Condensed interim consolidated financial statements of

MTY FOOD GROUP INC.

For the six-month periods ended May 31, 2013 and May 31, 2012

MTY FOOD GROUP INC.

Condensed interim consolidated statements of comprehensive income

For the three and six-month periods ended May 31, 2013 and May 31, 2012
(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, 2013 and May 31, 2012 have not been reviewed by an external auditor.

	Three months ended May 31, 2013	**Six months ended May 31, 2013**	Three months ended May 31, 2012	Six months ended May 31, 2012
	$	**$**	**$**	$
Revenue (notes 14 and 21)	**25,342**	**47,970**	23,689	45,634
Expenses				
Operating expenses (notes 15 and 21)	**15,791**	**29,616**	15,057	29,622
Depreciation – property, plant and equipment	**256**	**509**	287	582
Amortization – intangible assets	**972**	**1,945**	974	1,935
Interest on long-term debt	**73**	**151**	101	174
	17,092	**32,221**	16,419	32,313
Other income (charges)				
Foreign exchange gain (loss)	**(9)**	**37**	44	4
Interest income	**123**	**266**	67	117
Gain on disposal of property, plant and equipment	**1**	**10**	347	449
	115	**313**	458	570
Income before taxes	**8,365**	**16,062**	7,728	13,891
Income taxes (note 20)				
Current	**2,162**	**4,319**	1,558	3,588
Deferred	**14**	**(61)**	903	698
	2,176	**4,258**	2,461	4,286
Net income and comprehensive income	**6,189**	**11,804**	5,267	9,605
Net income (loss) and comprehensive income (loss) attributable to:				
Owners	**6,250**	**11,885**	5,283	9,674
Non controlling interest	**(61)**	**(81)**	(16)	(69)
	6,189	**11,804**	5,267	9,605
Earnings per share (note 13)				
Basic	**0.33**	**0.62**	0.28	0.51
Diluted	**0.33**	**0.62**	0.28	0.51

See accompanying notes to the condensed interim consolidated financial statements

MTY FOOD GROUP INC.

Condensed interim consolidated statements of financial position

as at May 31, 2013 and November 30, 2012
(unaudited)
(in thousands of Canadian dollars except per share amounts)

	May 31, 2013	November 30, 2012
	$	$
Assets		
Current assets		
Cash and cash equivalents (note 5)	**38,038**	33,036
Accounts receivable (note 6)	**12,690**	13,631
Income taxes receivable	**238**	-
Inventories (note 7)	**1,516**	1,609
Loans receivable (note 8)	**269**	358
Prepaid expenses and deposits	**492**	338
	53,243	48,972
Loans receivable (note 8)	**825**	561
Property, plant and equipment	**9,760**	9,382
Intangible assets	**55,826**	57,213
Deferred income taxes	**158**	167
Goodwill	**20,397**	20,266
	140,209	136,561
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**10,487**	13,426
Provisions (note 10)	**2,304**	2,266
Income taxes payable	**-**	2,863
Deferred revenue and deposits (note 11)	**2,754**	2,169
Current portion of long-term debt (note 12)	**6,837**	7,199
	22,382	27,923
Long-term debt (note 12)	**385**	277
Deferred income taxes	**2,228**	2,298
	24,995	30,498
Commitments, guarantee and contingent liabilities (notes 16, 17, 18 and 19)		
Shareholders' equity		
Equity attributable to owners		
Capital stock	**19,792**	19,792
Contributed surplus	**481**	481
Retained earnings	**94,843**	85,635
	115,116	105,908
Equity attributable to non-controlling interest	**98**	155
	115,214	106,063
	140,209	136,561

See accompanying notes to the condensed interim consolidated financial statements

Approved by the Board on July 2, 2013

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

MTY FOOD GROUP INC.

Condensed interim consolidated statements of changes in shareholders' equity

For the six-month periods ended May 31, 2013 and May 31, 2012
(unaudited)
(in thousands of Canadian dollars except per share amounts)

	Equity attributable to owners				Equity attributable to non-controlling interest	Total
	Share capital	Contributed surplus	Retained earnings	Total		
	$	**$**	**$**	**$**	**$**	**$**
Balance as at 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
Net income and comprehensive income for the six-month period from June 1, 2012 to November 30, 2012	-	-	12,393	12,393	56	12,449
Investment in common stock of a subsidiary by non-controlling interest	-	-	-	-	147	147
Equity transaction with non-controlling interest	-	-	(26)	(26)	34	8
Dividends	-	-	(2,103)	(2,103)	(25)	(2,128)
Balance as at November 30, 2012	19,792	481	85,635	105,908	155	106,063
Net income and comprehensive income for the six-month period ended May 31, 2013	-	-	11,885	11,885	(81)	11,804
Investment in common stock of a subsidiary by non-controlling interest	-	-	-	-	49	49
Dividends	-	-	(2,677)	(2,677)	(25)	(2,702)
Balance as at May 31, 2013	**19,791**	**481**	**94,843**	**115,116**	**98**	**115,214**

The following dividends were declared and paid by the Company:

	May 31, 2013	May 31, 2012
	$	$
$0.140 per common share (2012 - $0.110 per common share)	**2,677**	2,103

See accompanying notes to the condensed interim consolidated financial statements

MTY FOOD GROUP INC.
Condensed interim consolidated statements of cash flows
For the three and six-month periods ended May 31, 2013 and May 31, 2012
(unaudited)
(in thousands of Canadian dollars except per share amounts)

	Three months ended May 31, 2013	**Six months ended May 31, 2013**	Three months ended, May 31, 2012	Six months ended, May 31, 2012
	$	**$**	$	$
Operating activities				
Net income and comprehensive income	**6,189**	**11,804**	5,267	9,605
Items not affecting cash:				
Interest on long-term debt	**73**	**151**	101	174
Depreciation – property, plant and equipment	**256**	**509**	287	582
Amortization – intangible assets	**972**	**1,945**	974	1,935
Gain on disposal of property, plant and equipment	**(1)**	**(10)**	(347)	(449)
Income tax expense	**2,176**	**4,258**	2,461	4,286
Deferred revenue	**(445)**	**585**	222	1,491
	9,220	**19,242**	8,965	17,624
Income tax refunds received	**25**	**427**	-	-
Income taxes paid	**(2,223)**	**(7,847)**	(577)	(2,031)
Interest paid	**(36)**	**(74)**	(39)	(79)
Changes in non-cash working capital items (note 22)	**(1,520)**	**(2,196)**	(1,168)	(1,980)
Cash flows provided by operating activities	**5,466**	**9,552**	7,181	13,534
Investing activities				
Net cash outflow on acquisitions	**(945)**	**(945)**	-	-
Temporary investments	**-**	**-**	(3,453)	(7,975)
Additions to property, plant and equipment	**(206)**	**(490)**	(25)	(71)
Additions to intangible assets	**(73)**	**(140)**	(500)	(500)
Proceeds on disposal of property, plant and equipment	**69**	**114**	611	812
Cash flows used in investing activities	**(1,155)**	**(1,461)**	(3,367)	(7,734)
Financing activities				
Issuance of long-term debt	**-**	**-**	-	7
Repayment of long-term debt	**(363)**	**(436)**	(558)	(559)
Issuance of shares to non-controlling interest of subsidiaries	**49**	**49**	-	-
Dividends paid to non-controlling shareholders of subsidiaries	**-**	**(25)**	(25)	(25)
Dividends paid	**(1,339)**	**(2,677)**	(1,051)	(2,103)
Cash flows used in financing activities	**(1,653)**	**(3,089)**	(1,634)	(2,680)
Net increase in cash and cash equivalents	**2,658**	**5,002**	2,180	3,120
Cash and cash equivalents, beginning of period	**35,380**	**33,036**	6,935	5,995
Cash and cash equivalents, end of period	**38,038**	**38,038**	9,115	9,115

See accompanying notes to the condensed interim consolidated financial statements

Table of Contents

1. DESCRIPTION OF THE BUSINESS 7
2. BASIS OF PREPARATION 7
3. FUTURE ACCOUNTING CHANGES 8
4. BUSINESS ACQUISITIONS 9
5. CASH AND CASH EQUIVALENTS 11
6. ACCOUNTS RECEIVABLE 11
7. INVENTORIES 12
8. LOANS RECEIVABLE 12
9. CREDIT FACILITIES 13
10. PROVISIONS 13
11. DEFERRED REVENUE AND DEPOSITS 14
12. LONG-TERM DEBT 15
13. EARNINGS PER SHARE 16
14. REVENUES 16
15. OPERATING EXPENSES 16
16. OPERATING LEASE ARRANGEMENTS 17
17. COMMITMENTS 17
18. GUARANTEE 17
19. CONTINGENT LIABILITIES 18
20. INCOME TAXES 18
21. SEGMENTED INFORMATION 18
22. STATEMENT OF CASH FLOWS 21
23. RELATED PARTY TRANSACTIONS 21
24. PROPOSED ACQUISITIONS 22

1. Description of the business

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

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

2. Basis of preparation

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments 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

The Company's condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and apply the same accounting policies as those described in the Company's annual consolidated financial statements for the year ended November 30, 2012, prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB").

These condensed interim consolidated financial statements do not include all of the information required under IFRS for complete financial statements and they should therefore be read in conjunction with the Company's annual consolidated financial statements for the year ended November 30, 2012. The Company's annual consolidated financial statements are available on the SEDAR website at www.sedar.com and on the Company's website at www.mtygroup.com.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on July 2, 2013.

Seasonality of interim operations

The operations of the Company can be seasonal and the results of operations for any interim period are not necessarily indicative of the results of operation for the full fiscal year or any future period.

(in thousands of Canadian dollars except per share amounts)

2. Basis of preparation (continued)

Estimates, judgments and assumptions

The preparation of the condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. These estimates and assumptions are based on historical experience, other relevant factors and expectations of the future and are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected. Actual results may differ from these estimates.

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty are as those applied and described in the Company's audited annual financial statements for the year ended November 30, 2012.

3. 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, 2013, and have not been applied in preparing these condensed interim consolidated financial statements.

The following standards may have a material impact on the condensed interim 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 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").

(in thousands of Canadian dollars except per share amounts)

3. Future accounting changes (continued)

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.

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

4. Business acquisitions

I) 2013 acquisition

On May 31, 2013, the Company's wholly-owned subsidiary, MTY Tiki-Ming Enterprises Inc., acquired most of the assets of Gestion SushiGo – Sesame Inc. (www.sushigoexpress.ca), 9161- 9379 Quebec Inc. and 9201-0560 Quebec Inc. for a total consideration of $1.05 million. The acquisition was effective on June 1, 2013. The purpose of the acquisition was to diversify the Company's range of offering as well as to complement existing MTY brands.

Consideration paid	**$**
Purchase price	**1,050**
Holdbacks	**105**
Net cash outflow	**945**

The preliminary purchase price allocation is as follows:

Net assets acquired:	**$**
Assets	
Plant, property and equipment	**500**
Franchise rights	**419**
Goodwill	**131**
Net purchase price	**1,050**

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

(in thousands of Canadian dollars except per share amounts)

4. Business acquisitions (continued)

II) 2012 acquisition

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

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

The preliminary purchase price allocation is as follows:

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

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

From September 26 to November 30, 2012, the business has generated $43 in revenues and $27 in pre-tax profits. Had the acquisition occurred December 1, 2011, interim consolidated revenues and pre-tax profits for the first six months of 2012 would have been $45,762 and $13,988 respectively.

(in thousands of Canadian dollars except per share amounts)

5. Cash and cash equivalents

	May 31, 2013	November 30, 2012
	$	$
Cash	**18,173**	13,345
Cash equivalents	**19,865**	19,691
Total cash and cash equivalents	**38,038**	33,036

6. 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, 2013	November 30, 2012
	$	$
Total accounts receivable	**14,298**	14,799
Less : Allowance for doubtful accounts	**1,608**	1,168
Total accounts receivable, net	**12,690**	13,631
Of which:		
Not past due	**8,023**	8,045
Past due for more than one day but for no more than 30 days	**974**	2,579
Past due for more than 31 days but for no more than 60 days	**621**	676
Past due for more than 61 days	**3,072**	2,331
Total accounts receivable, net	**12,690**	13,631
Allowance for doubtful accounts beginning of year	**1,168**	856
Additions	**631**	692
Write-off	**(191)**	(380)
Allowance for doubtful accounts end of period	**1,608**	1,168

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

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

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

(in thousands of Canadian dollars except per share amounts)

7. Inventories

	May 31, 2013	November 30, 2012
	$	$
Raw materials	**1,291**	1,363
Work in progress	**13**	34
Finished goods	**212**	212
Total inventories	**1,516**	1,609

Inventories are presented net of a $9 allowance for obsolescence ($11 as at November 30, 2012). 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, 2013 were $4,969 and $10,916 (2012 - $6,110 and $12,135).

8. 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, 2013	November 30, 2012
	$	$
Loans receivable, carrying no interest and without terms of repayment	**24**	31
Loans receivable bearing interest between nil and 10% per annum, receivable in monthly instalments of $28 in aggregate, including principal and interest, ending in April 2017	**1,070**	888
	1,094	919
Current portion	**(269)**	(358)
	825	561

The capital repayments in subsequent years will be:

	$
12 months ending May 2014	**269**
12 months ending May 2015	**337**
12 months ending May 2016	**192**
12 months ending May 2017	**155**
12 months ending May 2018	**93**
Thereafter	**48**
	1,094

(in thousands of Canadian dollars except per share amounts)

9. Credit facilities

As at May 31, 2013, the Company has access to an authorized revolving credit facility of $10,000 and a treasury risk facility of $1,000. Bank indebtedness's are secured by a moveable hypothec on all the assets of the Company.

The revolving credit facility bears interest at the bank's prime rate for advances in C$ (or the bank's U.S. base rate for advance in US$) plus a margin not exceeding 0.5% established based on the Company's funded debt/EBITDA ratio. As at May 31, 2013, the bank's prime rate was 3.00%.

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

Under the terms of the credit facilities, the Company must satisfy a funded debt to EBITDA ratio of 2 to 1 and a minimum interest coverage ratio of 4.5:1. The credit facility is payable on demand and is renewable annually. As at May 31, 2013, no amounts were drawn from the facilities and the Company is in compliance with the facility's covenants.

10. Provisions

Included in provisions are the following amounts:

	May 31, 2013	November 30, 2012
	$	$
Litigations and disputes	**600**	433
Closed stores	**697**	923
Gift card liabilities/loyalty programs liabilities	**1,007**	910
Total	**2,304**	2,266

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.

In the provisions above, $103 was unused and reversed into income. The amounts used in the period include $576 of the provisions for disputes and closed stores; this amount was used for the settlement of litigation and for the termination of the leases of closed stores.

(in thousands of Canadian dollars except per share amounts)

10. Provisions (continued)

Additions during the year include $717 to the litigation and closed stores provisions. The provisions were increased to reflect new information available to management.

11. Deferred revenue and deposits

	May 31, 2013	November 30, 2012
	$	$
Franchise fee deposits	**1,986**	1,825
Deferred landlord lease incentives	**65**	72
Supplier contributions and other allowances	**703**	272
	2,754	2,169
Current portion	**(2,754)**	(2,169)
	-	-

(in thousands of Canadian dollars except per share amounts)

12. Long-term debt

	May 31, 2013	November 30, 2012
	$	$
Non-interest bearing holdbacks on acquisition, repayable September 2013. The effective interest rate is 4.50%.	**359**	351
Non-interest bearing holdbacks on acquisition, repayable between June 2013 and August 2014. The effective interest rate is 4.50%.	**534**	810
Non-interest bearing holdback on acquisition, repayable in November 2013. The effective interest rate is 4.50%.	**2,454**	2,399
Non-interest bearing holdback on acquisition, repayable between June 2013 and November 2013	**248**	248
Non-interest bearing holdbacks on acquisition of Mr. Souvlaki, repayable September 2014	**165**	165
Non-interest bearing holdbacks on acquisition of SushiGo, repayable December 2014	**105**	-
Bank loan(i) bearing interest at the bank's prime plus 0.50%, secured by the property, plant and equipment of a subsidiary, repayable in fixed monthly capital repayments at $24 plus interest with a maturity date of November 1, 2015. As of May 31, 2013, the bank's prime rate is 4.50%	**3,257**	3,403
Mandatorily redeemable preferred shares, non-cumulative, redeemable in three yearly instalments beginning December 2011,with redemption value based on the performance of a subsidiary	**100**	100
	7,222	7,476
Current portion	**(6,837)**	(7,199)
	385	277

(i) This loan is subject to restrictive covenants that have to be respected as at May 31, 2013. The requirements are for a subsidiary of the corporation to maintain certain working capital, interest coverage and debt to equity ratios. As of May 31, 2013, two of the covenants were not met. As a result of the breach in covenant, the debt was classified as current on the consolidated statement of financial position.

(in thousands of Canadian dollars except per share amounts)

13. Earnings per share

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

	May 31, 2013	November 30, 2012
Weighted daily average number of common shares	**19,120,567**	19,120,567

14. Revenues

The Company's revenues include:

	Three months ended May 31, 2013	**Six months ended May 31, 2013**	Three months ended May 31, 2012	Six months ended May 31, 2012
	$	**$**	$	$
Royalties	**8,641**	**16,630**	8,779	16,935
Initial franchise fees	**793**	**1,964**	138	682
Rent	**1,323**	**2,675**	1,290	2,585
Sale of goods, including construction revenues	**9,545**	**17,424**	7,928	16,054
Other franchising revenue	**3,807**	**7,322**	3,655	7,127
Other	**1,233**	**1,955**	1,899	2,251
	25,342	**47,970**	23,689	45,634

15. Operating expenses

Operating expenses are broken down as follows:

	Three months ended May 31, 2013	**Six months ended May 31, 2013**	Three months ended May 31, 2012	Six months ended May 31, 2012
	$	**$**	$	$
Cost of goods sold and rent	**8,989**	**17,266**	8,762	17,076
Wages and benefits	**3,476**	**6,466**	3,421	6,770
Consulting and professional fees	**775**	**1,488**	702	1,630
Royalties	**217**	**415**	153	354
Other	**2,334**	**3,981**	2,019	3,792
	15,791	**29,616**	15,057	29,622

(in thousands of Canadian dollars except per share amounts)

16. Operating lease arrangements

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

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

	Lease commitments	Sub-leases	Net commitments
	$	$	$
12 months ending May 2014	**51,227**	**48,269**	**2,958**
12 months ending May 2015	**48,011**	**45,240**	**2,771**
12 months ending May 2016	**43,059**	**40,893**	**2,166**
12 months ending May 2017	**38,879**	**36,726**	**2,153**
12 months ending May 2018	**32,584**	**30,948**	**1,636**
Thereafter	**84,044**	**80,488**	**3,556**
	297,804	**282,564**	**15,240**

Payments recognized as a net expense during the three and six-month periods ended May 31, 2013 amount to $1,704 and $3,501 (2012 - $1,925 and $3,853 respectively).

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

During the three and six-month periods, the company has earned rental income of $1,323 and $2,675 (2012 - $1,290 and $2,585 respectively).

The Company has recognized a liability of $697 (November 30, 2012 - $923) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement (Note 10).

17. Commitments

The Company has entered into supplier agreements for purchases of coffee beans, wheat, sugar and shortening for delivery dates ranging from June 2013 to March 2014. The total commitment amounts to approximately $1,442.

18. Guarantee

The Company has provided a guarantee in the form of a letter of credit for an amount of $45 ($45 as at November 30, 2012).

(in thousands of Canadian dollars except per share amounts)

19. 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 10. The timing of the outflows, if any, is out of the control of the Company and is as a result undetermined at the moment.

20. 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, 2013		May 31, 2012	
	$	**%**	$	%
Combined income tax rate	**4,256**	**26.5**	3,737	26.9
Add effect of:				
Impact of disposition of capital property	**(1)**	**(0.0)**	(91)	(0.6)
Non-deductible items	**24**	**0.1**	11	0.1
Variation in tax reserves	**-**	**-**	132	1.0
Losses in a subsidiaries for which no deferred income tax asset was recorded	**77**	**0.5**	61	0.4
Amortization of accounting reserves	**(29)**	**(0.2)**	-	-
Adjustment to prior year provisions	**(78)**	**(0.5)**	448	3.2
Other – net	**9**	**0.0**	(12)	(0.1)
Provision for income taxes	**4,258**	**26.5**	4,286	30.9

21. Segmented information

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

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

Franchising operations

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

Corporate store operations

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

(in thousands of Canadian dollars except per share amounts)

21. Segmented information (continued)

Distribution operations

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

Food processing operations

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

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

For the six-month periods ended May 31, 2013:

	Franchising	Corporate	Distribution	Processing	Inter-company	Total
	$	**$**	**$**	**$**	**$**	**$**
Operating revenues	**35,516**	**5,521**	**2,752**	**4,564**	**(383)**	**47,970**
Operating expenses	**17,340**	**5,457**	**2,528**	**4,674**	**(383)**	**29,616**
	18,176	**64**	**224**	**(110)**	**-**	**18,354**
Other expenses						
Depreciation - property, plant and equipment	**199**	**205**	**1**	**104**	**-**	**509**
Amortization – intangible assets	**1,945**	**-**	**-**	**-**	**-**	**1,945**
Interest on long-term debt	**77**	**-**	**-**	**74**	**-**	**151**
Other income						
Foreign exchange gain	**38**	**-**	**-**	**(1)**	**-**	**37**
Interest income	**265**	**-**	**-**	**1**	**-**	**266**
Gain on disposal of property, plant and equipment	**10**	**-**	**-**	**-**	**-**	**10**
Operating income	**16,268**	**(141)**	**223**	**(288)**	**-**	**16,062**
Current income taxes	**4,298**	**(38)**	**59**	**-**	**-**	**4,319**
Deferred income taxes	**(61)**	**-**	**-**	**-**	**-**	**(61)**
Net income and comprehensive income	**12,031**	**(103)**	**164**	**(288)**	**-**	**11,804**

(in thousands of Canadian dollars except per share amounts)

21. Segmented information (continued)

For the six-month periods 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
	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 of property, plant and equipment	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

During the six-month periods ended May 31, 2013, three customers of the food processing segment respectively accounted for 22%, 21% and 16% 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)

22. Statement of cash flows

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

	Three months ended May 31, 2013	**Six months ended May 31, 2013**	Three months ended May 31, 2012	Six months ended May 31, 2012
	$	$	$	$
Accounts receivable	**(760)**	**941**	(840)	58
Inventories	**252**	**93**	(85)	(131)
Loans receivable	**(290)**	**(175)**	(110)	(70)
Prepaid expenses and deposits	**(52)**	**(154)**	(22)	(124)
Accounts payable and accrued liabilities	**(440)**	**(2,939)**	(282)	(1,800)
Provisions	**(230)**	**38**	170	87
	(1,520)	**2,196**	(1,168)	(1,980)

23. 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, 2013	**Six months ended May 31, 2013**	Three months ended May 31, 2012	Six months ended May 31, 2012
	$	**$**	$	$
Short-term benefits	**203**	**402**	161	300
Post-employment benefits, share-based payments and other long-term benefits	–	–	–	–
Board member fees	**9**	**20**	19	30
Total remuneration of key management personnel	**212**	**422**	180	330

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

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

(in thousands of Canadian dollars except per share amounts)

23. 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, 2013	**Six months ended May 31, 2013**	Three months ended May 31, 2012	Six months ended May 31, 2012
	$	**$**	$	$
Short-term benefits	**66**	**146**	132	230
Post-employment benefits, share-based payments and other long-term benefits	–	–	–	–
Total remuneration of individuals related to key management personnel	**66**	**146**	132	230

A corporation owned by individuals related to key management personnel has participation in two of the Company's subsidiaries. During the period ended May 31, 2013, dividends of nil (2012- nil) were paid by those subsidiaries to the above-mentioned company, and advances of nil (2012- nil) were repaid.

24. Proposed acquisitions

On May 28, 2013, the Company announced it had reached a binding agreement to acquire most of the assets of a group of companies who own and operate the Extreme Pita, PurBlendz and Mucho Burrito concepts ("Extreme Brandz") www.extremebrandz.com, for a total consideration of $45 million, to be funded from the Company's cash on hand and available line of credit. The Company expects it will complete the acquisition on or before September 17, 2013.

At the date of closing, Extreme Brandz is expected to have over 235 Extreme Pita and over 70 Mucho Burrito restaurants in operations in Canada and in the United States, of which two are corporately-owned for each brand. The PurBlendz concept, which is operated as an add-on to the Extreme Pita restaurants, is expected to be present in approximately 70 Extreme Pita restaurants at closing. System wide sales in Extreme Brandz' most recent completed fiscal period were over $103 million.

The acquisition remains subject to standard regulatory approvals and closing conditions.