

Consolidated financial statements of

MTY FOOD GROUP INC.

For the years ended November 30, 2013 and 2012

MTY FOOD GROUP INC.

Consolidated income statements

For the years ended November 30, 2013 and 2012

(in thousands of Canadian dollars except per share amounts)

	2013	2012
	\$	\$
Revenue (notes 24 and 31)	101,360	96,220
Expenses		
Operating expenses (notes 25 and 31)	62,125	61,294
Depreciation – property, plant and equipment	1,108	1,128
Amortization – intangible assets	4,223	3,867
Interest on long-term debt	291	335
	67,747	66,624
Other income (charges)		
Foreign exchange gain (loss)	53	(27)
Interest income	487	282
Gain on preferred share redemption (note 18)	-	100
Gain on loan forgiveness of a non-controlling shareholder of a subsidiary (note 18)	-	110
Reversal of impairment (impairment charge) on property, plant and equipment (note 4)	64	(68)
Gain on disposal of property, plant and equipment	317	511
Other income	76	-
	997	908
Income before taxes	34,610	30,504
Income taxes (note 30)		
Current	7,713	8,511
Deferred	1,236	(61)
	8,949	8,450
Net income	25,661	22,054
Net income (loss) attributable to:		
Owners	25,712	22,067
Non controlling interest	(51)	(13)
	25,661	22,054
Earnings per share (note 21)		
Basic	1.34	1.15
Diluted	1.34	1.15

See accompanying notes to the consolidated financial statements

MTY FOOD GROUP INC.

Consolidated statements of comprehensive income

For the years ended November 30, 2013 and 2012

(in thousands of Canadian dollars except per share amounts)

	2013	2012
	\$	\$
Net earnings	25,661	22,054
Other comprehensive gain, net of income taxes		
Foreign exchange impact of The Extreme Pita Franchising USA Inc. and Mucho Burrito Franchising USA Inc.	6	-
Other comprehensive gain	6	-
Total comprehensive income	25,667	22,054
Total comprehensive income (loss) attributable to:		
Owners	25,718	22,067
Non controlling interest	(51)	(13)
	25,667	22,054

See accompanying notes to the consolidated financial statements

MTY FOOD GROUP INC.

Consolidated statements of financial position

as at November 30, 2013 and 2012

(in thousands of Canadian dollars except per share amounts)

	November 30, 2013	November 30, 2012
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (note 7)	6,136	33,036
Accounts receivable (note 8)	13,452	13,631
Inventories (note 9)	1,029	1,609
Loans receivable (note 10)	400	358
Investment in subsidiary held-for-sale (note 11)	1,377	-
Prepaid expenses and deposits	430	338
	22,824	48,972
Loans receivable (note 10)	578	561
Property, plant and equipment (note 12)	6,213	9,382
Intangible assets (note 13)	96,978	57,213
Deferred income taxes (note 30)	-	167
Goodwill (note 14)	46,451	20,266
	173,044	136,561
Liabilities		
Current liabilities		
Line of credit (note 15)	12,000	-
Accounts payable and accrued liabilities	11,903	13,426
Provisions (note 16)	1,791	2,266
Income taxes payable	414	2,863
Deferred revenue and deposits (note 17)	3,655	2,169
Current portion of long-term debt (note 18)	2,703	7,199
	32,466	27,923
Long-term debt (note 18)	4,466	277
Deferred income taxes (note 30)	5,303	2,298
	42,235	30,498
Commitments, guarantee and contingent liabilities (notes 26, 27, 28 and 29)		
Shareholders' equity		
Equity attributable to owners		
Capital stock (note 19)	19,792	19,792
Contributed surplus	481	481
Accumulated other comprehensive income	6	-
Retained earnings	105,993	85,635
	126,272	105,908
Equity attributable to non-controlling interest	4,537	155
	130,809	106,063
	173,044	136,561

See accompanying notes to the consolidated financial statements

Approved by the Board on February 12, 2014

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

MTY FOOD GROUP INC.

Consolidated statements of changes in shareholders' equity

For the years ended November 30, 2013 and 2012

(in thousands of Canadian dollars except per share amounts)

	Equity attributable to owners					Equity attributable to non-controlling interest	
	Capital Stock	Contributed surplus	Accumulated		Total	Total	
			Other Comprehensive income	Retained earnings			
	\$	\$	\$	\$	\$	\$	
Balance as at November 30, 2011	19,792	481	-	67,800	88,073	37	88,110
Net income and comprehensive income for the year ended November 30, 2012	-	-	-	22,067	22,067	(13)	22,054
Investment in common stock of a subsidiary by non-controlling interest	-	-	-	-	-	147	147
Equity transaction with non-controlling interest	-	-	-	(26)	(26)	34	8
Dividends	-	-	-	(4,206)	(4,206)	(50)	(4,256)
Balance as at November 30, 2012	19,792	481	-	85,635	105,908	155	106,063
Net income and comprehensive income for the year ended November 30, 2013	-	-	-	25,712	25,712	(51)	25,661
Other comprehensive income	-	-	6	-	6	-	6
Reclassification of investment in subsidiary now held-for-sale	-	-	-	-	-	69	69
Acquisition of 9286-5591 Quebec Inc.	-	-	-	-	-	4,425	4,425
Investment in common stock of a subsidiary by non-controlling interest	-	-	-	-	-	49	49
Dividends	-	-	-	(5,354)	(5,354)	(110)	(5,464)
Balance as at November 30, 2013	19,792	481	6	105,993	126,272	4,537	130,809

The following dividends were declared and paid by the Company:

	November 30, 2013	November 30, 2012
	\$	\$
\$0.2800 per common share (2012 - \$0.220 per common share)	5,354	4,206

See accompanying notes to the consolidated financial statements

MTY FOOD GROUP INC.

Consolidated statements of cash flows

For the years ended November 30, 2013 and 2012

(in thousands of Canadian dollars except per share amounts)

	November 30, 2013	November 30, 2012
	\$	\$
Operating activities		
Net income	25,661	22,054
Items not affecting cash:		
Interest on long-term debt	291	335
Depreciation – property, plant and equipment	1,108	1,128
Amortization – intangible assets	4,223	3,867
(Gain) on disposal of property, plant and equipment	(317)	(511)
Impairment of property, plant and equipment	(64)	68
Unrealized foreign exchange gains	16	-
Unrealized foreign exchange gains on other comprehensive income	6	-
Other income	(76)	-
Gain on preferred share redemption	-	(100)
Gain on loan forgiveness of a non-controlling shareholder of a subsidiary	-	(110)
Income tax expense	8,949	8,450
Deferred revenue	(113)	608
	39,684	35,789
Income tax refunds received	624	1,041
Income taxes paid	(10,817)	(5,269)
Interest paid	(113)	(162)
Changes in non-cash working capital items	(2,857)	(2,002)
Cash flows provided by operating activities	26,521	29,397
Investing activities		
Net cash outflow on acquisitions	(56,469)	(748)
Temporary investments	-	4,632
Additions to property, plant and equipment	(838)	(1,057)
Additions to intangible assets	(346)	(518)
Proceeds on disposal of property, plant and equipment	1,041	1,108
Reclassification of investment in subsidiary now held as held-for-sale	(117)	-
Cash flows (used in) provided by investing activities	(56,729)	3,417
Financing activities		
Draw on line of credit	12,000	-
Issuance of long-term debt	-	58
Repayment of long-term debt	(3,677)	(1,722)
Issuance of shares to non-controlling interest of subsidiaries	49	147
Dividends paid to non-controlling shareholders of subsidiaries	(110)	(50)
Dividends paid	(5,354)	(4,206)
Cash flows used in financing activities	2,908	(5,773)
Net increase in cash and cash equivalents	(27,300)	27,041
Cash and cash equivalents, beginning of period	33,036	5,995
Cash and cash equivalents acquired (note 6)	400	-
Cash and cash equivalents, end of period	6,136	33,036

Additional cash flow information is presented in note 32.

MTY FOOD GROUP INC.

Table of Contents

1.	DESCRIPTION OF THE BUSINESS	8
2.	BASIS OF PREPARATION	8
3.	SIGNIFICANT ACCOUNTING POLICIES	8
4.	CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY	23
5.	FUTURE ACCOUNTING CHANGES.....	27
6.	BUSINESS ACQUISITIONS.....	28
7.	CASH AND CASH EQUIVALENTS.....	33
8.	ACCOUNTS RECEIVABLE	34
9.	INVENTORIES	35
10.	LOANS RECEIVABLE	35
11.	INVESTMENT IN SUBSIDIARY HELD-FOR-SALE	36
12.	PROPERTY, PLANT AND EQUIPMENT.....	36
13.	INTANGIBLE ASSETS	38
14.	GOODWILL	40
15.	CREDIT FACILITIES	40
16.	PROVISIONS	41
17.	DEFERRED REVENUE AND DEPOSITS	42
18.	LONG-TERM DEBT	42
19.	CAPITAL STOCK	43
20.	STOCK OPTIONS	43
21.	EARNINGS PER SHARE	43
22.	FINANCIAL INSTRUMENTS.....	44
23.	CAPITAL DISCLOSURES	46
24.	REVENUES	47
25.	OPERATING EXPENSES	48
26.	OPERATING LEASE ARRANGEMENTS	48
27.	COMMITMENTS	49
28.	GUARANTEE	49
29.	CONTINGENT LIABILITIES.....	49
30.	INCOME TAXES.....	49
31.	SEGMENTED INFORMATION	51
32.	STATEMENT OF CASH FLOWS	54
33.	RELATED PARTY TRANSACTIONS	54

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

1. Description of the business

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

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

2. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value and for provisions that have been measured at management’s best estimate. The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company, and tabular amounts are rounded to the nearest thousand (\$000) except when otherwise indicated.

Statement of compliance

The Company’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were authorized for issue by the Board of Directors on February 12, 2014.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Principal subsidiaries are as follows:

<u>Principal subsidiaries</u>	<u>Percentage of equity interest</u>
	%
MTY Tiki Ming Enterprises Inc.	100
The Extreme Pita Franchising USA, Inc.	100
Mucho Burrito Franchising USA, Inc.	100
9286-5591 Quebec Inc.	80
154338 Canada Inc.	50

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

3. Significant accounting policies (continued)

Income and expenses of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition. The subsidiaries are consolidated from the acquisition date until the date on which the Company ceases to control them. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intercompany transactions, balances, revenues and expenses are eliminated in full on consolidation.

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

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value. This is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company and liabilities incurred by the Company to the former owners of the acquiree in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

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

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

3. Significant accounting policies (continued)

Business combinations (continued)

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

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Changes of ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions, with no effect on net earnings or on other comprehensive income.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Where goodwill forms part of a cash-generating unit and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation and the portion of the cash-generating unit retained.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

3. Significant accounting policies (continued)

Revenue recognition

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

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

i. Revenue from franchise locations

Royalties are based either on a percentage of gross sales as reported by the franchisees or on a fixed monthly fee. They are recognized on an accrual basis in accordance with the substance of the relevant agreement, provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

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

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

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

Master license fees are recognized when the Company has performed substantially all material initial obligations under the agreement, which usually occurs when the agreement is signed, which is recorded in initial franchise fees (note 24).

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. This revenue is recorded in other revenue (note 24).

The Company earns rent revenues on certain leases it holds and sign rental revenues; the Company's policy is described below.

The Company receives considerations from certain suppliers. Supplier contributions are recognized as revenues as they are earned and are recorded in other franchising revenue (note 24).

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

3. Significant accounting policies (continued)

Revenue recognition (continued)

ii. Revenue from distribution center

Distribution revenues are recognized when goods have been delivered or when significant risks and rewards of ownership have been transferred and it is probable that the economic benefit associated with the transaction will flow to the Company.

iii. Revenue from food processing

Food processing revenues are recognized when goods have been delivered to end-users or when significant risks and rewards of ownership have been transferred to distributors and it is probable that the economic benefit associated with the transaction will flow to the Company.

iv. Revenue from corporate-owned locations

Revenue from corporate-owned locations is recorded when goods are delivered to customers.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Company as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Functional and presentation currency

These consolidated financial statements are presented using the Company's functional currency, which is the Canadian dollar. Each entity of the Company determines its own functional currency, and the financial statement items of each entity are measured using that functional currency. Functional currency is the currency of the primary economic environment in which the entity operates.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

3. Significant accounting policies (continued)

Foreign currencies

At the end of each reporting period, monetary assets and liabilities that are denominated in a currency other than the Company's functional currency are translated using the exchange rate prevailing at that date. Non-monetary items are translated using historical exchange rates. Revenues and expenses are translated at the exchange rate in effect on the transaction date, except for depreciation and amortization, which are translated using historical exchange rates. Exchange gains and losses are recognized in profit or loss in the period in which they arise in other (gains) losses. The assets and liabilities of a foreign operation with a functional currency different from that of the Company are translated using the exchange rate in effect on the reporting date. Revenues and expenses are translated using the exchange rate in effect on the transaction date. Exchange differences arising from the translation of a foreign operation are recognized in other comprehensive income. Upon complete or partial disposal of the investment in the foreign operation, the foreign currency translation reserve or a portion of it will be recognized in profit or loss in other (gains) losses.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

3. Significant accounting policies (continued)

Taxation (continued)

Deferred tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Investment in subsidiary held-for-sale

An investment in a subsidiary is classified as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the investment is available for immediate sale in its present condition. Management must be committed to the sale and expect the sale to be completed within a year from the date the investment is classified as held-for-sale.

Investments in subsidiaries classified as held-for-sale are measured at the lower of its carrying amount and its fair value less costs to sell. Impairment losses on an investment initially classified as held-for-sale and gains or losses on subsequent remeasurement are recognized in profit or loss. Once classified as held-for-sale, property, plant and equipment and intangible assets are no longer depreciated and amortized.

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their historical costs less accumulated depreciation (buildings) and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly attributable to bringing the asset to a working condition for its intended use.

Equipment, leasehold improvements, rolling stock and computer hardware are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost or valuation of assets (other than land) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate accounted for on a prospective basis.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

3. Significant accounting policies (continued)

Property, plant and equipment (continued)

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Depreciation is based on the following terms:

Buildings		
Structure and components	Straight-line	25 to 50 years
Equipment	Straight-line	3 to 10 years
Leasehold improvements and signs	Straight-line	Term of the lease
Rolling stock	Straight-line	5 to 7 years
Computer hardware	Straight-line	3 to 7 years

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful lives and amortization methods are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets having a finite life acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets having an indefinite life are not amortized and are therefore carried at cost less accumulated impairment losses, if applicable.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

3. Significant accounting policies (continued)

Intangible assets (continued)

The Company currently carries the following intangible assets in its books:

Franchise rights and master franchise rights

The franchise rights and master franchise rights acquired through business combinations were recognized at the fair value of the estimated future revenue stream related to the acquisition of franchises. The franchise rights and master franchise rights are generally amortized on a straight-line basis over the term of the agreements which typically range between 10 to 20 years.

Some master franchise rights have no specific terms; as a result, those are not amortized as they have an indefinite life.

Step-in rights

Step-in rights are the rights of the Company to take over the premises and associated lease of a franchised location in the event the franchise is in default of payments. These are acquired through business combinations and are recognized at their fair value at the time of the acquisition. They are amortized over the term of the franchise agreement.

Trademarks

Trademarks acquired through business combinations were recognized at their fair value at the time of the acquisition and are not amortized. Trademarks were determined to have an indefinite useful life based on their strong brand recognition and their ability to generate revenues through changing economic conditions with no foreseeable time limit.

Leases

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

Other

Included in other intangible assets are distributions rights obtained from the acquisition of Country Style Food Services Inc., which were being amortized over the remaining life of the contracts. The distribution rights were fully amortized at the end of the period.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

3. Significant accounting policies (continued)

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Impairment of goodwill

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

At the end of each reporting period, the Company reviews the carrying amounts of goodwill to determine whether there is any indication that it has suffered an impairment loss. If any such indication exists, the recoverable amount of the cash-generating unit to which goodwill is allocated is estimated in order to determine the extent of the impairment loss (if any). If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated income statement. An impairment loss recognized for goodwill is not reversed in subsequent periods. Regardless of whether there is an indication of impairment or not, goodwill is tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Cash and cash equivalents

Cash and cash equivalents item includes cash on hand and short-term investments, if any, with maturities upon acquisition of generally three months or less or that are redeemable at any time at full value and for which the risk of a change in value is not significant.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

3. Significant accounting policies (continued)

Inventories

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

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

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

Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Gift card and loyalty program liabilities

Gift card liability represents liabilities related to unused balances on reloadable payment cards. Loyalty program liabilities represent the dollar value of the loyalty points earned and unused by customers.

Litigation, disputes and closed stores

Provisions for the expected cost of litigation, disputes and the cost of settling leases for closed stores are recognized when it becomes probable the Company will be required to settle the obligation, at management's best estimate of the expenditure required to settle the Company's obligation.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

3. Significant accounting policies (continued)

Provisions (continued)

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less cumulative amortization recognized, if any.

Financial instruments

Financial assets and financial liabilities are recognized when an entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The subsequent measurement of financial assets and financial liabilities 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 and cash equivalents and temporary investments	Loans and receivables
Accounts receivable	Loans and receivables
Deposits	Loans and receivables
Loans receivable and other receivables	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, cash and cash equivalents and deposits) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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

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

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

3. Significant accounting policies (continued)

Financial assets (continued)

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

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

3. Significant accounting policies (continued)

Financial liabilities

Classification as debt or equity

Debt and equity instruments issued by an entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to the volatility in the price of certain commodities and foreign exchange rate risks, including foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in note 22.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company currently has no designated hedges.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. The Company does not have any embedded derivatives as at November 30, 2013 and November 30, 2012.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

3. Significant accounting policies (continued)

Promotional funds

The Company manages the promotional funds of its banners. They are established specifically for each banner to collect and administer funds dedicated for use in advertising and promotional programs as well as other initiatives designed to increase sales and enhance the image and reputation of the banners. Contributions to the funds are made based on a percentage of sales. The revenue and expenses of the promotional funds are not included in the Company's Income Statement because the contributions to these funds are segregated and designated for specific purposes. The combined amount payable resulting from the promotional fund reserves amounts to \$684 (November 30, 2012 - \$2,726). These amounts are included in accounts payable and accrued liabilities.

Segment disclosure

An operating segment is a distinguishable component of the Company that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Company's other components, and for which separate financial information is available. Segment disclosures are provided for the Company's operating segments (note 31). The operating segments are determined based on the Company's management and internal reporting structure. All operating segments' operating results are regularly reviewed by management to make decisions on resources to be allocated to the segment and to assess its performance. The Company operates in four separate segments: franchising, corporate, distribution and processing.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgements in applying accounting policies and to make 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 judgements in applying accounting policies

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

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

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

Critical judgements in applying accounting policies (continued)

Identification of cash-generating units

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting period date. Doing so requires the identification of cash-generating units; the determination is done based on management's best estimation of what constitutes the lowest level at which an asset or group of asset has the possibility of generating cash inflows.

Revenue recognition

In making their judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods and for construction contracts set out in IAS 18 Revenue and IAS 11 Construction contracts and, in particular, whether the Company had transferred to the buyer the significant risks and rewards of ownership of the goods.

Consolidation of special purpose entities

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

Key sources of estimation uncertainty

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

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.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

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

Key sources of estimation uncertainty (continued)

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.

During the year, the Company recognized impairments on the property, plant and equipment related to eight of its CGUs following a decline in their performance. All eight CGUs are groups of assets related to corporate-owned stores. The total cumulative impairment of \$135 represents a write down of the carrying value of the leasehold improvements and equipment to their fair value less cost to sell, which was higher than their value in use.

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 periods beyond this cannot be estimated with reasonable accuracy.

A 1% change to the discount rate used in the calculation of the impairment would not result in any additional significant impairment of the trademarks and franchise rights or on the property, plant and equipment of our corporate stores.

During the year, the Company reversed impairment on the property, plant and equipment related to one of its CGUs following an increase in its performance. The total impairment reversal of \$64 represents a part of the impairment taken on the asset in prior years and is based on new estimated future cash flows of the CGU.

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 November 30, 2013 and November 30, 2012.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

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

Key sources of estimation uncertainty (continued)

Impairment of goodwill (continued)

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

As described in Note 3 above, 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. During the years ended November 30, 2013 and 2012, the Company was not required to adjust the useful lives of any assets based on the factors described above.

Provisions

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

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 believes 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, current and long-term liabilities and results of operations in general.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

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

Key sources of estimation uncertainty (continued)

Onerous contracts

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

Contingencies

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

Management accrues potential losses if they believe the loss is probable and can be reasonably estimated, based on information that is available at the time. Any accrual would be charged to earnings and included in provisions. Any cash settlement would be deducted from cash from operating activities. Management estimate the amount of the losses 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.

5. Future accounting changes

A number of new standards, interpretations and amendments to existing standards were issued by the International Accounting Standard Board ("IASB") that are not yet effective for the period ended November 30, 2013, and have not been applied in preparing these consolidated financial statements.

The following standards may have a material impact on the consolidated financial statements of the Company:

Effective for annual periods starting on or after:

Amendment to IFRS 7 Financial Instruments:

Disclosures	January 1, 2013	Early adoption permitted
IFRS 9 Financial Instruments	To be determined	Early adoption permitted
IFRS 10 Consolidated Financial Statements	January 1, 2013	Early adoption permitted

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

5. Future accounting changes (continued)

IFRS 12 Disclosure of Interests in Other Entities	January 1, 2013	Early adoption permitted
IFRS 13 Fair Value Measurement	January 1, 2013	Early adoption permitted
Amendments to IAS 19 Employee Benefits	January 1, 2013	Early adoption permitted
Amendments to IAS 32 Financial Instruments: Presentation	January 1, 2014	Early adoption permitted

IFRS 7 was amended to harmonize the disclosure requirements with those of the Financial Accounting Standard Board ("FASB").

IFRS 9 replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities. The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. This is the first phase of that project.

IFRS 10 replaces the consolidation requirements in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. It provides a single model to be applied in the control analysis for all investees.

IFRS 12 establishes disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.

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

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

6. Business acquisitions

I) 2013 acquisition

On September 30, 2013, the Company's wholly-owned subsidiary, MTY Tiki-Ming Enterprises Inc., acquired 80% of the shares of 9286-5591 Québec Inc. and subsequently used this entity to acquire all of the assets of 9199-0465 Québec Inc. and Alimentation ThaiZone Inc. (www.thaizone.ca). The balance of the ownership remained with the seven founders of ThaiZone. The total consideration for MTY's 80% share in the business was \$17.7M and was paid from MTY's cash on hand and available credit facilities (note 15). The acquisition was effective on September 30, 2013. The purpose of the acquisition was to diversify the Company's range of offering as well as to complement existing MTY brands.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

6. Business acquisitions (continued)

D) 2013 acquisition (continued)

<u>Consideration paid</u>	\$
Purchase price	17,700
Discount on non-interest bearing holdback	(116)
	<hr/> 17,584
Net obligations assumed	(359)
Holdbacks	(1,664)
	<hr/> 15,561

The purchase price allocation is as follows:

<u>Net assets acquired:</u>	\$
Current assets	
Cash and cash equivalents	100
Inventories	3
	<hr/> 103
Property, plant and equipment	4
Franchise rights	5,316
Step-in rights	1,199
Trademark	7,417
Goodwill ⁽¹⁾	8,558
	<hr/> 22,597
Current Liabilities	
Accounts payable	35
Deferred revenues	65
	<hr/> 100
Deferred income taxes	488
	<hr/> 588
Non-controlling interest ⁽²⁾	4,425
	<hr/> 17,584
Net purchase price	<hr/> 17,584

⁽¹⁾ The goodwill is not deductible for tax purposes.

⁽²⁾ Represents 20% non-controlling ownership, measured at fair value.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

6. Business acquisitions (continued)

I) 2013 acquisition (continued)

Goodwill reflects how the ThaiZone acquisition will impact the Company's ability to generate future profits in excess of existing profits. The consideration paid mostly relates to combined synergies, related mainly to revenue growth. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

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

II) 2013 acquisition

On September 24, 2013, the Company's wholly-owned subsidiary, MTY Tiki-Ming Enterprises Inc., acquired the assets of Extreme Pita, PurBlendz and Mucho Burrito ("Extreme Brandz") www.extremebrandz.com for a consideration of \$45 million, to be paid from MTY's cash on hand. The transaction is effective September 24, 2013. The purpose of the acquisition was to diversify the Company's range of offering as well as to complement existing MTY brands.

<u>Consideration paid</u>	\$
Purchase price	45,000
Discount on non-interest bearing holdback	(364)
Net obligations assumed	(537)
Post-closing adjustments	319
Net purchase price	44,418
Holdbacks	(4,136)
Post-closing adjustments payable at year-end	(319)
Net cash outflow	39,963

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

6. Business acquisitions (continued)

II) 2013 acquisition (continued)

The preliminary purchase price allocation is as follows:

<u>Net assets acquired:</u>	\$
Current assets	
Cash and cash equivalents	300
Accounts receivable	68
Inventories	28
Income taxes receivable	33
Prepaid expense and deposits	165
	<hr/> 594
Property, plant and equipment	500
Franchise rights	11,499
Trademark	17,792
Goodwill ⁽¹⁾	17,696
	<hr/> 48,081
Current Liabilities	
Accounts payable	294
Deferred revenues	1,525
	<hr/> 1,819
Long-term debt	554
Deferred income taxes	1,290
	<hr/> 3,663
Net purchase price	<hr/> 44,418

⁽¹⁾ Of the total goodwill, only \$12,130 is deductible for tax purposes.

Goodwill reflects how the Extreme Brandz acquisition will impact the Company's ability to generate future profits in excess of existing profits. The consideration paid mostly relates to combined synergies, related mainly to revenue growth. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

Total expenses incurred related to acquisition costs amounted to \$245 and are included in the Company's consolidated income statement.

The purchase price allocation is still preliminary as post-closing adjustments have not been finalized.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

6. Business acquisitions (continued)

III) 2013 acquisition

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

<u>Consideration paid</u>	\$
Purchase price	1,050
Holdbacks	(105)
<hr/>	
Net cash outflow	945
<hr/>	

The purchase price allocation is as follows:

<u>Net assets acquired:</u>	\$
Assets	
Plant, property and equipment	500
Franchise rights	419
Goodwill ⁽¹⁾	131
<hr/>	
Net purchase price	1,050
<hr/>	

⁽¹⁾ The goodwill is not deductible for tax purposes.

Goodwill reflects how the SushiGo acquisition will impact the Company's ability to generate future profits in excess of existing profits. The consideration paid mostly relates to combined synergies, related mainly to revenue growth. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

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

IV) 2012 acquisition

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

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

6. Business acquisitions (continued)

IV) 2012 acquisition (continued)

<u>Consideration paid</u>	\$
Purchase price	915
Net obligations assumed	(2)
<hr/>	
Net purchase price	913
Holdbacks	165
<hr/>	
Net cash outflow	748

The preliminary purchase price allocation is as follows:

<u>Net assets acquired:</u>	\$
Current assets	
Franchise rights	629
Trademark	300
<hr/>	
	929
<hr/>	
Current liabilities	
Accounts payable	2
<hr/>	
	2
Deferred income taxes	14
<hr/>	
	16
<hr/>	
Net purchase price	913

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

7. Cash and cash equivalents

	November 30, 2013	November 30, 2012
	\$	\$
Cash	6,136	13,345
Cash equivalents	-	19,691
<hr/>		
Total cash and cash equivalents	6,136	33,036

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

8. Accounts receivable

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

	November 30, 2013	November 30, 2012
	\$	\$
Total accounts receivable	15,739	14,799
Less : Allowance for doubtful accounts	2,287	1,168
Total accounts receivable, net	13,452	13,631
Of which:		
Not past due	8,245	8,045
Past due for more than one day but for no more than 30 days	1,917	2,579
Past due for more than 31 days but for no more than 60 days	633	676
Past due for more than 61 days	2,657	2,331
Total accounts receivable, net	13,452	13,631
Allowance for doubtful accounts beginning of year	1,168	856
Additions	1,449	692
Write-off	(330)	(380)
Allowance for doubtful accounts end of period	2,287	1,168

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

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

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

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

9. Inventories

	November 30, 2013	November 30, 2012
	\$	\$
Raw materials	998	1,363
Work in progress	31	34
Finished goods	-	212
Total inventories	1,029	1,609

Inventories are presented net of a \$7 allowance for obsolescence (\$11 as at November 30, 2012). All of the inventories are expected to be sold within the next twelve months.

Inventories expensed during the year ended November 30, 2013 was \$21,987 (2012 - \$22,952).

10. Loans receivable

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

	November 30, 2013	November 30, 2012
	\$	\$
Loans receivable, carrying no interest and without terms of repayment	16	31
Loans receivable bearing interest between nil and 10% per annum, receivable in monthly instalments of \$32 in aggregate, including principal and interest, ending in October 2018	962	888
	978	919
Current portion	(400)	(358)
	578	561

The capital repayments in subsequent years will be:

	\$
2014	398
2015	194
2016	169
2017	145
2018	42
Thereafter	30
	<u>978</u>

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

11. Investment in subsidiary held-for-sale

In September, 2013, the Company put their 51% investment in 7687567 Canada Inc. (Aliment Flavio), a food processing plant in Saint-Romuald, Quebec, up for sale.

On November 5, 2013, the Company received a letter of intent subject to conditions to be validated in 2014. The value of the investment in subsidiary held-for-sale reported in the consolidated statement of financial position is equal to 7687567 Canada Inc.'s net carrying value of assets less liabilities before assets were classified as held for sale. No gains or losses were recognized in the Company's profit or loss. This investment represents a segment of the Company.

As at November 30, 2013, total assets and total liabilities for the investment were \$6,192 and \$5,982 respectively.

12. Property, plant and equipment

Cost	Land	Buildings	Leasehold improve- ments	Equipment	Computer hardware	Rolling stock	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at November 30, 2011	1,975	3,778	2,777	3,708	506	40	12,784
Additions	-	57	392	540	81	-	1,070
Disposals	-	-	(642)	(615)	(47)	-	(1,304)
Impairment	-	-	(111)	(24)	-	-	(135)
Balance at November 30, 2012	1,975	3,835	2,416	3,609	540	40	12,415
Additions	-	37	300	432	69	-	838
Disposals	(150)	(287)	(266)	(186)	-	(10)	(899)
Reclass of investment in a subsidiary now held-for- sale	(690)	(1,309)	-	(1,843)	(13)	-	(3,855)
Impairment reversal	-	-	24	40	-	-	64
Additions through business combinations	-	-	705	297	2	-	1,004
Balance at November 30, 2013	1,135	2,276	3,179	2,349	598	30	9,567

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

12. Property, plant and equipment (continued)

Accumulated depreciation	Land	Buildings	Leasehold improve- ments	Equipment	Computer hardware	Rolling stock	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at November 30, 2011	-	167	1,462	732	216	22	2,599
Eliminated on disposal of assets	-	-	(443)	(224)	(27)	-	(694)
Depreciation expense	-	178	339	485	115	11	1,128
Balance at November 30, 2012	-	345	1,358	993	304	33	3,033
Eliminated on disposal of assets	-	(41)	(73)	(53)	-	(9)	(176)
Reclass of investment in a subsidiary now held-for- sale	-	(203)	-	(404)	(4)	-	(611)
Depreciation expense	-	135	428	443	98	4	1,108
Balance at November 30, 2013	-	236	1,713	979	398	28	3,354

Carrying amounts	Land	Buildings	Leasehold improve- ments	Equipment	Computer hardware	Rolling stock	Total
	\$	\$	\$	\$	\$	\$	\$
November 30, 2012	1,975	3,490	1,058	2,616	236	7	9,382
November 30, 2013	1,135	2,040	1,466	1,370	200	2	6,213

Land, buildings and equipment with a carrying amount of \$Nil as at November 30, 2013 (\$3,294 as at November 30, 2012) have been pledged as security to secure borrowings of the Company's food processing division.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

13. Intangible assets

Cost	Franchise and master franchise rights ⁽¹⁾	Trademarks	Step-in rights	Leases	Other	Total
	\$	\$	\$	\$	\$	\$
Balance at November 30, 2011	40,045	32,666	-	1,000	272	73,983
Additions ⁽²⁾	500	-	-	-	18	518
Reversal of impairment	-	67	-	-	-	67
Acquisition through business combinations	629	300	-	-	-	929
Balance at November 30, 2012	41,174	33,033	-	1,000	290	75,497
Additions ⁽²⁾	15	-	-	-	331	346
Disposals	-	-	-	-	(272)	(272)
Acquisition through business combinations	17,234	25,209	1,199	-	-	43,642
Balance at November 30, 2013	58,423	58,242	1,199	1,000	349	119,213

Accumulated amortization	Franchise and master franchise rights ⁽¹⁾	Trademarks	Step-in rights	Leases	Other	Total
	\$	\$	\$	\$	\$	\$
Balance at November 30, 2011	13,555	-	-	628	234	14,417
Amortization	3,723	-	-	105	39	3,867
Balance at November 30, 2012	17,278	-	-	733	273	18,284
Amortization	4,064	-	20	107	32	4,223
Disposals	-	-	-	-	(272)	(272)
Balance at November 30, 2013	21,342	-	20	840	33	22,235

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

13. Intangible assets (continued)

Carrying amounts	Franchise and master franchise rights ⁽¹⁾	Trademarks	Step-in rights	Leases	Other	Total
	\$	\$	\$	\$	\$	\$
November 30, 2012	23,896	33,033	-	267	17	57,213
November 30, 2013	37,081	58,242	1,179	160	316	96,978

⁽¹⁾ Franchise and master franchise rights include an amount of \$1,500 (\$1,500 in November 2012) of unamortizable master franchise right. The master franchise right has no specific terms and is valid for as long as MTY does not default on the agreement.

⁽²⁾ Additions in 2013 are comprised of purchased franchise rights of \$15 and purchased software of \$331 (\$500 and \$18 in 2012 respectively)

Indefinite life intangibles have been allocated for impairment testing purposes to the following cash generating units:

	November 30, 2013	November 30, 2012
	\$	\$
Taco Time	1,500	1,500
La Crémère	9	9
Croissant Plus	125	125
Cultures	500	500
Thai Express	145	145
Mrs Vanelli's	2,700	2,700
Sushi Shop	1,600	1,600
Tutti Frutti	1,100	1,100
Koya	1,253	1,253
Country Style	4,096	4,096
Valentine	3,338	3,338
Jugo Juice	5,425	5,425
Mr. Sub	11,307	11,307
Koryo	1,135	1,135
Mr. Souvlaki	300	300
Extreme Pita	7,976	-
Mucho Burrito	9,816	-
ThaiZone	7,417	-
	59,742	34,533

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

14. Goodwill

The changes in the carrying amount of goodwill are as follows:

	November 30, 2013	November 30, 2012
Balance, beginning of year	\$ 20,266	\$ 20,266
Goodwill acquired during the year through business acquisitions (note 6)	26,385	-
Reclassification of investment in subsidiary held for sale ⁽¹⁾	(200)	-
Balance, end of year	46,451	20,266

⁽¹⁾ Goodwill of \$200 was removed in the fourth quarter of 2013 as the Company's investment in the food processing plant was reclassified as an investment in subsidiary held-for-sale.

Goodwill has been allocated for impairment testing purposes to the following cash generating units or groups of cash generating units:

	November 30, 2013	November 30, 2012
Food processing plant	-	200
Franchising activities ⁽¹⁾	46,451	20,066
	46,451	20,266

⁽¹⁾ This portion of goodwill was not allocated to individual CGUs; the Company has determined that the valuation of goodwill cannot be done at the CGU level, since the strength of the network comes from grouping the many banners from which the goodwill arose from. As a result, except for the goodwill related to the acquisitions of the food processing plant, which operate relatively independently, goodwill will be tested as a whole, at the franchising operating segment level.

15. Credit facilities

As at November 30, 2013, the Company has access to an authorized revolving credit facility of \$30,000 and a treasury risk facility of \$1,000. Bank indebtedness's are secured by a moveable hypothec on all the assets of the Company.

The revolving credit facility bears interest at the bank's prime rate for advances in C\$ (or the bank's U.S. base rate for advance in US\$) plus a margin not exceeding 0.5% established based on the Company's funded debt/EBITDA ratio. As at November 30, 2013, the bank's prime rate was 3.00%.

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

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

15. Credit facilities (continued)

Under the terms of the credit facilities, the Company must satisfy a funded debt to EBITDA ratio of 2 to 1 and a minimum interest coverage ratio of 4.5:1. The credit facility is payable on demand and is renewable annually. As at November 30, 2013, \$12,000 was drawn from the facilities in the form of banker's acceptance, with December 2013 maturity dates. The Company is in compliance with the facility's covenants.

16. Provisions

Included in provisions are the following amounts:

	November 30, 2013	November 30, 2012
	\$	\$
Litigations and disputes	420	433
Closed stores	306	923
	<u>726</u>	<u>1,356</u>
Gift card liabilities/loyalty programs liabilities	1,065	910
Total	<u>1,791</u>	<u>2,266</u>

The provision for litigation and disputes represent management's best estimate of the outcome of litigations and disputes that are on-going at the date of the statement of financial position. This provision is made of multiple items; the timing of the settlement of this provision is unknown given its nature, as the Company does not control the litigation timelines.

The payables related to closed stores mainly represent amounts that are expected to be disbursed to exit leases of underperforming or closed stores. The negotiations with the various stakeholders are typically short in duration and are expected to be settled within a few months following the recognition of the provision.

In the litigation and disputes and closed store provisions above, \$465 was unused and reversed into income. The amounts used in the period include \$946 of the provisions for disputes and closed stores; this amount was used for the settlement of litigation and for the termination of the leases of closed stores.

Additions during the year include \$781 to the litigation and closed stores provisions. The provisions were increased to reflect new information available to management.

The gift card and loyalty programs liabilities are the estimated value in gift cards and points outstanding at the date of the statement of financial position. The timing of the reversal of this provision is dependent on customer behaviour and therefore outside of the Company's control.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

17. Deferred revenue and deposits

	November 30, 2013	November 30, 2012
	\$	\$
Franchise fee deposits	2,570	1,825
Deferred landlord lease incentives	-	72
Supplier contributions and other allowances	1,085	272
	<u>3,655</u>	<u>2,169</u>
Current portion	(3,655)	(2,169)
	<u>-</u>	<u>-</u>

18. Long-term debt

	November 30, 2013	November 30, 2012
	\$	\$
Non-interest bearing holdbacks on acquisition of Valentine, repayable January 2014. The effective interest rate is 4.50%.	364	351
Non-interest bearing holdbacks on acquisition of Jugo Juice, repayable August 2014. The effective interest rate is 4.50%.	129	810
Non-interest bearing holdback on acquisition of Mr. Sub. The effective interest rate is 4.50%.	-	2,399
Non-interest bearing holdback on acquisition of Koryo	-	248
Non-interest bearing holdbacks on acquisition of Mr. Souvlaki, repayable September 2014	165	165
Non-interest bearing holdbacks on acquisition of SushiGo, repayable December 2014	105	-
Non-interest bearing holdbacks on acquisition of Extreme Brandz, repayable between September 2014 and March 2016. The effective interest rate is 4.50%.	4,167	-
Non-interest bearing holdbacks on acquisition of ThaiZone, repayable between September 2014 and September 2015. The effective interest rate is 4.50%.	1,677	-

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

18. Long-term debt (continued)

	November 30, 2013	November 30, 2012
	\$	\$
Non-interest bearing contract cancellation fees	562	-
Bank loan ⁽ⁱ⁾ bearing interest at the bank's prime plus 0.50%, secured by the property, plant and equipment of a subsidiary.	-	3,403
Mandatorily redeemable preferred shares, non-cumulative, redeemable in three yearly instalments beginning December 2011, with redemption value based on the performance of a subsidiary	-	100
	<u>7,169</u>	<u>7,476</u>
Current portion	<u>(2,703)</u>	<u>(7,199)</u>
	<u>4,466</u>	<u>277</u>

⁽ⁱ⁾ Reclassed to investment in subsidiary held-for-sale (note 11)

19. Capital stock

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

	November 30, 2013		November 30, 2012	
	Number	Amount	Number	Amount
		\$		\$
Balance at beginning and end of period	<u>19,120,567</u>	<u>19,792</u>	19,120,567	19,792

20. 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, 2013. There are no options outstanding as at November 30, 2013 or November 30, 2012.

21. Earnings per share

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

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

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

22. 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, 2013		November 30, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	6,136	6,136	33,036	33,036
Accounts receivable	13,452	13,452	13,361	13,631
Loans receivable	978	978	919	919
Financial liabilities				
Line of credit	12,000	12,000	-	-
Accounts payable and accrued liabilities	11,903	11,903	13,426	13,426
Long-term debt	7,169	7,169	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, 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 generally 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 November 30, 2013.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

22. Financial instruments (continued)

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, which 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 \$133 (\$55 as at November 30, 2012).

Foreign exchange risk

Foreign exchange risk is the Company's exposure to decreases or increases in financial instrument values caused by fluctuations in exchange rates. The Company is mainly exposed to foreign exchange risk on its purchase of coffee. The Company has entered into a contract to minimize its exposure to fluctuations in foreign currencies related to the purchase of coffee. As of November 30, 2013, the total value of such contracts was approximately \$544.

In addition, the Company concludes sales denominated in foreign currencies. The Company's foreign operations use the U.S. dollar as functional currency. The Company's exposure to foreign exchange risk stems mainly from cash and cash equivalents, other working capital items and the financial obligations of its foreign operations.

Other than the above-mentioned foreign transactions, 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 November 30, 2013, the Company carried US\$ cash of CAD\$887, net accounts receivable of CAD\$437 and net accounts payable of CAD\$342 (CAD\$425, CAD\$429 and CAD\$nil respectively as at November 30, 2012). All other factors being equal, a reasonable possible 1% rise in foreign currency exchange rates per Canadian dollar would result in a change on profit or loss and net comprehensive income of \$10 Canadian dollars.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

22. Financial instruments (continued)

Interest rate risk

The Company is exposed to interest rate risk with its revolving credit facility and treasury risk facility. Both facilities bear interest at a variable rate and as such the interest burden could potentially become more important. \$12,000 of the credit facility was used as at November 30, 2013. A 100 basis points increase in the bank's prime rate would result in additional interest of \$120 per annum on the outstanding credit facility. The Company limits this risk by using short-term banker's acceptance from the credit facility.

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, 2013:

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	12 to 24 months
	\$	\$	\$	\$	\$
Line of credit	12,000	12,000	12,000	-	-
Accounts payable and accrued liabilities	11,903	11,903	11,903	-	-
Long-term debt	7,169	7,609	378	2,406	2,364
Interest on long-term debt	-	-	136	121	154
	31,072	31,512	24,417	2,527	2,518

23. 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 cash equivalents

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.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

23. Capital disclosure (continued)

The Company monitors capital on the basis of the debt-to-equity ratio. The debt-to-equity ratios at November 30, 2013 and November 30, 2012 were as follows:

	November 30, 2013	November 30, 2012
	\$	\$
Debt	42,235	30,498
Equity	130,809	106,063
Debt-to-equity ratio	0.32	0.29

During the year ended November 30, 2013, the Company's debt-to-equity ratio increased slightly due to \$12,000 credit facility outstanding. Maintaining a low debt to equity ratio is a priority in order to preserve the Company's ability to secure financing at a reasonable cost for future acquisitions.

As at November 30, 2013, the Company does not have any debt outstanding that is subject to its consolidated debt to equity ratio.

24. Revenues

The Company's revenues include:

	November 30, 2013	November 30, 2012
	\$	\$
Royalties	36,496	34,483
Initial franchise fees	3,466	2,890
Rent	5,381	5,173
Sale of goods, including construction revenues	36,481	35,132
Other franchising revenue	15,586	15,163
Other	3,950	3,379
	101,360	96,220

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

25. Operating expenses

Operating expenses are broken down as follows:

	November 30, 2013	November 30, 2012
	\$	\$
Cost of goods sold and rent	35,039	36,503
Wages and benefits	13,728	13,343
Consulting and professional fees	3,397	3,445
Royalties	1,321	778
Other ⁽¹⁾	8,640	7,225
	62,125	61,294

⁽¹⁾ Other operating expenses are comprised mainly of rental assistance, travel & promotional costs, bad debt expense and other office administration expenses

26. Operating lease arrangements

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

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

	Lease commitments	Sub-leases	Net commitments
	\$	\$	\$
2014	61,726	58,521	3,205
2015	57,390	54,360	3,030
2016	52,263	49,748	2,515
2017	46,981	44,460	2,521
2018	40,117	38,315	1,802
Thereafter	98,936	94,574	4,362
	357,413	339,978	17,435

Payments recognized as a net expense during the year ended November 30, 2013 amount to \$7,643 (2012 - \$8,260).

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

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

26. Operating lease arrangements (continued)

During the year ended November 30, 2013, the Company has earned rental income of \$5,381 (2012 - \$5,173).

The Company has recognized a liability of \$306 (November 30, 2012 - \$923) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement (Note 16).

27. Commitments

The Company has entered into supplier agreements for purchases of coffee beans, wheat, sugar and shortening for delivery dates ranging from December 2013 to March 2014. The total commitment amounts to approximately \$544.

28. Guarantee

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

29. Contingent liabilities

The Company is involved in legal claims associated with its current business activities. The Company's estimate of the outcome of these claims is disclosed in Note 16. The timing of the outflows, if any, is out of the control of the Company and is as a result undetermined at the moment.

30. 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, 2013		November 30, 2012	
	\$	%	\$	%
Combined income tax rate	9,189	26.6	8,205	26.9
Add effect of:				
Disposition of capital property	(42)	(0.1)	(69)	(0.2)
Non-deductible items	59	0.2	26	0.1
Losses in a subsidiaries for which no deferred income tax asset was recorded	55	0.1	(46)	(0.2)
Non-taxable investment income	20	0.1	-	-
Failure to file – additional credit	(76)	(0.2)	-	-
Change in applicable tax rate	-	-	(200)	(0.7)
Adjustment to prior year provisions	(271)	(0.8)	543	1.8
Other – net	15	0.0	(9)	0.0
Provision for income taxes	8,949	25.9	8,450	27.7

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

30. Income taxes (continued)

The statutory tax rate has decreased in 2013 as a result of a change in the provincial allocation of the Company's taxable income.

The variation in deferred income taxes during the year were as follows:

2013

	November 30, 2012	Recognized in profit or loss	Reclassified investment held for sale ⁽¹⁾	Acquisition	November 30, 2013
	\$	\$	\$	\$	\$
Net deferred tax assets (liabilities) in relation to:					
Property, plant and equipment	204	(130)	82	(16)	140
Provisions	457	273	(10)	-	720
Holdbacks	(39)	50	-	(135)	(124)
Non-capital losses	132	137	(230)	-	39
Intangible assets	(2,885)	(1,566)	-	(1,627)	(6,078)
	(2,131)	(1,236)	(158)	(1,778)	(5,303)

⁽¹⁾ In 2013, the Company reclassified its investment in 7687567 Canada Inc. as an investment in subsidiary held-for-sale. As such, all deferred income taxes were removed from the consolidated statement of financial position.

2012

	November 30, 2011	Recognized in profit or loss	Acquisition	November 30, 2012
	\$	\$	\$	\$
Net deferred tax assets (liabilities) in relation to:				
Property, plant and equipment	(302)	506	-	204
Provisions	417	40	-	457
Holdbacks	(85)	46	-	(39)
Non-capital losses	50	82	-	132
Intangible assets	(2,258)	(613)	(14)	(2,885)
	(2,178)	61	(14)	(2,131)

As at November 30, 2013 there were approximately \$6,706 (2012 – 6,706) of capital losses which may be applied against capital gains for future years and be carried forward indefinitely. The deferred income tax benefit of these capital losses has not been recognized.

As at November 30, 2013, there were approximately \$nil (2012- \$110) in non-capital losses accumulated in one of the Company's subsidiaries for which no deferred income tax asset was recognized.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

30. Income taxes (continued)

The deductible temporary difference in relation to an investment in a subsidiary for which a deferred tax asset has not been recognized amounts to \$nil (2012 - \$120).

31. Segmented information

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

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

Franchising operations

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

Corporate store operations

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

Distribution operations

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

Food processing operations

The Food processing plant generates revenues from the sale of ingredients and prepared food to restaurant chains, distributors and retailers. In the last quarter of 2013, the food processing investment in subsidiary was reclassified as an investment in subsidiary held-for-sale and as such, the segmented summary for the processing operations only shows the results of the first three quarters of 2013.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

31. Segmented information (continued)

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

For the year ended November 30, 2013:

	Franchising	Corporate	Distribution	Processing	Inter-company	Total
	\$	\$	\$	\$	\$	\$
Operating revenues	74,131	11,850	6,215	10,019	(855)	101,360
Operating expenses	36,223	11,024	5,665	10,068	(855)	62,125
	37,908	826	550	(49)	-	39,235
Other expenses						
Depreciation - property, plant and equipment	439	511	1	157	-	1,108
Amortization - intangible assets	4,223	-	-	-	-	4,223
Interest on long-term debt	176	-	-	115	-	291
Other income						
Foreign exchange gain (loss)	57	-	-	(4)	-	53
Interest income	486	-	-	1	-	487
Investment income	76	-	-	-	-	76
Impairment on property, plant and equipment	-	64	-	-	-	64
Gain on disposal of property, plant and equipment	317	-	-	-	-	317
Operating income	34,006	379	549	(324)	-	34,610
Current income taxes	7,464	102	147	-	-	7,713
Deferred income taxes	1,236	-	-	-	-	1,236
Net income	25,306	277	402	(324)	-	25,661
Total assets	170,229	2,981	1,079	(1)	(1,245)	173,044
Total liabilities	41,368	725	347	(1)	(205)	42,235

(1) As at November 30, 2013, total assets and total liabilities for the processing segment were \$6,192 and \$5,982 respectively.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

31. Segmented information (continued)

For the year ended November 30, 2012:

	Franchising	Corporate	Distribution	Processing	Inter-company	Total
	\$	\$	\$	\$	\$	\$
Operating revenues	70,909	12,174	6,076	8,051	(990)	96,220
Operating expenses	36,332	12,352	5,630	7,970	(990)	61,294
	34,577	(178)	446	81	–	34,926
Other expenses						
Depreciation - property, plant and equipment	436	441	8	243	–	1,128
Amortization – intangible assets	3,867	–	–	–	–	3,867
Interest on long-term debt	173	–	–	162	–	335
Other income						
Foreign exchange (loss) gain	(28)	–	–	1	–	(27)
Interest income	282	–	–	–	–	282
Gain on preferred share redemption	–	–	–	100	–	100
Gain on shareholder loan forgiveness	–	110	–	–	–	110
Impairment of property, plant and equipment	67	(135)	–	–	–	(68)
Gain on disposal of property, plant and equipment	566	(55)	–	–	–	511
Operating income	30,988	(699)	438	(223)	–	30,504
Current income taxes	8,581	(188)	118	–	–	8,511
Deferred income taxes	56	(64)	–	(53)	–	(61)
Net income	22,351	(447)	320	(170)	–	22,054
Total assets	128,457	2,988	1,296	5,437	(1,617)	136,561
Total liabilities	25,385	429	508	4,318	(142)	30,498

None of the segments had customers who represented more than 10% of their revenues.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

32. Statement of cash flows

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

	November 30, 2013	November 30, 2012
	\$	\$
Accounts receivable	(991)	(3,135)
Inventories	(301)	(41)
Loans receivable	106	200
Prepaid expenses and deposits	(155)	(26)
Accounts payable and accrued liabilities	(1 041)	(116)
Provisions	(475)	1,116
	<u>(2,857)</u>	<u>(2,002)</u>

33. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation. Details of transactions between the Company and other related parties are disclosed below.

Compensation of key management personnel

The remuneration of key management personnel and directors during the period was as follows:

	November 30, 2013	November 30, 2012
	\$	\$
Short-term benefits	812	659
Board member fees	38	40
Total remuneration of key management personnel	<u>850</u>	<u>699</u>

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

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

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at November 30, 2013

(in thousands of Canadian dollars except per share amounts)

33. Related party transactions (continued)

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

	November 30, 2013	November 30, 2012
	\$	\$
Short-term benefits	402	472
Total remuneration of individuals related to key management personnel	402	472

A corporation owned by individuals related to key management personnel has non-controlling participation in two of the Company's subsidiaries. During the period ended November 30, 2013, dividends of \$27 (2012- nil) were paid by those subsidiaries to the above-mentioned company.