Current portion of long-term debt		1,092	-	-	1,092
		13,703	-	(338)	13,364
Deferred revenue and deposits		8	-	-	8
Long-term debt	g	3,926	-	(57)	3,869
Deferred income taxes	cdefg	2,535	(29)	732	3,238
		20,171	(29)	337	20,479
Shareholders' equity					
Equity attributable to owners					
Capital stock		19,792	-	-	19,792
Contributed surplus		481	-	-	481
Retained earnings		61,226	-	(826)	60,400
		81,500		(826)	80,673
Equity attributable to non-controlling interest	c	(47)	-	27	(20)
		81,454	-	(800)	80,653
		101,625	(29)	(463)	101,132

(in thousands of Canadian dollars except per share amounts)

25. Transition to IFRS (continued)

Reconciliation of the consolidated statement of comprehensive income for the second quarter ended May 31, 2011:

	Notes	Canadian GAAP	Reclassi-fications	Adjustments	IFRS
		$	$	$	$
Revenues	a	18,356	-	273	18,629
Expenses					
Operating expenses	a	12,098	-	285	12,383
Depreciation – property, plant and equipment	bc	377	-	(17)	360
Amortization – intangible assets		760	-	-	760
Restructuring		397	-	-	397
Interest on long-term debt	g	35	-	10	45
		13,667	-	278	13,945
Other income					
Gain (loss) on foreign exchange		2	-	2	4
Interest income		90	-	(1)	89
Gain on bargain purchase	c	-	-	-	-
Gain (loss) on disposal of assets	b	(39)	-	1	(38)
		53	-	2	55
Income before taxes		4,741	-	(2)	4,739
Income taxes					
Current		181	-	-	181
Deferred	f	1,048	-	(28)	1,020
		1,229	-	(28)	1,201
Net income and comprehensive income		3,512	-	26	3,538
Net income and comprehensive income attributable to:					
Owners		3,555	-	28	3,583
Non-controlling interest		(43)	-	(2)	(45)
		3,512	-	26	3,538
Basic and diluted earnings per share (Note 14)		0.19			0.19

(in thousands of Canadian dollars except per share amounts)

25. Transition to IFRS (continued)

Reconciliation of the consolidated statement of comprehensive income for the six months ended May 31, 2011

	Notes	Canadian GAAP	Reclassi-fications	Adjustments	IFRS
		$	$	$	$
Revenues	a	35,832	-	(442)	35,390
Expenses					
Operating expenses	a	24,140	-	(289)	23,851
Depreciation – property, plant and equipment	bc	725	-	(19)	706
Amortization – intangible assets		1,520	-	-	1,520
Restructugin		397	-	-	397
Interest on long-term debt	g	63	-	19	82
		26,845	-	(289)	26,556
Other income					
Gain (loss) on foreign exchange		(37)	-	-	(37)
Interest income		182	-	-	182
Gain on bargain purchase	c	-	-	140	140
Gain (loss) on disposal of assets	b	669	-	3	672
		814	-	143	957
Income before taxes		9,800	-	(9)	9,791
Income taxes					
Current		314	-	-	314
Deferred	f	2,270	-	(110)	2,160
		2,584	-	(110)	2,474
Net income and comprehensive income		7,216	-	101	7,317
Net income and comprehensive income attributable to:					
Owners		7,023	-	50	7,073
Non-controlling interest		193	-	51	244
		7,216	-	101	7,317
Basic and diluted earnings per share (Note 14)		0.37			0.37

(in thousands of Canadian dollars except per share amounts)

25. 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

	May 31, 2011	May 31, 2011
	$	$
	(3 months)	(6 months)
Change in revenues	273	(442)
Change in operating expenses	285	(289)
Change in income before taxes	(12)	(153)

Statement of financial position

	May 31, 2011
	$
Change in accounts receivable	640
Change in inventories	52
Change in franchise locations under construction held for resale	(1,031)
Change in accounts payable and accrued liabilities	(338)

(in thousands of Canadian dollars except per share amounts)

25. 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

	May 31, 2011 $ (3 months)	May 31, 2011 $ (6 months)
Change in depreciation of property, plant and equipment	(19)	(23)
Change in gains (losses) on disposals of assets	1	3
Change in income before taxes	(18)	(20)

Statement of financial position

	May 31, 2011 $
Change in property, plant and equipment	(40)
Change in deferred income tax liability	(8)

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

	May 31, 2011 $ (3 months)	May 31, 2011 $ (6 months)
Gain on bargain purchase	-	140
Change in depreciation of property, plant and equipment	2	4
Change in income before taxes	(2)	136

(in thousands of Canadian dollars except per share amounts)

25. Transition to IFRS (continued)

Statement of financial position

	May 31, 2011
	$
Change in property, plant and equipment	136
Change in deferred income tax liability	29
Equity attributable to non-controlling interest	49

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

	May 31, 2011
	$
Change in property, plant and equipment	(162)
Change in intangible assets	(67)
Change in deferred income tax liability	(64)

e. Intangible assets

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

Statement of financial position

	May 31, 2011
	$
Change in intangible assets	9
Change in deferred income tax liability	2

(in thousands of Canadian dollars except per share amounts)

25. 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

	May 31, 2011 $ (3 months)	May 31, 2011 $ (6 months)
Change in deferred income taxes	-	(90)

Statement of financial position

	May 31, 2011 $
Change in deferred income tax liability	758

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

	May 31, 2011 $ (3 months)	May 31, 2011 $ (6 months)
Interests on long-term debt	10	19

25. Transition to IFRS (continued)

Statement of financial position

	May 31, 2011
	$
Change in long-term debt	(57)
Change in deferred income tax liability	16

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.