Consolidated financial statements of

MTY FOOD GROUP INC.

February 28, 2010

MTY FOOD GROUP INC.
Consolidated statements of earnings and comprehensive income
For the three month period ended February 28, 2010
Unaudited

NOTICE: The consolidated financial statements of MTY Food Group Inc. for the three-month periods ended February 28, 2010 and 2009 have not been reviewed by an external auditor.

	February 28, 2010	February 28, 2009
	$	$
Revenue		
Franchise locations (Note 15)	**12,328,504**	7,833,306
Corporate owned locations	**1,985,049**	1,943,927
	14,313,553	9,777,233
Expenses		
Other operating expenses	**6,955,431**	3,874,119
Corporate owned locations	**1,834,871**	1,931,991
Amortization – capital assets	**289,111**	166,964
Amortization – intangible assets	**787,474**	690,506
	9,866,887	6,663,580
Other income		
Interest income	**33,341**	114,013
Loss on disposal of capital assets	**(93,161)**	(32,729)
	(59,820)	81,284
Income before income taxes and non-controlling interest	**4,386,846**	3,194,937
Income taxes (Note 19)		
Current	**1,223,669**	1,002,663
Future	**147,708**	(18,909)
	1,371,377	983,754
Income before non-controlling interest	**3,015,469**	2,211,183
Non-controlling interest	**(11,874)**	(11,657)
Net income and comprehensive income	**3,003,595**	2,199,526
Earnings per share (Note 20)		
Basic	**0.16**	0.12
Fully diluted	**0.16**	0.12

See accompanying notes

MTY FOOD GROUP INC.
Consolidated statements of retained earnings
for the three month period ended February 28, 2010
unaudited

	February 28, 2010	February 28, 2009
	$	$
Balance, beginning of year	**41,338,029**	29,076,526
Net income	**3,003,595**	2,199,526
Balance, end of year	**44,341,624**	31,276,052

See accompanying notes

MTY FOOD GROUP INC.
Consolidated balance sheets
as at February 28, 2010

	February 28, 2010 unaudited	November 30, 2009 audited
	$	$
Assets		
Current assets		
Cash	**7,332,397**	1,245,844
Temporary investments (Note 4)	**12,962,982**	14,631,473
Accounts receivable	**6,677,326**	6,675,037
Income taxes receivable	**66,169**	-
Inventory	**368,288**	392,995
Franchise locations under construction held for resale	**891,993**	1,005,816
Loans receivable (Note 5)	**127,451**	153,643
Prepaid expenses	**126,332**	91,210
Deposits	**56,700**	-
Future income taxes	**1,112,274**	1,272,003
	29,721,912	25,468,021
Loans receivable (Note 5)	**371,630**	383,771
Other receivable (Note 3)	**2,697,762**	2,697,762
Capital assets (Note 6)	**3,209,644**	3,734,657
Intangible assets (Note 7)	**34,304,691**	35,092,165
Goodwill	**6,834,249**	6,834,249
Future income taxes	**2,220,718**	2,324,834
	79,360,606	76,535,459
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**9,654,753**	9,293,003
Income taxes payable	**-**	44,032
Deferred revenue (Note 9)	**1,294,308**	1,593,704
Current portion of long-term debt (Note 10)	**1,432,684**	1,435,859
	12,381,745	12,366,598
Deferred revenue (Note 9)	**23,586**	82,918
Long-term debt (Note 10)	**545,518**	545,518
Future income taxes (Note 19)	**1,718,656**	1,834,793
Non-controlling interest	**75,689**	93,815
	14,745,194	14,923,642
Commitments and contingent liability (Notes 16, 17 and 18)		
Shareholders' equity		
Capital stock (Note 11)	**19,792,468**	19,792,468
Contributed surplus	**481,320**	481,320
Retained earnings	**44,341,624**	41,338,029
	64,615,412	61,611,817
	79,360,606	76,535,459

See accompanying notes

Approved by the Board

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

MTY FOOD GROUP INC.

Consolidated statements of cash flows

for the three month period ended February 28, 2010

unaudited

	February 28, 2010	February 28, 2009
	$	$
Operating activities		
Net income	**3,003,595**	2,199,526
Items not affecting cash:		
Amortization – capital assets	**289,111**	166,964
Amortization – intangible assets	**787,474**	690,506
Deferred revenue	**(358,728)**	82,055
Non-controlling interest	**11,874**	11,657
Dividends paid to non-controlling shareholders of subsidiaries	**(30,000)**	(30,000)
Loss on disposal of capital assets	**93,161**	32,729
Future income taxes	**147,708**	(18,909)
Changes in non-cash working capital items (Note 21)	**334,301**	(1,795,864)
Cash flows provided by operating activities	**4,278,496**	1,338,664
Investing activities		
Temporary investments	**1,668,491**	(1,586,604)
Additions to capital assets	**(162,259)**	(76,112)
Proceeds on disposal of capital assets	**305,000**	30,000
Cash flows provided by (used in) investing activities	**1,811,232**	(1,632,716)
Financing activities		
Repayment of long-term debt	**(3,175)**	-
Cash flows used in financing activities	**(3,175)**	-
Net increase (decrease) in cash	**6,086,553**	(294,052)
Cash, beginning of year	**1,245,844**	819,349
Cash, end of period	**7,332,397**	525,297

See accompanying notes

1. Description of the business

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

During the first quarter, the company has opened 34 stores, bringing the total number of stores to 1,597. Of this number, 21 were corporate stores at the end of period.

2. Accounting policies

a) Basis of consolidation

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) on a basis consistent with those followed in the most recent audited financial statements. These interim consolidated financial statements do not include all of the information and notes required by GAAP for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes included in the Company’s audited financial statements for the year ended November 30, 2009.

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

The consolidated financial statements must include the variable interest entities (“VIEs”). VIEs are entities in which equity investors do not have controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties. VIEs are consolidated by its primary beneficiary (i.e., the party that receives the majority of the expected residual returns and/or absorbs the majority of the entity’s losses). Management of the Company conducted a review of the ownership and contractual interest in entities and determined that no VIEs exist as of February 28, 2010.

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

b) Use of estimates

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

2. Accounting policies (cont.)

b) Use of estimates (cont.)

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

c) Inventory

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

d) Franchise locations under construction held for resale

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

e) Capital assets

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

Equipment	diminishing balance	20%
Computer hardware	diminishing balance	30%
Computer software	diminishing balance	50%
Leasehold improvements	straight-line	term of leases
Rolling stock	diminishing balance	30%

f) Goodwill

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

2. Accounting policies (cont.)

g) Intangible assets

Franchise rights

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

Trademarks

Trademarks represent the cost incurred to operate under a trade name and are not amortized as they have an indefinite life. They are tested annually for impairment or more frequently when events or circumstances indicate that the trademarks might be impaired. The impairment test compares the carrying amount of the trademarks with their fair market value.

Leases

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

Other

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

h) Impairment of long-lived assets

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

2. Accounting policies (cont.)

i) Revenue recognition

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

i. Revenue from franchise locations

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

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

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

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

ii. Revenue from corporate-owned locations

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

j) Foreign currency

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

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

k) Income taxes

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

2. Accounting policies (cont.)

l) Financial instruments

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

Classification

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

Held for trading

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

Loans and receivables

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

Other liabilities

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

Effective interest method

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

Embedded derivatives

An embedded derivative is a component of a contract with characteristics similar to a derivative. Management of the Company conducted a review of its contracts and determined that no embedded derivatives exist as at February 28, 2010.

2. Accounting policies (cont.)

m) Future accounting policies

i. International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board (AcSB) confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. For the Company, the conversion to IFRS will be required for interim and annual financial statements for the year ending November 30, 2012. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. The Company is currently preparing its IFRS conversion plan. The plan will be aimed in particular at identifying the differences between IFRS and the Company's accounting policies, assessing their impact and, where necessary, analyzing the various policies that the Company could elect to adopt.

ii. Business Combinations

In January 2009, the CICA issued Section 1582, "Business Combinations", which supersedes Section 1581, "Business Combinations". The Section establishes standards for the accounting for a business combination. This Section applies prospectively to business combinations for which the acquisition date is on or after October 1, 2011.

3. Business acquisitions

I) 2009 acquisition

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

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

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

Net assets acquired:	
Current Assets	
Cash	127,381
Accounts receivable	2,039,936
Inventory	368,768
Franchise locations under construction held for resale	627,542
Prepaid expenses	196,000
Future income taxes	1,290,000
	4,649,627
Future income taxes	3,303,000
Property, plant and equipment	1,584,724
Franchise rights	1,016,000
Trademarks	4,096,000
Distribution agreements	272,000
Goodwill (not tax deductable)	2,860,000
	17,781,351
Current Liabilities	
Accounts payable and accrued liabilities	3,970,787
Total purchase price	13,810,564

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

4. Temporary investments

Temporary investments are comprised of short-term notes valued at fair value. They have maturity dates between May 2010 and January 2011 and have rates of return between 0.53% and 0.80% (0.35% to 1.01% in November 2009).

5. Loans receivable

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

	February 28, 2010	November 30, 2009
	$	$
Loan receivable bearing interest between nil and 9% per annum, receivable in monthly instalments of $12,061 in aggregate, including principal and interest, ending in November 2015	**499,081**	537,414
	499,081	537,414
Current portion	**(127,451)**	(153,643)
	371,630	383,771

The capital repayments in subsequent years will be:

	$
12 months ending February 2011	**127,451**
12 months ending February 2012	**120,243**
12 months ending February 2013	**109,530**
12 months ending February 2014	**90,658**
12 months ending February 2015	**44,153**
Thereafter	**7,046**
	499,081

6. Capital assets

	February 28, 2010		
	Cost	Accumulated amortization	Net book value
	$	$	$
Corporate-owned locations	**3,169,654**	**1,390,998**	**1,778,656**
Equipment	**342,361**	**114,822**	**227,539**
Computer hardware	**260,810**	**170,848**	**89,962**
Computer software	**110,362**	**80,132**	**30,230**
Leasehold improvements	**1,495,517**	**429,670**	**1,065,847**
Rolling stock	**24,119**	**6,709**	**17,410**
	5,402,823	**2,193,179**	**3,209,644**

	November 30, 2009		
	Cost	Accumulated amortization	Net book value
	$	**$**	**$**
Corporate-owned locations	3,750,035	1,565,653	2,184,382
Equipment	340,962	103,635	237,327
Computer hardware	252,975	162,928	90,047
Computer software	109,164	75,899	33,265
Leasehold improvements	1,469,000	298,187	1,170,813
Rolling stock	24,119	5,296	18,823
	5,946,255	2,211,598	3,734,657

Corporate-owned locations are comprised of equipment, leasehold improvements and computer equipment having costs of $1,255,724 ($1,426,763 in November 2009), $1,841,930 ($2,226,297 in November 2009) and $72,000 ($96,975 in November 2009), respectively and net book values of $661,864 ($728,285 in November 2009), $1,089,360 ($1,414,946 in November 2009) and $27,432 ($41,151 in November 2009) respectively.

7. Intangible assets

	February 28, 2010		
	Cost	Accumulated amortization	Net book value
	$	**$**	**$**
Franchise and master franchise rights[(1)]	**30,514,834**	**8,555,694**	**21,959,140**
Trademarks	**11,518,960**	**-**	**11,518,960**
Leases	**1,000,000**	**369,849**	**630,151**
Other	**504,725**	**308,285**	**196,440**
	43,538,519	**9,233,828**	**34,304,691**

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

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

8. Bank indebtedness

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 (2.25% on February 28, 2010) plus 1.00%. As at February 28, 2010, the Company has an authorized operating line of credit of $5,000,000. Under the terms of the line of credit, the Company must satisfy a funded debt to EBITDA ratio of 1 to 1, a current ratio of 1.45 to 1, and a debt service coverage ratio of 1.8 to 1. The company is in compliance with all these ratios. The operating line of credit is payable on demand and is renewable annually.

9. Deferred revenue and deposits

	February 28, 2010	November 30, 2009
	$	$
Franchise fee deposits	**967,000**	1,241,500
Distribution rights	**350,894**	435,122
	1,317,894	1,676,622
Current portion	**(1,294,308)**	(1,593,704)
	23,586	82,918

10. Long-term debt

	February 28, 2010	November 30, 2009
	$	$
Non-interest bearing holdbacks on acquisition, repayable in semi-annual instalments of $100,000 ending 2010	**186,420**	189,415
Non-interest bearing holdbacks and withholding taxes on the acquisition of Country Style Food Services Holdings Inc., repayable at various dates, due no later than 2011.	**1,587,962**	1,587,962
Non-interest bearing loans from non-controlling shareholders of subsidiary with no terms of repayment	**204,000**	204,000
	1,978,202	1,981,377
Current portion	**(1,432,684)**	(1,435,859)
	545,518	545,518

10. Long-term debt (cont.)

The aggregate repayments in subsequent years of existing long-term debt will be:

	$
12 months ending February 2011	**1,432,684**
12 months ending February 2012	**545,518**
	1,978,202

11. Capital stock

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

	February 28, 2010		November 30, 2009	
	Number	Amount	Number	Amount
		$		$
Balance, beginning and end of period	**19,120,567**	**19,792,468**	19,120,567	19,792,468

12. Stock options

Under various plans, the Company may grant stock options on the common shares at the discretion of the Board of Directors, to senior executives, directors and certain key employees. Of the 3,000,000 common shares initially reserved for issuance, 699,500 were available for issuance under the share option plan as at February 28, 2010. There are no options outstanding as at February 28, 2010.

13. Financial instruments

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

Fair value of recognized financial instruments

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

	February 28, 2010		November 30, 2009	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Financial assets				
Cash	**7,332,397**	**7,332,397**	1,245,844	1,245,844
Temporary investments	**12,962,982**	**12,962,982**	14,631,473	14,631,473
Accounts receivable	**6,677,326**	**6,677,329**	6,675,037	6,675,037
Loans receivable	**499,081**	**499,081**	537,414	537,414
Deposits	**56,700**	**56,700**	-	-
Financial liabilities				
Accounts payable and accrued liabilities	**9,654,753**	**9,654,753**	9,293,003	9,293,003
Long-term debt	**1,978,202**	**1,974,389**	1,981,377	1,977,559

Determination of fair value

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

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

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

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

Long-term debt - The fair value of long-term debt is determined using the present value of future cash flows under current financing agreements based on the Company's current rate of return on its treasury bank accounts.

13. Financial instruments (cont.)

Risk management policies

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at the balance sheet date of November 30, 2009.

Credit risk

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

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

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

	February 28, 2010	November 30, 2009
	$	$
Total accounts receivable	7,592,801	7,429,147
Less: Allowance for doubtful accounts	915,475	754,110
Total accounts receivable, net	6,677,326	6,675,037
Of which:		
Not past due	3,880,772	5,003,899
Past due for more than one day but for no more than 30 days	548,621	147,782
Past due for more than 31 days but for no more than 60 days	618,478	616,139
Past due for more than 61 days	1,629,455	907,217
Total accounts receivable, net	6,677,326	6,675,037
Allowance for doubtful accounts beginning of year	754,110	648,934
Additions	195,168	443,939
Acquisition	-	115,107
Write-off	(33,803)	(453,870)
Allowance for doubtful accounts end of year	915,475	754,110

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

13. Financial instruments (cont.)

Foreign exchange risk

The Company has minimal exposure to the US$ and is subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in the currency. The Company considers this risk to be relatively limited and therefore does not hedge its foreign exchange risk.

Interest rate risk

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

Liquidity risk

The Company actively maintains credit facilities to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

The following are the contractual maturities of financial liabilities as at February 28, 2010:

	Carrying Amount	Contractual Cash Flows	0 to 6 Months	6 to 12 Months	12 to 24 Months
	$	$	$	$	$
Accounts payable and accrued liabilities	9,654,753	9,654,753	9,654,753	-	-
Long-term debt	1,978,202	1,978,202	1,139,269	293,415	545,518
	11,632,955	11,632,955	10,794,022	293,415	545,518

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

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

14. Capital Disclosures

The Company's objectives when managing capital are:

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

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

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

The Company monitors capital on the basis of the debt-to-equity ratio. The debt-to-equity ratios at February 28, 2010 and November 30, 2009 were as follows:

	February 28, 2010	November 30, 2009
	$	$
Debt	**14,669,505**	14,829,827
Equity	**64,615,412**	61,611,817
Debt-to-equity ratio	**0.23**	0.24

The decrease is due to the positive cash flows generated by the company's operations. The Company intends to continue to reduce its total debt with the positive cash flows generated from its operations. Maintaining a low debt-to-equity ratio is a priority in order to permit the Company to secure financing at a reasonable cost for future acquisitions.

15. Franchise fees

Included in revenue from franchise locations are initial franchise fees in the amount of $545,730. ($275,340 in 2009).

16. Commitments

The Company has entered into various long-term leases and has sub-leased substantially all of the premises based on the same terms and conditions as the original lease to unrelated franchises. 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 February 2011	**32,165,683**	**30,407,803**	**1,757,880**
12 months ending February 2012	**30,737,464**	**28,735,430**	**2,002,034**
12 months ending February 2013	**27,822,575**	**25,914,059**	**1,908,516**
12 months ending February 2014	**25,092,704**	**23,478,754**	**1,613,950**
12 months ending February 2015	**22,328,101**	**20,833,063**	**1,495,038**
Thereafter	**63,494,984**	**56,756,755**	**6,738,229**
	201,641,511	**186,125,864**	**15,515,647**

17. Guarantee

The Company has provided a guarantee in the form of a letter of credit for an amount of $45,000.

18. Contingent liability

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

19. Income taxes

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

	February 28, 2010		February 28, 2009	
	$	**%**	$	%
Statutory income tax rate	**1,355,875**	**30.9**	987,419	30.9
Add effect of:				
Disposition of capital assets	**3,987**	**0.1**	10,113	0.3
Other – net	**11,515**	**0.3**	(13,778)	(0.4)
Provision for income taxes	**1,371,377**	**31.3**	983,754	30.8

As at February 28, 2010 there were approximately $6,706,035 of net allowable capital losses which may be applied against capital gains for future years and be carried forward indefinitely. The future income tax benefit of these capital losses has not been recognized. The Company also has non-capital carry-forwards of $11,226,918 which may be used to reduce future years' taxable income. The future income tax benefit of the non capital losses has been recognized.

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

	February 28, 2010	November 30, 2009
	$	$
Future income tax assets		
Non-capital loss carry-forward	**3,332,992**	3,596,837
Future income tax liabilities		
Capital assets	**(32,970)**	65,092
Intangible assets	**1,751,626**	1,769,701
	1,718,656	1,834,793

20. Earnings per share

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

	February 28, 2010	November 30, 2009
Weighted daily average number of common shares	**19,120,567**	19,120,567
Diluted effect of stock options	**-**	-
Weighted average number of diluted common shares	**19,120,567**	19,120,567

21. Statement of cash flows

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

	February 28, 2010	February 28, 2009
	$	$
Accounts receivable	**(2,289)**	(626,675)
Income taxes receivable	**(66,169)**	(425,731)
Inventory	**24,707**	177,887
Franchise locations under construction held for resale	**113,823**	(52,167)
Loans receivable	**38,333**	21,564
Prepaid expenses	**(35,122)**	(143,023)
Deposits	**(56,700)**	-
Accounts payable and accrued liabilities	**361,750**	(747,719)
Income taxes payable	**(44,032)**	-
	334,301	(1,795,864)

Supplemental disclosure of cash flows

Income taxes paid	**1,289,838**	1,356,000
Income tax refund received	**-**	47