



Management's Discussion and Analysis For the nine months ended August 31, 2013

General

Management's Discussion and Analysis of the financial position and results of operations ("MD&A") of MTY Food Group Inc. ("MTY") is supplementary information and should be read in conjunction with the Company's consolidated financial statements and accompanying notes and with the most recent annual report, for the fiscal year ended November 30, 2012.

In the MD&A, MTY Food Group Inc., MTY, or the Company, designates, as the case may be, MTY Food Group Inc. and its Subsidiaries, or MTY Food Group Inc., or one of its subsidiaries.

The consolidated financial statements contained in this interim report have not been reviewed by MTY's external auditors.

The disclosures and values in this MD&A were prepared in accordance with International Financial Reporting Standards (IFRS) and with the current issued and adopted interpretations applied to fiscal years beginning on or after January 1, 2011.

This MD&A was prepared as at October 3, 2013. Supplementary information about MTY, including its latest annual and quarterly reports, and press releases, is available on SEDAR's website at www.sedar.com.

Forward looking statements

This MD&A and, in particular, but without limitation, the sections of this MD&A entitled Outlook, Same-Store Sales, Contingent Liabilities and Subsequent Event, contain forward-looking statements. These forward-looking statements include, but are not limited to, statements relating to certain aspects of the business outlook of the Company during the course of 2013. Forward-looking statements also include any other statements that do not refer to independently verifiable historical facts. A statement we make is forward-looking when it uses what we know and expect today to make a statement about the future. Forward-looking statements may include words such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target and will. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Unless otherwise indicated by us, forward-looking statements in this MD&A describe our expectations at October 3, 2013 and, accordingly, are subject to change after such date. Except as may be required by Canadian securities laws, we do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Forward-looking statements, by their very nature, are subject to inherent risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results or events could differ materially from our expectations expressed in or implied by such forward-looking statements and that our business outlook, objectives, plans and strategic priorities may not be achieved. As a result, we cannot guarantee that any forward-looking statement will materialize and readers are cautioned not to place undue reliance on these forward-looking statements. Forward-looking statements are provided in this MD&A for the purpose of giving information about management's current strategic priorities, expectations and plans and allowing investors and others to get a better understanding of our business outlook and operating environment. Readers are cautioned, however, that such information may not be appropriate for other purposes.

Forward-looking statements made in this MD&A are based on a number of assumptions that we believed were reasonable on October 3, 2013. Refer, in particular, to the section of this MD&A entitled Risks and Uncertainties for a description of certain key economic, market and operational assumptions we have used in making forward-looking statements contained in this MD&A. If our assumptions turn out to be inaccurate, our actual results could be materially different from what we expect.

Unless otherwise indicated in this MD&A, the strategic priorities, business outlooks and assumptions described in the previous MD&A remain substantially unchanged.

Important risk factors that could cause actual results or events to differ materially from those expressed in or implied by the above-mentioned forward-looking statements and other forward-looking statements included in this MD&A include, but are not limited to: the intensity of competitive activity, and the resulting impact on our ability to attract customers' disposable income; our ability to secure advantageous locations and renew our existing leases at sustainable rates; the arrival of foreign concepts, our ability to attract new franchisees; changes in customer tastes, demographic trends and in the attractiveness of our concepts, traffic patterns, occupancy cost and occupancy level of malls and office towers; general economic and financial market conditions, the level of consumer confidence and spending, and the demand for, and prices of, our products; our ability to implement our strategies and plans in order to produce the expected benefits; events affecting the ability of third-party suppliers to provide to us essential products and services; labour availability and cost; stock market volatility; operational constraints and the event of the occurrence of epidemics, pandemics and other health risks.

These and other risk factors that could cause actual results or events to differ materially from our expectations expressed in or implied by our forward-looking statements are discussed in this MD&A.

We caution readers that the risks described above are not the only ones that could impact us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also have a material adverse effect on our business, financial condition or results of operations.

Except as otherwise indicated by us, forward-looking statements do not reflect the potential impact of any non-recurring or other special items or of any dispositions, monetizations, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after October 3, 2013. The financial impact of these transactions and non-recurring and other special items can be complex and depends on the facts particular to each of them. We therefore cannot describe the expected impact in a meaningful way or in the same way we present known risks affecting our business.

Compliance with International Financial Reporting Standards

Unless otherwise indicated, the financial information presented below, including tabular amounts, is expressed in Canadian dollars and prepared in accordance with International Financial Reporting Standards (“IFRS”). MTY uses earnings before interest, taxes, depreciation and amortization (“EBITDA”), because this measure enables management to assess the Company’s operational performance. The Company also discloses same-store sales growth, which are defined as comparative sales generated by stores that have been open for at least thirteen months or that have been acquired more than thirteen months ago.

These measures are widely accepted financial indicators but are not a measurement determined in accordance with GAAP and may not be comparable to those presented by other companies. These non-GAAP measures are intended to provide additional information about the performance of MTY, and should not be considered in isolation or as a substitute for measure of performance prepared in accordance with GAAP.

The Company uses these measures to evaluate the performance of the business as they reflect its ongoing operations. Management believes that certain investors and analysts use EBITDA to measure a company’s ability to meet payment obligations or as a common measurement to value companies in the industry. Similarly, same-store sales growth provides additional information to investors about the performance of the network that is not available under GAAP. Both measures are components in the determination of short-term incentive compensation for some employees.

Highlights of significant events during the quarter

There were no significant events during the quarter.

Core business

MTY franchises and operates quick-service restaurants under the following banners: Tiki-Ming, Sukiyaki, La Crémère, Au Vieux Duluth Express, Carrefour Oriental, Panini Pizza Pasta, Chick ‘n’ Chick, Franx Supreme, Croissant Plus, Villa Madina, Cultures, Thai Express, Vanellis, Kim Chi, “TCBY”, Yogen Früz, Sushi Shop, Koya Japan, Vie & Nam, Tandori, O’Burger, Tutti Frutti, Taco Time, Country Style, Buns Master, Valentine, Jugo Juice, Mr. Sub, Koryo Korean Barbeque, Mr. Souvlaki and SushiGo.

As at August 31, 2013, MTY had 2,233 locations in operation, of which 2,206 were franchised or under operator agreements and the remaining 27 locations were operated by MTY.

MTY’s locations can be found in: i) food courts and shopping malls; ii) street front; and, iii) non-traditional format within petroleum retailers, convenience stores, cinemas, amusement parks and in other venues or retailers shared sites. The non-traditional locations are typically smaller in size, require a lower investment and generate lower revenues than the locations found in shopping malls, food courts or street front locations. The street front locations are mostly made up of the Country Style, La Crémère, “TCBY”, Sushi Shop, Sushi Go, Taco Time, Tutti Frutti, Valentine and Mr. Sub banners. La Crémère and “TCBY” operate primarily from April to September and the others banners operate year round.

MTY has developed several quick service restaurant concepts: Tiki-Ming (Chinese cuisine), was its first banner, followed by Sukiyaki (a Japanese delight), Franx Supreme (hot dog/hamburger), Panini Pizza Pasta, Chick’n’Chick, Caferama, Carrefour Oriental, Villa Madina, Kim Chi, Vie & Nam, Tandori and O’Burger.

Other banners added through acquisitions include:

- 18 locations from the Fontaine Santé/Veggirama chain in 1999,
- 74 locations from the La Crémère ice cream chain in 2001,
- 20 locations from the Croissant Plus chain in 2002,
- 24 locations from the Cultures chain in 2003,
- 6 locations from the Thai Express chain in May 2004,
- 103 locations from the Mrs. Vanelli's chain in June 2004,
- 91 locations of The Country's Best Yogurt "TCBY" with the undertaking of the Canadian master franchise right in September 2005,
- On April 1, 2006, MTY acquired the exclusive master franchise rights to franchise Yogen Früz™ throughout Canada with its network of 152 existing locations,
- On September 1, 2006, MTY acquired the Sushi Shop banner with its 42 franchise locations and 5 corporate owned locations,
- On October 19, 2006, the Company acquired the Koya Japan banner with its 24 franchise locations and one corporate owned location,
- On September 1, 2007 MTY purchased 15 existing Sushi Shop franchise locations from an investor group,
- On September 15, 2008, MTY acquired the Tutti Frutti banner with its 29 outlets. This banner caters to the breakfast and lunch crowd,
- On October 31, 2008, MTY acquired the Canadian franchising rights of Taco Time. As at the date of acquisition, there were 117 Taco Time restaurants operating in Western Canada,
- On May 1, 2009, the Company acquired the outstanding shares of Country Style Food Services Holdings Inc. with the 480 outlets operated by its subsidiaries,
- On September 16, 2010, the Company acquired the outstanding shares of Groupe Valentine inc. and of its network of 95 stores. The transaction was effective September 1, 2010,
- On August 24, 2011, the Company acquired the assets of Jugo Juice International Inc. with 136 outlets in operation at the date of closing. The transaction was effective August 18, 2011,
- On November 1, 2011, the Company acquired the assets of Mr. Submarine Limited, with 338 stores in operations at the date of closing,
- On November 10, 2011, the Company acquired the assets of Koryo Korean BBQ Franchise Corp. with 20 stores in operations at the effective date of closing. The transaction was effective November 1, 2011.
- On September 26, 2012, the Company acquired the assets of Mr. Souvlaki Ltd. with 14 stores in operation at the effective date of closing.
- On May 31, 2013, the Company acquired the SushiGo banner, with a total of 5 outlets at the date of closing. The acquisition was effective on June 1, 2013.

MTY also has an exclusive area development agreement with Restaurant Au Vieux Duluth to develop and sub-franchise Au Vieux Duluth Express quick-service restaurants in the Provinces of Ontario and Quebec.

Revenues from franchise locations are generated from royalty fees, franchise fees, sales of turnkey projects, rent, sign rental, supplier contributions and sales of other goods and services to franchisees. Revenues from corporate owned locations include sales generated from corporate owned locations. Operating expenses related to franchising include salaries, general and administrative costs associated with existing and new franchisees, expenses in the development of new markets, costs of setting up turnkey projects, rent, supplies and equipment sold to franchisees. Corporate owned location expenses include the costs incurred to operate corporate owned locations.

MTY generates revenues from the food processing business discussed herein. The plant produces various products that range from ingredients and ready to eat food sold to restaurants or other food processing plants to microwavable meals sold in retail stores. The plant generates most of its revenues selling its products to distributors and retailers.

The Company also generates revenues from its distribution center located on the south shore of Montreal. The distribution center mainly serves our Valentine and Franx Supreme franchisees with a broad range of products required in the day-to-day operations of the restaurants.

Description of recent acquisitions

On May 31, 2013, the Company 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. At the date of closing, there were 5 SushiGo stores in operation, two of which were corporate locations. The acquisition was effective on June 1, 2013. Of the purchase price, the Company withheld \$105,000 in holdbacks.

On September 26, 2012, the Company announced it had completed the acquisition of most of the assets of Mr. Souvlaki Ltd. for a total consideration of \$0.9 million. At the date of closing, there were 14 Mr. Souvlaki stores in operation, all of which were franchised. Of the purchase price, MTY withheld an amount of \$0.17 million in holdbacks.

Selected annual information

	Year ended November 30,2012	Year ended November 30,2011	Year ended November 30,2010 (1)
Total assets	\$136,561	\$115,628	\$92,490
Total long-term liabilities	\$2,575	\$9,309	\$862
Operating revenue	\$96,220	\$78,358	\$66,886
Income before income taxes and non-controlling interest	\$30,517	\$22,495	\$22,304
Net income and comprehensive income attributable to owners	\$22,054	\$16,520	\$15,447
EPS basic	\$1.15	\$0.85	\$0.81
EPS diluted	\$1.15	\$0.85	\$0.81
Dividends paid on common stock	\$4,206	\$3,442	\$860
Dividends per common share	\$0.220	\$0.180	\$0.045
Weighted daily average number of common shares	19,120,567	19,120,567	19,120,567
Weighted average number of diluted common shares	19,120,567	19,120,567	19,120,567

(1) The selected annual information that is presented for the year ended November 30, 2010 is reported under previous Canadian GAAP and does not reflect the impact of the adoption of IFRS.

Summary of quarterly financial information

Quarters ended								
in thousands of \$	November 2011	February 2012	May 2012	August 2012	November 2012	February 2013	May 2013	August 2013
Revenue	\$23,116	\$21,945	\$23,689	\$24,239	\$26,347	\$22,628	\$25,342	\$25,130
Net income and comprehensive income attributable to owners	\$4,733	\$4,392	\$5,283	\$6,129	\$6,263	\$5,635	\$6,250	\$6,682
Per share	\$0.25	\$0.23	\$0.28	\$0.32	\$0.33	\$0.29	\$0.33	\$0.35
Per diluted share	\$0.25	\$0.23	\$0.28	\$0.32	\$0.33	\$0.29	\$0.33	\$0.35

Results of operations for the nine month periods ended August 31, 2013

Revenue

During the first nine months of the 2013 fiscal year, the Company's total revenue increased by 5% to reach \$73.1 million. Revenues for the four segments of business are broken down as follows:

	August 31, 2013 (\$ million)	August 31, 2012 (\$ million)	Variation
Franchise operation	54.0	50.9	6%
Corporate stores	8.5	9.7	(13%)
Distribution	4.2	4.2	0%
Food processing	7.0	5.8	21%
Intercompany transactions	(0.6)	(0.7)	N/A
Total operating revenues	73.1	69.9	5%

As is shown in the table above, revenue from franchise locations progressed by 6%. Several factors contributed to the variation, as listed below:

	\$million
Revenues, first nine months of 2012	50.9
Increase in recurring revenue streams	0.4
Increase in turnkey, sales of material to franchisees and rent revenues	1.4
Increase in initial franchise fees	0.8
Other non-material variations	0.5
Revenues, first nine months of 2013	54.0

During the first nine months of 2013, the Company benefitted from the sale of master franchise rights for four of its brands and from increased turnkey revenues generated by new stores that have opened or that are being built. Revenues generated by master franchise rights are included with initial franchise fees.

Revenue from corporate owned locations decreased 13%, to \$8.5 million during the period. The decrease is mainly due to the net decrease in the number of stores classified as Special Purpose Entities and unfavourable market conditions causing weaker sales in the existing corporate locations.

The Company also generated food processing revenues of \$7.0 million during the nine-month period. The increase of 21% is attributable to the production of new food products.

Cost of sales and other operating expenses

During the first nine months of 2013, operating expenses increased slightly to \$44.2 million compared to \$43.9 million in the same period in 2012. Operating expenses for the four business segments were incurred as follows:

	August 31, 2013 (\$ million)	August 31, 2012 (\$ million)	Variation
Franchise operation	25.7	25.3	2%
Corporate stores	8.2	9.7	(16%)
Distribution	3.9	3.9	0%
Food processing	7.0	5.7	24%
Intercompany transactions	(0.6)	(0.7)	N/A
Total operating expenses	44.2	43.9	1%

Expenses from franchise operations remained comparable to prior year in the first nine month of 2013. 2013 saw an increase in costs of turnkeys of \$0.8 million as well as an increase in the provisions related to our accounts receivable of \$0.3 million. This was partially offset however by reductions in consulting fees and wages.

During the first nine months, expenses for corporate owned locations decreased by \$1.5 million for the reasons described in the Revenues section above. The expenses of the food processing plant increased by 24% partly because of the increase in revenues described above. The remainder of the increase was caused by a change in the sales mix which increased the weight of low margin items to the expense of higher margin items.

Earnings before interest, taxes, depreciation and amortization (EBITDA)

	Nine months ended August 31, 2013					
(In millions)	Franchise	Corporate	Distribution	Processing	Consolidation	Total
Revenues	\$53.99	\$8.46	\$4.25	\$7.02	(\$0.61)	\$73.10
Expenses	\$25.70	\$8.18	\$3.89	\$7.07	(\$0.61)	\$44.23
EBITDA ⁽¹⁾	\$28.29	\$0.28	\$0.36	(\$0.05)	\$0.00	\$28.88
EBITDA as a % of Revenue	52%	3%	9%	N/A	N/A	40%

	Nine months ended August 31, 2012					
(In millions)	Franchise	Corporate	Distribution	Processing	Consolidation	Total
Revenues	\$50.86	\$9.68	\$4.21	\$5.78	(\$0.66)	\$69.87
Expenses	\$25.31	\$9.70	\$3.89	\$5.69	(\$0.66)	\$43.93
EBITDA ⁽¹⁾	\$25.55	(\$0.01)	\$0.32	\$0.09	\$0.00	\$25.95
EBITDA as a % of Revenue	50%	N/A	8%	2%	N/A	37%

EBITDA (income before income taxes, interest, depreciation and amortization) is not an earnings measure recognized by IFRS and therefore may not be comparable to similar measures presented by other companies.

⁽¹⁾EBITDA is defined as operating revenues less operating expenses. See reconciliation of EBITDA to Income before taxes on page 9.

Total EBITDA increased by 11%, from \$25.9 million for the first nine month of 2012 to \$28.9 million for the first nine month of 2013.

During the period, the franchising operations generated \$28.3 million in EBITDA, a 11% increase over the results of the same period last year. The increase is mainly attributable to the sale of four master franchise rights which contributed to one-fourth of the growth, the reduction of rental costs and to effective cost management measures carried from the end 2012 into 2013.

EBITDA as a percentage of revenues increased from 50% in 2012 to 52% in 2013 mostly because of strong initial franchise fees as well as of an improvement in the profitability of turnkey projects.

EBITDA from corporate owned locations increased slightly during the nine-month period, mainly because some profitable stores were added during 2013.

EBITDA from the food processing plant declined during the period, mainly because of the ramp-up in new product lines from new contracts generated at the end of 2012 and in the first part of 2013. A change in the sales mix towards lower-margin items also affected the business in the first nine months of the year.

Net income

For the nine month period ended August 31, 2013, the Company's net income attributable to owners increased by 17% over the same period last year. MTY reported a net income and comprehensive income attributable to its owners of \$18.6 million or \$0.97 per share (\$0.97 per diluted share) compared to \$15.8 million or \$0.83 per share (\$0.83 per diluted share) in 2012.

The increase in net income is mostly attributable to the increase in EBITDA described above. The 2012 net income was also impacted by impairment on plant, property and equipment and adverse, non-recurring, adjustment to income taxes. 2013 net income has not suffered from either of these items.

Calculation of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

(in thousands of dollars)

	Nine months ended August 31, 2013	Nine months ended August 31, 2012
Income before taxes	25,347	22,317
Depreciation – property, plant and equipment	824	872
Amortization – intangible assets	2,922	2,896
Interest on long-term debt	225	250
Foreign exchange (gains) losses	(54)	29
Interest income	(383)	(160)
Impairment on property, plant and equipment	-	229
Gain on disposal of property, plant and equipment	(6)	(485)
EBITDA	28,875	25,948

Other income and charges

The gain on disposal of assets, which results from the sale of the assets of corporate stores, decreased to \$0.0 million in 2013 compared to a gain of \$0.5 million in 2012. The 2012 gain was mostly due to the sale of one corporate restaurant that generated above-average returns and thus commanded a higher sales price.

In 2012, the Company also suffered from an impairment of property, plant and equipment of \$0.2 million. No such impairment charge was taken in 2013.

Income taxes

The provision for income taxes as a percentage of income before taxes decreased by 2.7% of pre-tax income during the first nine months of 2013 compared to the same period last year. The 2012 expense was impacted adversely by some non-recurring items.

Results of operations for the third quarter ended August 31, 2013

Revenue

During the third quarter of the 2013 fiscal year, the Company's total revenue increased by 4% to reach \$25.1 million. Revenues for the four segments of business are broken down as follows:

	August 31, 2013 (\$ million)	August 31, 2012 (\$ million)	Variation
Franchise operation	18.5	18.8	(2%)
Corporate stores	3.0	2.7	11%
Distribution	1.5	1.5	(0%)
Food processing	2.4	1.7	41%
Intercompany transactions	(0.2)	(0.5)	N/A
Total operating revenues	25.1	24.2	4%

As is shown in the table above, revenue from franchise locations decreased slightly by 2%. Several factors contributed to the variation, as listed below:

	\$million
Revenues, third quarter of 2012	18.8
Increase in recurring revenue streams	0.5
Decrease in turnkey, sales of material to franchisees and rent revenues	(0.2)
Decrease in initial franchise fees	(0.5)
Other non-material variations	(0.1)
<u>Revenues, third quarter of 2013</u>	<u>18.5</u>

During the third quarter of 2013, the Company had a decrease in initial franchise fee and turnkey revenues compared to the same period in 2012. The franchise fees are recognized as new stores open, and as such are subject to fluctuations from one quarter to the next. The third quarter of 2012 was abnormally strong, while the 2013 number was more in line with the average for the period.

Revenue from corporate owned locations increased 11%, to \$3.0 million during the period. The increase is mainly due to the net increase in the number of corporate stores from 21 stores in 2012 to 27 stores in 2013.

The Company generated food processing revenues of \$2.4 million during the three-month period. The increase of 41% is attributable to the production of new food products.

Cost of sales and other operating expenses

During the third quarter of 2013, operating expenses increased by 2% to \$14.6 million, from \$14.3 million for the same period in 2012. Operating expenses for the four business segments were incurred as follows:

	August 31, 2013 (\$ million)	August 31, 2012 (\$ million)	Variation
Franchise operation	8.4	9.1	(8%)
Corporate stores	2.7	2.5	8%
Distribution	1.4	1.4	0%
Food processing	2.4	1.8	35%
Intercompany transactions	(0.2)	(0.5)	N/A
<u>Total operating expenses</u>	<u>14.6</u>	<u>14.3</u>	<u>2%</u>

Expenses from franchise operations decreased by \$0.7 million in the third quarter of 2013 compared to the same period last year. This is mainly due to the decreased costs of turnkeys as described in the Revenues section above and the reduction in rental costs.

During the third quarter of 2013, expenses for corporate owned locations increased by \$0.2 million and expenses of the food processing plant were up by 28%, both for the reasons described in the Revenues section above.

Earnings before interest, taxes, depreciation and amortization (EBITDA)

	Three months ended August 31, 2013					
(In millions)	Franchise	Corporate	Distribution	Processing	Consolidation	Total
Revenues	\$18.47	\$2.94	\$1.49	\$2.46	(\$0.23)	\$25.13
Expenses	\$8.36	\$2.73	\$1.36	\$2.40	(\$0.23)	\$14.61
EBITDA	\$10.11	\$0.21	\$0.13	\$0.06	\$0.00	\$10.52
EBITDA as a % of Revenue	55%	7%	9%	2%	N/A	42%

	Three months ended August 31, 2012					
(In millions)	Franchise	Corporate	Distribution	Processing	Consolidation	Total
Revenues	\$18.81	\$2.65	\$1.50	\$1.74	(\$0.46)	\$24.24
Expenses	\$9.12	\$2.52	\$1.36	\$1.78	(\$0.46)	\$14.30
EBITDA	\$9.69	\$0.13	\$0.14	(\$0.03)	\$0.00	\$9.94
EBITDA as a % of Revenue	52%	5%	9%	N/A	N/A	41%

Total EBITDA increased by 6%, from \$9.9 million for the third quarter of 2012 to \$10.5 million for the third quarter of 2013.

During the period, the franchising operations generated \$10.1 million in EBITDA, a 4% increase over the results of the same period last year. The increase is mainly due to the reduction in rental costs and the increase in royalty revenues. EBITDA from franchise operations as a percentage of revenue increased to 55% during the third quarter of 2013 because of the higher weight of revenues generating higher margins such as royalties and from the reduction in rental costs.

EBITDA from corporate owned locations increased during the three-month period mainly because of the addition of some profitable stores during 2013.

EBITDA from the food processing plant increased and turned into a gain during the period, mainly because of new product lines added during the year that are now getting past the set up stage.

Net income

For the three month period ended August 31, 2013, the Company's net income attributable to owners increased by 9% over the same period last year. MTY reported a net income and comprehensive income attributable to its owners of \$6.7 million or \$0.35 per share (\$0.35 per diluted share) compared to \$6.1 million or \$0.32 per share (\$0.32 per diluted share) in 2012.

The increase in net income is mostly attributable to the increase in royalties and to the reduction in overhead resulting from efficient cost management.

Calculation of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

(in thousands of dollars)

	Three months ended August 31, 2013	Three months ended August 31, 2012
Income before taxes	9,285	8,426
Depreciation – property, plant and equipment	315	290
Amortization – intangible assets	977	961
Interest on long-term debt	74	76
Foreign exchange (gains) losses	(17)	33
Interest income	(117)	(43)
Impairment on property, plant and equipment	-	229
Gain on disposal of property, plant and equipment	4	(36)
EBITDA	10,521	9,936

Other income and charges

In 2012, the Company suffered from an impairment of property, plant and equipment of \$0.2 million. No such impairment charge was taken in 2013.

Income taxes

The provision for income taxes as a percentage of income before taxes was stable during the quarter compared to the same period last year.

Contractual obligations and long-term debt

The obligations pertaining to the long-term debt and the minimum rentals for the leases that are not subleased are as follows:

For the period ending (In thousands \$)	Long term debt ⁽¹⁾	Net lease commitments	Total contractual obligations
12 months ending August 2014	\$6,825	\$2,733	\$9,527
12 months ending August 2015	\$270	\$2,429	\$2,699
12 months ending August 2016	\$-	\$1,941	\$1,941
12 months ending August 2017	\$-	\$1,873	\$1,873
12 months ending August 2018	\$-	\$1,310	\$1,310
Balance of commitments	\$-	\$2,578	\$2,578
	\$7,095	\$12,864	\$19,928

(1) Amounts shown represent the total amount payable at maturity and are therefore undiscounted. For total commitments, please refer to the August 31, 2013 condensed interim consolidated financial statements

Long-term debt includes non-interest bearing holdbacks on acquisitions, a bank loan used to finance the acquisition of the food processing plant acquired in December 2010 as well as mandatorily redeemable preferred shares issued to a minority shareholder of a subsidiary.

The bank loan used to finance the acquisition of the food processing plant was classified as current in 2013 as two of the covenants were not met as at August 31, 2013.

In addition to the above, the Company has entered into supplier agreements for purchases of coffee beans, wheat, sugar and shortening for delivery between September 2013 and March 2014. The total commitment amounts to \$1.0 million.

In relation to the items listed above, the Company has entered into contracts to minimize the impact of variations in foreign currencies. The total commitment on these contracts amounts to approximately \$0.4 million.

Liquidity and capital resources

As of August 31, 2013, the amount held in cash and cash equivalents totalled \$45.0 million, an increase of \$12.0 million since the end of our 2012 fiscal period. The increase is attributable to the strong cash flows generated by our operations during the first nine months of the 2013 fiscal year, which were partly offset by the payment of income tax balances relating to our 2012 fiscal year and the acquisition of SushiGo.

Cash flows generated by operating activities were \$18.3 million during the first nine months of 2013. Excluding the variation in non-cash working capital items, income taxes and interest paid, our operations generated \$29.8 million in cash flows, compared to \$27.7 million in 2012, which represents an increase of 8%. The main driver for this increase is the 11% increase in EBITDA discussed above.

In the short-term, Management will continue to open new locations that will be funded by new franchisees. MTY will continue its efforts to sell some of its existing corporate owned locations and will seek new opportunities to acquire other food service operations.

During the third quarter, MTY increased its available line of credit to \$30.0 million. It remained unused at August 31, 2013. The facility, when used, bears interest at the bank's annual prime rate plus a margin not exceeding 0.5% established based on the Company's funded debt/EBITDA ratio.

Cash flows generated by our operations are typically held in high yield savings account or guaranteed investment certificates until they are required.

Statement of financial position

Accounts receivable at the end of the third quarter were at \$11.9 million, compared to \$13.6 million at the end of the 2012 fiscal period. The decrease is mainly due to the seasonal nature of certain activities. During the same period, the provision for doubtful accounts has increased by \$0.5 million, mainly as a result of the difficult environment in which some of our franchisees operate that result in uncertain collection of amounts due.

Accounts payable decreased to \$10.3 million from \$13.4 million between November 30, 2012 and August 31, 2013. This decrease is mainly related to the seasonal nature of certain activities, and as such varies somewhat in line with the amount of accounts receivable.

Provisions, which are composed of litigation and dispute, closed store and gift card provisions, were at \$1.9 million at August 31, 2013 compared to \$2.3 million at year end. The provision was impacted by additions of \$0.7 million offset by payments of \$0.6 million and reversals of \$0.4 million.

Deferred revenues consist of supplier contributions, which are earned on a consumption basis, and initial franchise fees, which are recognized once substantially all of the initial services have been performed by the Company. The balance as at August 31, 2013 was \$2.7 million, an increase of \$0.5 million compared to the balance at the end of 2012. The variation is due to increases in both franchise fee deposits and supplier contributions; franchise fee deposits are dependent on the level of activity and deliveries during a certain period; supplier contributions were impacted by material receipts during the first quarter. These amounts will be recognized into revenues as they are earned.

The long-term debt is composed of non-interest bearing holdbacks on acquisitions, of bank loans contracted by a subsidiary to finance an acquisition and of mandatorily redeemable preferred shares payable to a minority shareholder of a subsidiary. During the nine month period, repayments of \$0.2 million were made on the bank loan of a subsidiary and of \$0.4 million on holdbacks. There were no issuances since the beginning of the year; however a new holdback on the acquisition of SushiGo was recorded for \$0.1 million.

One third of the preferred shares will be redeemed annually at a value that is contingent on the performance of a subsidiary. Management expects that the value of the preferred shares at redemption will be approximately \$100,000.

Further details on the above statement of financial position items can be found in the notes to the August 31, 2013 condensed interim consolidated financial statements.

Capital stock

No shares were issued during the third quarter ended August 31, 2013. As at October 3, 2013 there were 19,120,567 common shares of MTY outstanding.

Location information

MTY's locations can be found in: i) food courts and shopping malls; ii) street front; and iii) non-traditional format within petroleum retailers, convenience stores, cinemas, amusement parks and in other venues or retailers shared sites. The non-traditional locations are typically smaller in size, require lower investment and generate lower revenue than the shopping malls, food courts and street front locations.

	Number of locations nine months ended <u>August 2013</u>	Number of locations nine months ended <u>August 2012</u>
Franchises, beginning of year	2,179	2,233
Corporate owned, beginning of year	20	30
Acquired during the year	5	-
Opened during the period		
Mall	36	32
Street	35	23
Non-traditional	38	31
Closed during the period		
Mall	(11)	(33)
Street	(22)	(20)
Non-traditional	(47)	(88)
Total end of period	2,233	2,208
Franchises, end of period	2,206	2,187
Corporate owned, end of period	27	21
Total end of period	2,233	2,208

During the nine month period ended August 31, 2013, the Company's network experienced a net addition of 34 outlets, compared to a net decrease of 55 stores for the same period a year ago. The variance is mostly due to the termination of two contracts in 2012 that resulted in the loss of 49 low-volume non-traditional stores. During the second quarter of 2013, the Company suffered the loss of seven non-traditional outlets resulting from the non-renewal of the Company's agreement with the owner of an amusement park.

At the end of the period, the Company had 27 corporate stores, a net increase of seven compared to the end of our 2012 fiscal period. During the nine month period, three corporate-owned locations were sold, two were closed and twelve were added.

As at August 31, 2013, there were two test locations in operation, both which were excluded from the numbers presented above.

The chart below provides the breakdown of MTY's locations and system sales by type:

Location type	% of location count		% of system sales 9 months ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Shopping mall & food court	39%	37%	48%	46%
Street front	36%	37%	42%	44%
Non-traditional format	25%	26%	10%	10%

The geographical breakdown of MTY's locations and system sales consists of:

Geographical location	% of location count		% of system sales 9 months ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Ontario	46%	46%	35%	36%
Quebec	28%	28%	34%	34%
Western Canada	20%	20%	25%	24%
Maritimes	2%	2%	1%	1%
International	4%	4%	5%	5%

System wide sales

System wide sales for the nine month period ended August 31, 2013 increased by 0.4%, to \$517.1 million, compared to \$515.1 million in the same period last year. During the third quarter of 2013, system sales reached \$180.5 million, up 0.4% compared to the third quarter of 2012.

System wide sales include sales for corporate and franchise locations and exclude sales realized by the distribution center or by the food processing plant.

Same-store sales

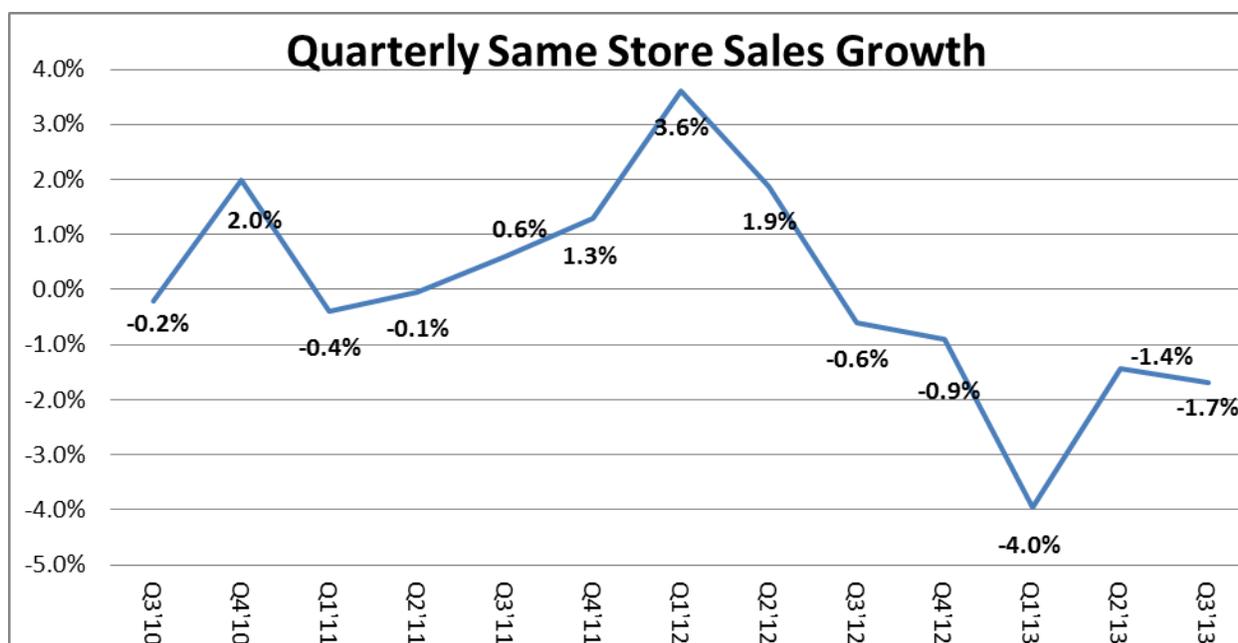
Sales results of the third quarter were again affected by a difficult economic environment resulting in a decline in same-store-sales of 1.7%. This brought the nine-month period decline in same-store-sales to 2.3%.

The third quarter started off very weak in June; most brands showed important decreases compared to June of 2012. This was especially true for our frozen treats brands, which suffered from the cold and wet start to the summer.

Same-store-sales for both July and August 2013 recovered slightly although still showed declines over prior year sales. The slight improvement over the month of June was attributed to marketing efforts although uncertain economic environment, strong competitive pressures on some of our brands and adverse weather condition still played a major role in the negative trend compared to prior year.

During the third quarter, restaurants located in malls generally performed the best, with street front locations being the weakest. Outlets located in Ontario are slower to recover than those located in other provinces, while those located in Alberta and Saskatchewan are still very strong.

The following table shows quarterly information on same-stores sales growth for the last 13 quarters:



Stock options

During the period, no options were granted or exercised. As at August 31, 2013 there were no options outstanding.

Seasonality

Results of operations for the interim period are not necessarily indicative of the results of operations for the full year. The Company expects that seasonality will not be a material factor in the quarterly variation of its results. System sales fluctuate seasonally. During January and February sales are historically lower than average due to weather conditions. Sales are historically above average during May to August. This is generally as a result of higher traffic in the street front locations, higher sales from seasonal locations only operating during the summer months and higher sales from shopping centre locations. Sales for shopping malls locations are also higher than average in December during the Christmas shopping period.

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 financial statements of the Company.

Guarantee

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

Risks and uncertainties

Despite the fact that the Company has various numbers of concepts, diversified in type of locations and geographics across Canada, the performance of the Company is also influenced by changes in demographic trends, traffic patterns, occupancy level of malls and office towers and the type, number, and location of competing restaurants. In addition, factors such as innovation, increased food costs, labour and benefits costs, occupancy costs and the availability of experienced management and hourly employees may adversely affect the Company. Changing consumer preferences and discretionary spending patterns could oblige the Company to modify or discontinue concepts and/or menus and could result in a reduction of revenue and operating income. Even if the Company was able to compete successfully with other restaurant companies with similar concepts, it may be forced to make changes in one or more of its concepts in order to respond to changes in consumer tastes or dining patterns. If the Company changes a concept, it may lose additional customers who do not prefer the new concept and menu, and it may not be able to attract a sufficient new customer base to produce the revenue needed to make the concept profitable. Similarly, the Company may have different or additional competitors for its intended customers as a result of such a concept change and may not be able to successfully compete against such competitors. The Company's success also depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce customer traffic or impose practical limits on pricing, either of which could reduce revenue and operating income.

The growth of MTY is dependant on maintaining the current franchise system which is subject to the renewal of existing leases at sustainable rates, MTY's ability to continue to expand by obtaining acceptable store sites and lease terms, obtaining qualified franchisees, increasing comparable store sales and completing acquisitions. The time, energy and resources involved in the integration of the acquired businesses into the MTY system and culture could also have an impact on MTY's results.

Off-balance sheet arrangement

MTY has no off-balance sheet arrangements

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 nine-month period was as follows:

<i>(in thousands)</i>	Period ended August 31, 2013	Period ended August 31, 2012
	\$	\$
Short-term benefits	593	493
Post-employment benefits, share-based payments and other long-term benefits	Nil	Nil
Board member fees	32	37
Total remuneration of key management personnel	625	530

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.

The increase in the remuneration of key management personnel is mainly due to the division in the COO/CFO role into two distinct positions.

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.

The Company also pays employment benefits to individuals related to members of the key management personnel described above. Their total remuneration for the nine-month period was as follows

<i>(in thousands)</i>	Period ended August 31, 2013	Period ended August 31, 2012
	\$	\$
Short-term benefits	260	397
Post-employment benefits, share-based payments and other long-term benefits	Nil	Nil
<hr/>		
Total remuneration of employees related to key management personnel	260	397
<hr/>		

A corporation owned by individuals related to key management personnel has participation in two of the Company's subsidiaries. During the period ended August 31, 2013, dividends of \$27 (2012- nil) were paid by those subsidiaries to the above-mentioned company, and advances of nil (2012- nil) were repaid.

Critical accounting estimates

In the application of the Company's accounting policies, which are described in note 3 of the Company's annual consolidated financial statements for the year ended November 30, 2012, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements.

Identification of cash-generating units

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting period date. Doing so first requires the identification of cash-generating units; the determination

is done based on management's best estimation of what constitutes the lowest level at which an asset or group of asset has the possibility of generating cash inflows.

Revenue recognition

In making their judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods and for construction contracts set out in IAS 18 Revenue and, in particular, whether the Company had transferred to the buyer the significant risks and rewards of ownership of the goods.

Consolidation of special purpose entities

In determining which entities are required to be consolidated in the fashion described below, the Company must exercise judgment to determine who has *de facto* control of the entities being considered. Such judgment is reassessed yearly to take into account the most recent facts relevant to each entity's situation.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Business combinations

For business combinations, the Company must make assumptions and estimates to determine the purchase price allocation of the business being acquired. To do so, the Company must determine the acquisition-date fair value of the identifiable assets acquired, including such intangible assets as franchise rights and trademarks, and liabilities assumed. Goodwill is measured as the excess of the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree over the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. These assumptions and estimates have an impact on the asset and liability amounts recorded in the consolidated statement of financial position on the acquisition date. In addition, the estimated useful lives of the acquired amortizable assets, the identification of intangible assets and the determination of the indefinite or finite useful lives of intangible assets acquired will have an impact on the Company's future profit or loss.

Impairment of non-financial assets

The recoverable amounts of the Company's assets is generally estimated based on value-in-use calculations as this was determined to be higher than fair value less cost to sell, except for certain corporate store assets for which fair value less cost to sell was higher than their value in use. The fair value less cost to sell of corporate stores is generally determined by estimating the liquidation value of the restaurant equipment.

Other than the value of the assets of certain corporate stores and of one of the company's trademarks, the value in use of cash-generating units ("CGUs") tested was higher or equal to the carrying value of the assets. Impairment assessments were established using a 17% discount rate on the corporate store CGU's and 15% on the trademarks and franchise rights. Discount rates are based on pre-tax rates that reflect the current market assessments, taking the time value of money and the risks specific to the CGU into account.

These calculations take into account our best estimate of future cash flows, using previous year's cash flows for each CGU to extrapolate a CGU's future performance to the earlier of the termination of the lease (if applicable) or 5 years and a terminal value is calculated beyond this period, assuming no growth to the cash flows of previous periods. A cash flow period of 5 years was used as predictability for future periods cannot be estimated with reasonable accuracy.

A 1% change to the discount rate used in the calculation of the impairment would result in an additional impairment of \$41 on the trademarks and franchise rights and \$7 on the property, plant and equipment of our corporate stores.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. It was determined that goodwill is not impaired as at August 31, 2013 and November 30, 2012.

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

Useful lives of property, plant and equipment and intangible assets

The Company reviews the estimated useful lives of property, plant and equipment and intangible assets with definite useful lives at the end of each year and assesses whether the useful lives of certain items should be shortened or extended, due to various factors including technology, competition and revised service offerings.

Provisions

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

Revenue recognition for construction and renovation contracts

Restaurant construction and renovation revenue is recognized by reference to the stage of completion of the contract activity at the end of the reporting period. Management makes an estimate on the percentage of completion based on costs incurred to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion.

Valuation of financial instruments

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

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

Consolidation of special purpose entities

The Company is required to consolidate a small number of special purpose entities. In doing so, the Company must make assumptions with respect to some information that is either not readily available or that is not available within reporting time frames. As a result, assumptions and estimates are made to establish a value for the current assets, short-term and long-term liabilities and results of operations in general.

Onerous contracts

A provision for onerous contracts is recognized when the unavoidable costs of meeting our obligations under the contract exceed the expected benefits to be received from the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of completing the contract.

Contingencies

The Company is involved in various litigation and disputes as a part of the business that could affect some of its operating segments. Pending litigations represent potential loss to the business.

MTY accrues potential losses if it believes the loss is probable and can be reasonably estimated, based on information that is available at the time. Any accrual would be charged to earnings and included in accounts payable and accrued liabilities. Any cash settlement would be deducted from cash from operating activities. Management estimates the amount of the loss by analyzing potential outcomes and assuming various litigation and settlement strategies.

Accounts receivable

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

Trade receivables 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.

Future accounting changes

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" was issued in November 2009 and contains requirements for financial assets. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 "Financial Instruments: Recognition and Measurement" for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent they do not clearly represent a return on investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

In October 2010, the IASB amended IFRS 9 "Financial Instruments," which replaced IFRS 9 "Financial Instruments" and IFRIC 9 "Reassessment of Embedded Derivatives." This change provides guidance on classification, reclassification and measurement of financial liabilities and on the presentation of gains and losses, through profit or loss, of financial liabilities designated as measured at fair value. The requirements for financial liabilities, added in October 2010, largely replicate the requirements of IAS 39 "Financial Instruments: Recognition and Measurement," except with respect to changes in fair value attributable to credit risk for liabilities designated as measured at fair value through profit or loss, which would generally be recognized in other comprehensive income.

This new standard applies to fiscal years beginning on or after January 1, 2015. Early application is permitted.

IFRS 10 “Consolidated Financial Statements”

In May 2011, the IASB issued IFRS 10 “Consolidated Financial Statements,” which establishes principles for the preparation and presentation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 provides a single consolidation model that identifies control as being the basis for consolidation. The new standard describes how to apply the principle of control to identify situations when a company controls another company and must therefore present consolidated financial statements. IFRS 10 also provides disclosure requirements for the presentation of consolidated financial statements. IFRS 10 cancels and replaces IAS 27 “Consolidated and Separate Financial Statements” and SIC-12 “Consolidation – Special Purpose Entities.”

This new standard applies to fiscal years beginning on or after January 1, 2013. Early application is permitted.

IFRS 12 “Disclosure of Interests in Other Entities”

In May 2011, the IASB issued IFRS 12 “Disclosure of Interests in Other Entities.” IFRS 12 incorporates, in a single standard, guidance on disclosing interests in subsidiaries, joint arrangements, associates and structured entities. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the basis of control, any restrictions on consolidated assets and liabilities, exposures to risks arising from interests in non-consolidated structured entities and the share of minority interests in the activities of consolidated entities.

This new standard applies to fiscal years beginning on or after January 1, 2013. Early application is permitted.

IFRS 13 “Fair Value Measurement”

In May 2011, the IASB issued a guide to fair value measurement providing note disclosure requirements. The guide is set out in IFRS 13 “Fair Value Measurement,” and its objective is to provide a single framework for measuring fair value under IFRS. It does not provide additional opportunities to use fair value.

This new standard applies to fiscal years beginning on or after January 1, 2013. Early application is permitted.

IAS 19 “Employee Benefits”

In June 2011, the IASB amended IAS 19 “Employee Benefits” to improve the accounting for pensions and other post-employment benefits. The amendments make important improvements by:

- Eliminating the option to defer the recognition of gains and losses, known as the “corridor method” or the “deferral and amortization approach”;
- Simplifying the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring re-measurements to be presented in other comprehensive income, thereby separating those changes from changes frequently perceived to be the result of day-to-day operations; and
- Enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks to which entities are exposed through their participation in those plans.

This amended version of this standard applies to fiscal years beginning on or after January 1, 2013. Early application is permitted.

IFRS 7 “Financial Instruments: Disclosures” and IAS 32 “Financial Instruments: Presentation”

In December 2011, the IASB amended IFRS 7 “Financial Instruments: Disclosures” and IAS 32 “Financial Instruments: Presentation” as part of its offsetting financial assets and financial liabilities project. IFRS 7 was amended to harmonize the disclosure requirements with those of the Financial Accounting Standards Board (FASB), while IAS 32 was amended to clarify certain items and address inconsistencies encountered upon practical application of the standard.

The amended versions of IFRS 7 and IAS 32 apply retrospectively to annual periods beginning on or after January 1, 2013 and on or after January 1, 2014, respectively. Early application is permitted.

The Company is assessing the impact of adopting these new standards on its consolidated financial statements.

Economic environment risk

The business of the Company is dependent upon numerous aspects of a healthy general economic environment, from strong consumer spending to provide sales revenue, to available credit to finance the franchisees and the Company. In light of recent upheaval in economic, credit and capital markets, the Company’s performance and market price may be adversely affected. The Company’s current planning assumptions forecast that the quick service restaurant industry will be impacted by the current economic recession in the provinces in which it operates. However, management is of the opinion that the current economic situation will not have a major impact on the Company due to the following reasons: 1) the Company has strong cash flows; 2) quick service restaurants represent an affordable dining out option for consumers in an economic slowdown.

Financial instruments and financial risk exposure

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:

In thousands of \$

	At August 31, 2013		At November 30, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	44,973	44,973	33,036	33,036
Accounts receivable	11,899	11,899	13,631	13,631
Loans receivable	1,054	1,054	919	919
Prepaid and deposits	492	492	338	338
Financial liabilities				
Accounts payable and accrued liabilities	10,255	10,255	13,426	13,426
Long-term debt	7,064	7,064	7,476	7,476

Determination of fair value

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

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

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 estimated borrowing rate for a similar debt.

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 August 31, 2013.

Credit risk

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

- Other than receivables from international locations, the Company's broad client base is spread mostly across Canada limits the concentration of credit risk.

- The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual account receivable.

The credit risk on cash and cash equivalents is limited because the Company invests its excess liquidity in high quality financial instruments and with credit-worthy counterparties.

The credit risk on the loans receivable is similar to that of accounts receivable. There is currently an allowance for doubtful accounts recorded for loans receivable of \$112,000 (\$55,000 as at November 30, 2012).

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 August 31, 2013, the total value of such contracts was approximately \$394,000.

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.

As of August 31, 2013, the Company carried US\$ cash of CDN\$400,232 and had net accounts receivable of CDN\$316,187. As a result, a 1% change in foreign exchange rates would result in a change in net comprehensive income of approximately \$7,000 Canadian dollars.

Interest rate risk

The Company is exposed to interest rate risk with regards to its cash equivalents. Given the very short term nature of these cash equivalents, 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 is minimal.

A 100 basis points increase in the bank's prime rate would result in additional interest of \$32,000 per annum on the outstanding bank loan.

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 August 31, 2013:

In thousands of \$

	Carrying Amount	Contractual Cash Flows	0 to 6 Months	6 to 12 Months	12 to 24 Months
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	10,255	10,255	10,255	-	-
Long-term debt	7,064	7,095	6,692	133	270
Interest on long-term debt	N/A	N/A	93	69	123
	17,319	17,350	17,040	202	393

Outlook

It is Management's opinion that the trend in the quick service restaurants industry will continue to grow in response to the demand from busy and on-the-go consumers.

Management will maintain its focus on maximizing the value of new locations and concepts to our network.

Management also remains committed on offering its customers a wide range of innovative menus and modern store designs. The quick service restaurant industry will remain challenging in the future, and management believes that the focus on the food offering, consistency and store design will give MTY's restaurants a stronger position to face challenges.

Subsequent Events

Extreme Brandz acquisition

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, funded from the Company's cash on hand. The Company has completed the acquisition on September 24, 2013.

At the date of closing, Extreme Brandz had over 235 Extreme Pita and over 70 Mucho Burrito restaurants in operations in Canada and in the United States, of which five are corporately-owned.

Thai Zone acquisition

On August 13, 2013, the Company announced it had reached a binding agreement to acquire 80% of the assets of Alimentation Thai Zone www.thaizone.ca, for a total consideration of \$17.7 million, funded from the Company's cash on hand and available line of credit. The acquisition was completed on September 30, 2013. Thai Zone currently has a network of 25 stores.

The purchase price allocation of both acquisitions had not been completed at the date the statements were approved as post-closing adjustments had not been completed and relevant data remained to be compiled to finalize the allocation. It is expected that a preliminary purchase price allocation will be provided with the Company's November 30, 2013 consolidated financial statements.

Controls and Procedures

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with the securities regulatory authorities are recorded, processed, summarized and reported in a timely fashion. The disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in such reports is then accumulated and communicated to the Company's management to ensure timely decisions regarding required disclosure.

Internal controls over financial reporting

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The Chief Executive Officer and the Chief Financial Officer, together with Management, after evaluating the effectiveness of the Company's internal control over financial reporting as at August 31, 2013, have concluded that the Company's internal control over financial reporting was effective.

The Chief Executive Officer and the Chief Financial Officer, together with Management, have concluded after having conducted an evaluation and to the best of their knowledge that, as at August 31, 2013, no change in the Company's internal control over financial reporting occurred that could have materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

Limitations of Controls and Procedures

Management, including the President and Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

Limitation on scope of design

The Company's management, with the participation of its President and Chief Executive Officer and Chief Financial Officer, has limited the scope of the design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures and internal control over financial reporting of certain special purpose entities ("SPEs") on which the Company has the ability to exercise *de facto* control and which have as a result been consolidated in the Company's condensed interim consolidated financial statements. For the nine-month period ended August 31, 2013, these SPEs represent 0% of the Company's current assets, 0% of its non-current assets, 1% of the Company's current liabilities, 0% of long-term liabilities, 5% of the Company's revenues and 0% of the Company's net earnings.

"Stanley Ma"

Stanley Ma, Chief Executive Officer

"Eric Lefebvre"

Eric Lefebvre, CPA, CA, MBA Chief Financial Officer