Consolidated financial statements of

MTY FOOD GROUP INC.

For the years ended November 30, 2011and 2010

Deloitte.

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Independent Auditor's Report

To the Shareholders of
MTY Food Group Inc.

We have audited the accompanying consolidated financial statements of MTY Food Group Inc., which comprise the consolidated balance sheets as at November 30, 2011 and 2010, and the consolidated statements of earnings and comprehensive income, retained earnings and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MTY Food Group Inc. as at November 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

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

Montreal, February 13, 2012

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[1] Chartered accountant auditor permit No. 17456

MTY FOOD GROUP INC.
Consolidated statements of income and comprehensive income
years ended Nov 30

	2011	**2010**
	$	$
Revenue (Notes 17 and 24)	**78,465,018**	66,886,441
Expenses		
Operating expenses (Note 24)	**51,819,842**	41,090,641
Amortization – capital assets	**1,261,842**	1,045,931
Amortization – intangible assets	**3,179,002**	3,024,716
Interest on long-term debt	**150,297**	-
Restructuring (Note 18)	**446,579**	-
	56,857,562	45,161,288
Other income		
Gain (loss) on foreign exchange	**18,342**	(14,221)
Interest income	**356,746**	195,897
Gain on disposal of assets	**858,396**	396,885
	1,233,484	578,561
Income before income taxes and non-controlling interest	**22,840,940**	22,303,714
Income taxes (Note 22)		
Current	**2,957,002**	6,006,792
Future	**3,467,117**	776,405
	6,424,119	6,783,197
Income before non-controlling interest	**16,416,821**	15,520,517
Non-controlling interest	**(262,798)**	(73,723)
Net income and comprehensive income	**16,154,023**	15,446,794

Earnings per share (Note 23)		
Basic	**0.84**	0.81
Fully diluted	**0.84**	0.81

See accompanying notes to consolidated financial statements

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

	2011	2010
	$	$
Balance, beginning of year	**55,924,397**	41,338,029
Net income	**16,154,023**	15,446,794
Dividends	**(3,441,702)**	(860,426)
Balance, end of year	**68,636,718**	55,924,397

See accompanying notes to consolidated financial statements

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

	2011	2010
	$	$
Assets		
Current assets		
Cash	**5,995,085**	5,636,912
Temporary investments (Note 4)	**4,632,032**	23,383,261
Accounts receivable	**9,548,710**	7,577,435
Income taxes receivable	**1,418,921**	-
Inventories (Note 5)	**1,540,333**	645,528
Franchise locations under construction held for resale	**1,201,651**	1,091,488
Loans receivable (Note 6)	**413,624**	336,067
Prepaid expenses	**157,372**	140,549
Deposits	**155,183**	45,292
Future income taxes (Note 22)	**440,401**	3,561,864
	25,503,312	42,418,396
Loans receivable (Note 6)	**705,390**	908,619
Other receivable (Note 3)	-	2,697,762
Capital assets (Note 7)	**10,180,389**	7,138,466
Intangible assets (Note 8)	**59,623,699**	36,266,114
Future income taxes (Note 22)	**1,531,427**	-
Goodwill (Note 9)	**19,508,983**	7,124,751
	117,053,200	96,554,108
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**14,908,311**	12,529,748
Income taxes payable	-	851,138
Deferred revenue and deposits (Note 11)	**1,560,630**	1,485,295
Current portion of long-term debt (Note 12)	**1,982,167**	1,873,213
	18,451,108	16,739,394
Deferred revenue and deposits (Note 11)	**11,467**	8,708
Long-term debt (Note 12)	**7,342,833**	930,000
Future income taxes (Note 22)	**2,337,286**	2,605,882
Non-controlling interest	**-**	71,939
	28,142,694	20,355,923
Commitments, guarantee and contingent liabilities (Notes 19, 20 and 21)		
Shareholders' equity		
Capital stock (Note 13)	**19,792,468**	19,792,468
Contributed surplus	**481,320**	481,320
Retained earnings	**68,636,718**	55,924,397
	88,910,506	76,198,185
	117,053,200	96,554,108

See accompanying notes to consolidated financial statements

Approved by the Board

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

MTY FOOD GROUP INC.
Consolidated statement of cash flows
years ended November 30, 2011

	2011	2010
	$	$
Operating activities		
Net income	**16,154,023**	15,446,794
Items not affecting cash:		
Amortization – capital assets	**1,261,842**	1,045,931
Amortization – intangible assets	**3,179,002**	3,024,716
Deferred revenue	**(143,257)**	(287,479)
Non-controlling interest	**262,798**	73,723
Gain on disposal of capital assets	**(858,396)**	(396,885)
Future income taxes	**3,467,117**	776,405
	23,323,129	19,683,205
Changes in non-cash working capital items (Note 25)	**(5,314,032)**	2,192,748
Cash flows provided by operating activities	**18,009,097**	21,875,953
Investing activities		
Business acquisitions (Note 3)	**(36,087,900)**	(4,023,698)
Repayment of long-term debt arising from acquisition (Note 3)	-	(402,571)
Acquisition of properties (Note 3)	-	(3,372,000)
Temporary investments	**18,751,229**	(8,751,788)
Additions to capital assets	**(954,308)**	(1,203,616)
Proceeds on disposal of assets	**1,654,719**	1,473,525
Cash flows (used in) provided by investing activities	**(16,636,260)**	(16,280,148)
Financing activities		
Issuance of long-term debt	**3,500,000**	110,000
Repayment of long-term debt	**(720,769)**	(379,366)
Investment from non-controlling shareholders in subsidiary companies	**25,049**	55
Dividends paid to non-controlling shareholders of subsidiaries	**(361,100)**	(75,000)
Share buyback paid to non-controlling shareholders of subsidiaries companies	**(16,142)**	-
Dividends paid	**(3,441,702)**	(860,426)
Cash flows (used in) provided by financing activities	**(1,014,664)**	(1,204,737)
Net increase in cash	**358,173**	4,391,068
Cash, beginning of year	**5,636,912**	1,245,844
Cash, end of year	**5,995,085**	5,636,912

See accompanying notes to consolidated financial statements

1. Description of the business

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

During its 2011 fiscal year, the company has opened 127 stores and acquired 494, bringing the total number of stores to 2,263. Of this number, 30 were corporate stores at the end of period.

2. Accounting policies

a) Basis of consolidation

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

Variable interest entities ("VIEs") are entities in which equity investors do not have controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties. VIEs are consolidated by their primary beneficiary (i.e., the party that receives the majority of the expected residual returns and/or absorbs the majority of the entity's losses). Management of the Company conducted a review of the ownership and contractual interest in entities and determined that the Company held variable interests in a number of VIEs as of November 30, 2011. Management has evaluated these interests and concluded that the Company is the primary beneficiary of a small number of VIEs, and as such consolidated these VIEs in its consolidated financial statements. The Company was not aware of pledges, securities or any other forms of debt or guarantees awarded by the consolidated VIEs, other than those that have been incorporated in the Company's consolidated financial statements. The Company believes that recourses by creditors or beneficial interest holders of the consolidated VIEs against the Company are highly limited given the nature of the agreements and relationships existing between the consolidated VIEs and the Company.

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

b) Use of estimates

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

2. Accounting policies (cont.)

b) Use of estimates (cont.)

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

c) Inventories

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

d) Franchise locations under construction held for resale

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

e) Capital assets

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

Buildings		
Structure	Straight-line	50 years
Components	Straight-line	20 to 30 years
Equipment	Declining balance	10%-33%
Leasehold improvements	Straight-line	Term of lease
Rolling stock	Declining balance	15%-30%
Computer hardware	Declining balance	20%-30%
Computer software	Declining balance	50%

f) Goodwill

Goodwill represents the excess of the purchase price over the fair values assigned to identifiable net assets acquired. Goodwill, which is not amortized, is tested for impairment annually or more frequently if impairment indicators arise to determine whether the fair value of each reporting unit to which goodwill has been attributed is less than the carrying value of the reporting unit's net assets including goodwill, thus indicating impairment. The fair value of a reporting unit is calculated based on future cash flows. Any impairment is then calculated as the difference between the fair value of the reporting unit and the carrying value, and is then recorded as a separate charge against income and a reduction of the carrying value of goodwill. An impairment adjustment in the carrying value of goodwill was not required for the years ended November 30, 2011 and 2010.

2. Accounting policies (cont.)

g) Intangible assets

Franchise rights and master franchise rights

The franchise rights and master franchise rights represent the fair value of the future revenue stream related to the acquisition of franchises. The franchise rights and master franchise rights are generally amortized on a straight-line basis over the term of the agreements which range between 10 to 20 years. Master franchise rights with an indefinite life are not amortized. They are tested for impairment annually or more frequently when events or circumstances indicate that the master franchise rights might be impaired. An impairment adjustment in the carrying value of the franchise rights was not required for the years ended November 30, 2011 and 2010.

Trademarks

Trademarks represent the cost incurred to operate under a trade name and are not amortized as they have an indefinite life. They are tested annually for impairment or more frequently when events or circumstances indicate that the trademarks might be impaired. The impairment test compares the carrying amount of the trademarks with their fair value. An impairment adjustment in the carrying value of the trademarks was not required for the years ended November 30, 2011 and 2010.

Leases

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

Other

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

h) Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value. An impairment adjustment in the carrying value of long-lived assets was not required for the years ended November 30, 2011 and 2010.

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

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

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

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

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

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

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

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

ii. Revenue from distribution center

Distribution revenues are recognized when goods have been delivered and accepted by customers.

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 or retailers.

iv. Revenue from corporate-owned locations

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

2. Accounting policies (cont.)

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. The effect of changes in income tax rates on future income tax assets and liabilities is recognized in earnings in the year that includes the date of enactment or substantive enactment of the changes.

l) Financial instruments

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

Classification

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

Held for trading

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

Loans and receivables

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

Other liabilities

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

2. Accounting policies (cont.)

l) Financial instruments (cont.)

Effective interest method

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

Embedded derivatives

An embedded derivative is a component of a contract with characteristics similar to a derivative. Management of the Company conducted a review of its contracts and determined that no embedded derivatives exist as at November 30, 2011.

Derivative financial instruments

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

m) Future accounting policies

i. International Financial Reporting Standards

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

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. The Company is currently preparing its IFRS conversion.

3. Business acquisitions

I) 2011 acquisition

On December 17, 2010 the Company's wholly-owned subsidiary, MTY Tiki-Ming Enterprises Inc., acquired a 51% interest in a newly formed company established to purchase a food processing plant. The acquisition was financed by a long-term bank loan of $3,500,000 (Note 12).

	$
Consideration paid	3,497,110

The purchase price allocation is as follows:

Net assets acquired:	
Current Assets	
Inventories	339,663
Deferred expenses	30,192
	369,855
Land	661,609
Building	1,161,322
Equipment	1,410,373
Future income tax asset	72,033
Goodwill	200,000
	3,875,192
Current Liabilities	
Accounts payable	178,082
	178,082
Mandatorily redeemable preferred shares	200,000
Total purchase price	3,497,110

The redeemable preferred shares were issued in exchange for the existing business relationships and activities (classified as goodwill) of one of the shareholders of the newly formed company. The issued preferred shares are redeemable annually, at a price contingent on the performance of the plant for the three years following the acquisition of the business. Management estimates the redemption price at $200,000.

3. Business acquisitions (cont.)

II) 2011 acquisition

On August 24, 2011, the Company's wholly-owned subsidiary, MTY Tiki-Ming Enterprises Inc., acquired the assets of Jugo Juice International Inc., Jugo Juice Canada Inc., and Jugo Juice Western Canada Inc. for a total consideration of $15,450,000. The acquisition was effective August 18, 2011.

Consideration paid

Purchase price	15,450,000
Net obligations assumed	(608,554)
Net purchase price	14,841,446
Holdbacks	1,735,000
Balance of sale	1,200,000
Net cash outflow	11,906,446

The preliminary purchase price allocation is as follows:

Net assets acquired:

Current Assets	
Cash	1,200
Inventory	5,580
Franchise locations under construction held for resale	40,701
Current portion of loans receivable	62,237
Deposits	9,818
	119,536
Loans receivable	59,907
Property, plant and equipment	551,000
Franchise rights	3,272,932
Trademark	5,425,135
Goodwill	5,205,197
Future income taxes	995,736
	15,629,443
Current Liabilities	
Accounts payable	586,646
Unearned revenue	201,351
	787,997
Net purchase price	14,841,446

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

3. Business acquisitions (cont.)

III) 2011 acquisition

On November 1, 2011, the Company's wholly-owned subsidiary, MTY Tiki-Ming Enterprises Inc., acquired substantially all of the assets of Mr. Submarine Limited and Mr. Submarine Realty Inc. for a total consideration of $23,000,000.

Consideration paid

Purchase price	23,000,000
Net obligations assumed	(1,232,856)
Net purchase price	21,767,144
Holdbacks	2,500,000
Net cash outflow	19,267,144

The preliminary purchase price allocation is as follows:

Net assets acquired:

Current Assets	
Prepaid and deposits	417,362
	417,362
Property, plant and equipment	332,476
Franchise rights	4,745,057
Trademark	11,306,740
Goodwill	5,528,717
Future income taxes	1,095,292
	23,425,643
Current Liabilities	
Accounts payable	1,650,217
	1,650,217
Future income taxes	8,281
	1,658,499
Net purchase price	21,767,144

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

3. Business acquisitions (cont.)

IV) 2011 acquisition

On November 10, 2011, the Company's wholly-owned subsidiary, MTY Tiki-Ming Enterprises Inc., acquired the assets of Koryo Korean BBQ Franchise Corp. for a total consideration of $1,800,000. The purpose of the acquisition was to diversify the Company's range of offering as well as to complement existing MTY brands. The acquisition was effective November 1, 2011.

Consideration paid

Purchase price	1,800,000
Net obligations assumed	(32,800)
Net purchase price	1,767,200
Holdbacks	350,000
Net cash outflow	1,417,200

The preliminary purchase price allocation is as follows:

Net assets acquired:

Current Assets	
Inventories	2,379
	2,379
Property, plant and equipment	20,000
Franchise rights	651,561
Trademark	1,135,161
	1,809,101
Current Liabilities	
Accounts payable	12,800
Unearned revenues	20,000
	32,800
Future income taxes	9,101
	41,901
Net purchase price	1,767,200

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

3. Business acquisitions (cont.)

V) 2010 acquisition

On September 16, 2010 the Company's wholly-owned subsidiary, MTY Tiki-Ming Enterprises Inc., acquired all of the outstanding shares of Groupe Valentine Inc. as well as seven real estate properties for a consideration of $8,764,126. The acquisition was effective September 1, 2010.

Consideration paid

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

Of the consideration above, the Company is currently retaining $930,000 as holdbacks (Note 12).

The purchase price allocation is as follows:

Net assets acquired:

Current Assets	
Cash	4,336
Accounts receivable	499,247
Inventory	324,962
Franchise locations under construction held for resale	270,631
Current portion of loans receivable	117,695
Prepaid expenses	26,246
	1,243,117
Loans receivable	232,735
Property, plant and equipment	4,322,764
Franchise rights	860,770
Trademark	3,337,895
Goodwill	1,446,061
Minority interest	20,657
	11,463,999
Current Liabilities	
Accounts payable	1,193,109
Income taxes payable	87,005
Loans payable	129,683
Unearned revenue	104,860
	1,514,657
Future income taxes	1,185,216
Total purchase price	8,764,126

3. Business acquisitions (cont.)

VI) 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 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 was claimed to the sellers following the transaction and was under litigation at the last balance sheet date. In May of 2011, a settlement was reached that ended the litigation whereby MTY Tiki Ming Enterprises Inc. received a compensation of $1,247,444 from the sellers, which was made of $205,000 received in cash and $1,042,444 as an offset from the remaining holdbacks and withholding taxes. The resulting adjustment was recorded as goodwill.

A holdback of $750,000 has been completely used up since acquisition that pertained to events that had occurred prior to the acquisition date. As a result, the retention of this holdback does not affect the purchase price.
The allocation of the purchase price of the acquisition is as follows:

	$
Consideration paid	
Share purchase	9,729,235
Repayment of long-term debt	6,750,000
Post closing adjustments	(1,247,444)
Acquisition costs	29,091
Total purchase price	15,260,882
Net assets acquired:	
Current Assets	
Cash	127,381
Accounts receivable	2,039,936
Inventory	368,768
Franchise locations under construction held for resale	627,542
Prepaid expenses	196,000
Future income taxes	1,290,000
	4,649,627
Future income taxes	4,458,559
Property, plant and equipment	1,584,724
Franchise rights	1,016,000
Trademarks	4,096,000
Distribution agreements	272,000
Goodwill	3,154,759
	19,231,669
Current Liabilities	
Accounts payable and accrued liabilities	3,970,787
Total purchase price	15,260,882

4. Temporary investments

Temporary investments are comprised of short-term notes and guaranteed investment certificates recorded at fair value. They have maturity dates between December 2011 and June 2012 and have rates of return between 1.02% and 1.62% (0.82% to 1.45% in November 2010).

5. Inventories

Inventories expensed during the year amount to $18,823,063 (2010 - $14,640,623).

6. Loans receivable

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

	November 30, 2011	November 30, 2010
	$	$
Loans receivable, carrying no interest and without terms of repayment	**45,484**	-
Loans receivable bearing interest between nil and 10% per annum, receivable in monthly instalments of $23,125 in aggregate, including principal and interest, ending in April 2017	**1,073,530**	1,244,686
	1,119,014	1,244,686
Current portion	**(413,624)**	(336,067)
	705,390	908,619

The capital repayments in subsequent years will be:

	$
12 months ending November 2012	**413,624**
12 months ending November 2013	**208,669**
12 months ending November 2014	**206,194**
12 months ending November 2015	**124,045**
12 months ending November 2016	**31,410**
Thereafter	**135,072**
	1,119,014

7. Capital assets

	November 30, 2011		
	Cost	Accumulated amortization	Net book value
	$	$	$
Corporate-owned locations			
Equipment	**1,565,223**	**553,314**	**1,011,909**
Leasehold improvements	**1,179,415**	**610,688**	**568,727**
Computer hardware	**36,690**	**27,234**	**9,456**
Land	**1,946,890**	**-**	**1,946,890**
Buildings	**3,728,808**	**166,985**	**3,561,823**
Equipment	**2,307,266**	**335,038**	**1,972,228**
Computer hardware	**462,861**	**282,144**	**180,717**
Computer software	**230,524**	**146,399**	**84,125**
Leasehold improvements	**1,690,715**	**862,379**	**828,336**
Rolling stock	**39,558**	**23,380**	**16,178**
	13,187,950	**3,007,561**	**10,180,389**

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

8. Intangible assets

	November 30, 2011		
	Cost	Accumulated amortization	Net book value
	$	$	$
Franchise and master franchise rights[1]	**40,045,154**	**13,554,798**	**26,490,356**
Trademarks	**32,723,891**	**-**	**32,723,891**
Leases	**1,000,000**	**628,312**	**371,688**
Other	**504,725**	**466,961**	**37,764**
	74,273,770	**14,650,071**	**59,623,699**

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

[1] Franchise and master franchise rights include an amount of $1,500,000 ($1,500,000 in November 2010) of unamortizable master franchise right.

9. Goodwill

The changes in the carrying amount of goodwill for the years ended November 30, 2011 and 2010 are as follows:

	November 30, 2011	November 30, 2010
	$	$
Balance, beginning of the year	7,124,751	6,834,249
Goodwill acquired during the year (Note 3)	10,933,914	1,446,061
Adjustment of purchase price following settlement of litigation (Note 3)	1,450,318	-
Reduction of goodwill due to adjustment in future income taxes	-	(1,155,559)
Balance, end of year	19,508,983	7,124,751

10. Bank indebtedness

As at November 30, 2011, the Company has an authorized operating line of credit of $5,000,000. Bank indebtedness is secured by a moveable hypothec on all the assets of the Company. The interest rate charged is the bank's annual prime rate (3.00% on November 30, 2011) plus 1.00%. Under the terms of the line of credit, the Company must satisfy a funded debt to EBITDA ratio of 1 to 1, a current ratio of 1.45 to 1, and a debt service coverage ratio of 1.8 to 1. The company is in compliance with all these ratios. The operating line of credit is payable on demand and is renewable annually. As at November 30, 2011, the Company had not used funds from its line of credit.

11. Deferred revenue and deposits

	November 30, 2011	November 30, 2010
	$	$
Franchise fee deposits	**1,023,125**	903,876
Distribution rights	**548,972**	590,127
	1,572,097	1,494,003
Current portion	**(1,560,630)**	(1,485,295)
	11,467	8,708

12. Long-term debt

	November 30, 2011	November 30, 2010
	$	$
Non-interest bearing holdbacks on acquisition	**-**	179,070
Non-interest bearing holdbacks on acquisition, repayable between March 2012 and September 2013	**930,000**	961,518
Non-interest bearing holdbacks on acquisition, repayable between February 2012 and August 2014	**1,735,000**	-
Non-interest bearing holdback on acquisition, repayable in November 2013	**2,500,000**	-
Non-interest bearing holdbacks on acquisition, repayable between December 2011 and November 2013	**350,000**	-
Bank loans backed by the assets of two subsidiaries	**-**	125,916
Non-interest bearing holdbacks and withholding taxes on the acquisition of Country Style Food Services Holdings Inc. This holdback was part of a settlement described in Note 3.	**-**	1,253,309
Bank loan bearing interest at the bank's prime plus 0.50%, secured by the capital assets of a subsidiary, repayable in fixed monthly capital repayments at $24,305.56 plus interest. As at November 30, 2011, the bank's prime rate was 4.00%. The first capital repayment is due in June 2012[i]	**3,500,000**	-
Mandatorily redeemable preferred shares, non-cumulative, redeemable in three yearly installments beginning December 2011,with redemption value based on the performance of a subsidiary	**200,000**	-
Non-interest bearing loans from non-controlling shareholders of subsidiaries with no terms of repayment	**110,000**	283,400
	9,325,000	2,803,213
Current portion	**(1,982,167)**	(1,873,213)
	7,342,833	930,000

[i] This loan is subject to restrictive covenants to maintain certain working capital, interest coverage and debt to equity ratios. As at November 30, 2011, one of the covenants was not met, however they only become applicable on November 30, 2012. As such, there is no breach of covenants as at November 30, 2011.

12. Long-term debt (cont.)

The capital repayments in subsequent years will be:

	$
12 months ending November 2012	**1,982,167**
12 months ending November 2013	**4,147,000**
12 months ending November 2014	**425,000**
12 months ending November 2015	**291,667**
12 months ending November 2016	**2,479,166**
	9,325,000

13. Capital stock

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

	November 30, 2011		November 30, 2010	
	Number	Amount	Number	Amount
		$		$
Balance, beginning and end of period	**19,120,567**	**19,792,468**	19,120,567	19,792,468

14. Stock options

Under various plans, the Company may grant stock options on the common shares at the discretion of the Board of Directors, to senior executives, directors and certain key employees. Of the 3,000,000 common shares initially reserved for issuance, 699,500 were available for issuance under the share option plan as at November 30, 2011. There are no options outstanding as at November 30, 2011.

15. Financial instruments

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

Fair value of recognized financial instruments

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

	November 30, 2011		November 30, 2010	
	Carrying value	**Fair value**	Carrying value	Fair value
	$	**$**	$	$
Financial assets				
Cash	**5,995,085**	**5,995,085**	5,636,912	5,636,912
Temporary investments	**4,632,032**	**4,632,032**	23,383,261	23,383,261
Accounts receivable	**9,548,710**	**9,548,710**	7,577,435	7,577,435
Loans receivable	**1,119,014**	**1,119,014**	1,244,686	1,244,686
Other receivable	**-**	**N/A**	2,697,762	N/A
Deposits	**155,183**	**155,183**	45,292	45,292
Financial liabilities				
Accounts payable and accrued liabilities	**14,908,311**	**14,908,311**	12,529,748	12,529,748
Long-term debt	**9,325,000**	**9,252,723**	2,803,213	2,786,336

Determination of fair value

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

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

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

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

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

Long-term debt - The fair value of long-term debt is determined using the present value of future cash flows under current financing agreements based on interest rates currently available to the Company for similar arrangements.

15. Financial instruments (cont.)

Risk management policies

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at the balance sheet date of November 2011.

Credit risk

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

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

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

	November 30, 2011	November 30, 2010
	$	$
Total accounts receivable	**10,404,554**	8,360,696
Less: Allowance for doubtful accounts	**855,844**	783,261
Total accounts receivable, net	**9,548,710**	7,577,435
Of which:		
Not past due	**7,075,654**	5,665,888
Past due for more than one day but for no more than 30 days	**739,243**	255,948
Past due for more than 31 days but for no more than 60 days	**215,386**	217,314
Past due for more than 61 days	**1,518,427**	1,438,285
Total accounts receivable, net	**9,548,710**	7,577,435
Allowance for doubtful accounts beginning of year	**783,261**	754,110
Additions	**335,428**	384,531
Write-off	**(262,845)**	(355,380)
Allowance for doubtful accounts end of year	**855,844**	783,261

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

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

15. Financial instruments (cont.)

Foreign exchange risk

The Company has entered into a contract to minimize its exposure to fluctuations in foreign currencies, mainly on purchases of coffee. As of November 30, 2011, the total value of such contracts was approximately $635,000. Immediate liquidation of the contracts at November 30, 2011 would have resulted in a gain of $44,000.

Other than the above-mentioned contracts, the Company has minimal exposure to the US$ and is subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in the currency. The Company considers this risk to be relatively limited. At year-end, the value of the US$ held by the Company was $670,071 (2010 - $464,354).

Interest rate risk

The Company is exposed to interest rate risk with regards temporary investments. Given the very short term nature of the temporary investments, the risk that changes in interest rates will cause material fluctuations in the fair value is considered limited.

The Company's is also exposed to interest rate risk with its operating line of credit and a bank loan contracted by a subsidiary. Both facilities bear interest at a variable rate and as such the interest burden could potentially become more important. The line of credit is not currently used by the Company; as a result, the exposure to interest rate risk in minimal.

Liquidity risk

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

The following are the contractual maturities of financial liabilities as at November 30, 2011:

	Carrying Amount	Contractual Cash Flows	0 to 6 Months	6 to 12 Months	12 to 24 Months
	$	$	$	$	$
Accounts payable and accrued liabilities	14,908,311	14,908,311	14,351,611	556,700	-
Long-term debt	9,325,000	9,325,000	1,353,000	629,167	4,147,000
Interest	-	-	78,750	76,836	143,827
	24,233,311	24,233,311	15,783,361	1,262,703	4,290,827

The following are the contractual maturities of financial liabilities as at November 30, 2010:

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

16. Capital Disclosures

The Company's objectives when managing capital are:

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

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

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

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

	November 30, 2011	November 30, 2010
	$	$
Debt	**28,152,349**	20,283,984
Equity	**88,910,506**	76,198,185
Debt-to-equity ratio	**0.32**	0.27

During the year ending November 30 2011, the addition of $8,285,000 of debt and holdbacks related to the acquisitions discussed in Note 3 caused the ratio to go up slightly. The Company intends to reduce its total debt with the positive cash flows generated from its operations. Maintaining a low debt-to-equity ratio is a priority in order to permit the Company to secure financing at a reasonable cost for future acquisitions. As at November 30, 2011, the Company does not have debt outstanding that is subject to such a covenant.

17. Franchise fees

Included in revenue from franchise locations are initial franchise fees in the amount of $1,854,238 ($3,019,913 in 2010).

18. Restructuring

During the second quarter, the Company has undertaken a restructuring of its Country Style operations following unsatisfactory performances. The total cost of the terminations incurred during the second quarter was $446,579; no additional terminations are expected as part of this restructuring activity, but some of the provided amounts are still being negotiated and could therefore vary from the original estimate. As at November 30, 2011, $205,360 remains in liabilities.

19. Commitments

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

	Lease commitments	Sub leases	Net commitments
	$	$	$
12 months ending August 2012	**46,783,160**	**44,159,557**	**2,623,603**
12 months ending August 2013	**43,729,750**	**41,293,816**	**2,435,934**
12 months ending August 2014	**40,034,879**	**38,095,016**	**1,939,863**
12 months ending August 2015	**36,037,402**	**34,452,174**	**1,585,228**
12 months ending August 2016	**31,167,381**	**29,814,959**	**1,352,422**
Thereafter	**83,661,071**	**81,467,389**	**2,193,682**
	281,413,643	**269,282,911**	**12,130,732**

The Company has entered into supplier agreements for purchases of coffee beans, wheat, sugar and shortening for delivery dates ranging from December 2011 to May 2012. The total commitment amounts to approximately $1,634,000. Based on market rates at November 30, 2011, a loss of $44,000 would result from immediate liquidation of all contracts.

20. Guarantee

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

21. Contingent liabilities

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

22. Income taxes

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

	November 30, 2011		November 30, 2010	
	$	**%**	$	%
Combined income tax rate	**6,463,987**	**28.3**	6,713,418	30.1
Add effect of:				
Impact of disposition of capital property	**(114,533)**	**(0.5)**	(25,115)	(0.1)
Permanent impact of tax assessment	-	-	52,310	0.2
Non-deductible items	**15,553**	**0.1**	35,745	0.2
Recognition of previously unrecognized Future income tax assets	**(113,992)**	**(0.5)**	-	-
Change in applicable tax rates	**217,818**	**0.9**	-	-
Prior year adjustment	**(43,873)**	**-0.2**	-	-
Other – net	**(841)**	**(0.0)**	6,839	(0.0)
Provision for income taxes	**6,424,119**	**28.1**	6,783,197	30.4

As at November 30, 2011 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.

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

	November 30, 2011	November 30, 2010
	$	$
Future income tax assets		
Intangible assets	**1,462,190**	-
Financial statements reserves on payables	**361,397**	-
Capital assets	**69,237**	-
Non-capital loss carry-forward	**79,004**	3,561,864
	1,971,828	3,561,864
Future income tax liabilities		
Capital assets	**351,716**	(61,834)
Intangible assets	**1,985,570**	2,667,716
	2,337,286	2,605,882

23. Earnings per share

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

	November 30, 2011	November 30, 2010
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

24. Segmented Information

The Company's activities are comprised of Franchise operations, Corporate store operations, Distribution operations and Food processing operations. The Company considers its Real estate activities as part of the franchise operations segment.

Year ended November 30, 2011:

	Franchising	Corporate	Distribution	Processing	Intercompany	Total
	$	$	$	$	$	$
Operating Revenues	56,061,127	10,775,206	6,062,762	6,329,501	(763,578)	78,465,018
Operating expenses	30,125,351	10,727,697	5,527,894	6,202,478	(763,578)	51,819,842
Operating margin	25,935,776	47,509	534,868	127,023	-	26,645,176
Other expenses						
Amortization- capital assets	617,377	433,650	7,429	203,386	-	1,261,842
Amortization- intangible assets	3,179,002	-	-	-	-	3,179,002
Interest on long-term debt	-	9,050	-	141,247	-	150,297
Restructuring	446,579	-	-	-	-	446,579
Other income						
Foreign exchange gain	18,342	-	-	-	-	18,342
Interest income	356,746	-	-	-	-	356,746
Gain on disposal	858,396	-	-	-	-	858,396
Operating income	22,926,302	(395,191)	527,439	(217,610)	-	22,840,940
Current income taxes	2,889,176	(81,439)	149,265	-	-	2,957,002
Future income taxes	3,530,593	-	-	(63,476)	-	3,467,117
Income before non-controlling interest	16,506,533	(313,752)	378,174	(154,134)	-	16,416,821
Non-controlling interest						(262,798)
Net income						16,154,023

24. Segmented Information (cont.)

Year ended November 30, 2010

	Franchising	Corporate	Distribution	Processing	Intercompany	Total
	$	$	$	$	$	$
Operating Revenues	57,100,010	8,652,564	1,286,118	-	(152,251)	66,886,441
Operating expenses	32,356,404	7,730,568	1,155,920	-	(152,251)	41,090,641
Operating margin	24,743,606	921,996	130,198	-	-	25,795,800
Other expenses						
Amortization- capital assets	520,451	523,715	1,765	-	-	1,045,931
Amortization- intangible assets	3,024,716	-	-	-	-	3,024,716
Other income						
Foreign exchange loss	(14,221)	-	-	-	-	(14,221)
Interest income	195,897	-	-	-	-	195,897
Gain on disposal	396,885	-	-	-	-	396,885
Operating income	21,777,000	398,281	128,433	-	-	22,303,714
Current income taxes	5,848,379	119,883	38,530	-	-	6,006,792
Future income taxes	776,405	-	-	-	-	776,405
Income before non-controlling interest	15,152,216	278,398	89,903	-	-	15,520,517
Non-controlling interest						(73,723)
Net income						15,446,794

25. Statement of cash flows

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

	November 30, 2011	November 30, 2010
	$	$
Accounts receivable	(1,971,275)	(403,151)
Income taxes receivable	(1,418,921)	-
Inventory	(547,182)	72,429
Franchise locations under construction held for resale	(69,463)	184,959
Loans receivable	247,816	(356,842)
Other receivable	205,000	-
Prepaid expenses	407,167	(23,093)
Deposits	(76,509)	(45,291)
Accounts payable and accrued liabilities	(1,239,527)	2,043,636
Income taxes payable	(851,138)	720,101
	(5,314,032)	2,192,748

Supplemental disclosure of cash flows

Income taxes paid	5,478,557	5,466,254
Income tax refund received	320,920	266,569

Non-cash transaction

During the period, the Company has settled its other receivable and some of its holdbacks in a transaction described in Note 3.

26. Comparative Figures

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