Condensed interim consolidated financial statements of

MTY FOOD GROUP INC.

For the six-month periods ended May 31, 2014 and May 31, 2013

MTY FOOD GROUP INC.

Condensed interim consolidated statements of comprehensive income

For the three and six-month periods ended May 31, 2014 and May 31, 2013
(unaudited)
(in thousands of Canadian dollars except per share amounts)

Notice: The condensed interim consolidated financial statements of MTY Food Group Inc. for the six-month periods ended May 31, 2014 and May 31, 2013 have not been reviewed by an external auditor.

	Three months ended May 31, 2014	**Six months ended May 31, 2014**	Three months ended May 31, 2013	Six months ended May 31, 2013
	$	**$**	$	$
Revenue (notes 16 and 23)	**29,402**	**55,004**	25,342	47,970
Expenses				
Operating expenses (notes 17 and 23)	**18,063**	**34,179**	15,791	29,616
Depreciation – property, plant and equipment	**261**	**506**	256	509
Amortization – intangible assets	**1,434**	**2,886**	972	1,945
Interest on long-term debt	**70**	**161**	73	151
	19,828	**37,732**	17,092	32,221
Other income (charges)				
Foreign exchange gain (loss)	**(29)**	**29**	(9)	37
Interest income	**1**	**7**	123	266
Gain on disposal of property, plant and equipment	**411**	**354**	1	10
Other Income	**89**	**37**	-	-
	472	**427**	115	313
Income before taxes	**10,046**	**17,699**	8,365	16,062
Income taxes (note 22)				
Current	**3,186**	**4,017**	2,162	4,319
Deferred	**(453)**	**783**	14	(61)
	2,733	**4,800**	2,176	4,258
Net income	**7,313**	**12,899**	6,189	11,804
Net income (loss) attributable to:				
Owners	**7,269**	**12,806**	6,250	11,885
Non controlling interest	**44**	**93**	(61)	(81)
	7,313	**12,899**	6,189	11,804
Earnings per share (note 14)				
Basic	**0.38**	**0.67**	0.33	0.62
Diluted	**0.38**	**0.67**	0.33	0.62

See accompanying notes to the condensed interim consolidated financial statements

MTY FOOD GROUP INC.

Condensed interim consolidated statements of comprehensive income

For the three and six-month periods ended May 31, 2014 and May 31, 2013
(unaudited)
(in thousands of Canadian dollars except per share amounts)

	Three months ended May 31, 2014	**Six months ended May 31, 2014**	Three months ended May 31, 2013	Six months ended May 31, 2013
	$	**$**	$	$
Net earnings	**7,313**	**12,899**	6,189	11,804
Other comprehensive loss, net of income taxes				
Foreign exchange impact	**12**	**(6)**	-	-
Other comprehensive loss	**12**	**(6)**	-	-
Total comprehensive income	**7,325**	**12,893**	6,189	11,804
Total comprehensive income (loss) attributable to:				
Owners	**7,281**	**12,800**	6,250	11,885
Non controlling interest	**44**	**93**	(61)	(81)
	7,325	**12,893**	6,189	11,804

See accompanying notes to the condensed interim consolidated financial statements

MTY FOOD GROUP INC.
Condensed interim consolidated statements of financial position
as at May 31, 2014 and November 30, 2013
(unaudited)
(in thousands of Canadian dollars except per share amounts)

	May 31, 2014	November 30, 2013
	$	$
Assets		
Current assets		
Cash	**5,438**	6,136
Accounts receivable (note 6)	**15,506**	13,452
Income taxes receivable	**302**	-
Inventories (note 7)	**1,065**	1,029
Loans receivable (note 8)	**304**	400
Investment in subsidiary held-for-sale (note 9)	**1,155**	1,377
Prepaid expenses and deposits	**610**	430
	24,380	22,824
Loans receivable (note 8)	**498**	578
Property, plant and equipment	**5,643**	6,213
Intangible assets	**94,117**	96,978
Goodwill	**46,658**	46,451
	171,296	173,044
Liabilities		
Current liabilities		
Line of credit (note 10)	**-**	12,000
Accounts payable and accrued liabilities	**12,242**	11,903
Provisions (note 11)	**2,062**	1,791
Income taxes payable	**-**	414
Deferred revenue and deposits (note 12)	**3,609**	3,655
Current portion of long-term debt (note 13)	**2,473**	2,703
	20,386	32,466
Long-term debt (note 13)	**4,403**	4,466
Deferred income taxes	**6,085**	5,303
	30,874	42,235
Commitments, guarantee and contingent liabilities (notes 18, 19, 20 and 21)		
Shareholders' equity		
Equity attributable to owners		
Capital stock	**19,792**	19,792
Contributed surplus	**481**	481
Accumulated other comprehensive income	**-**	6
Retained earnings	**115,549**	105,993
	135,822	126,272
Equity attributable to non-controlling interest	**4,600**	4,537
	140,422	130,809
	171,296	173,044

See accompanying notes to the condensed interim consolidated financial statements

Approved by the Board on July 9, 2014

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

MTY FOOD GROUP INC.

Condensed interim consolidated statements of changes in shareholders' equity

For the six-month periods ended May 31, 2014 and May 31, 2013
(unaudited)
(in thousands of Canadian dollars except per share amounts)

	Equity attributable to owners					Equity attributable to non-controlling interest	Total
	Capital stock	Contributed surplus	Accumulated Other Comprehensive income	Retained earnings	Total		
	$	**$**	**$**	**$**	**$**	**$**	**$**
Balance as at November 30, 2012	19,792	481	-	85,635	105,908	155	106,063
Net income and comprehensive income for the six-month period ended May 31, 2013	-	-	-	11,885	11,885	(81)	11,804
Investment in common stock of a subsidiary by non-controlling interest	-	-	-	-	-	49	49
Dividends	-	-	-	(2,677)	(2,677)	(25)	(2,702)
Balance as at May 31, 2013	19,791	481	-	94,843	115,116	98	115,214
Net income for the six-month period from June 1, 2013 to November 30, 2013	-	-	-	13,827	13,827	(30)	13,857
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
Dividends	-	-	-	(2,677)	(2,677)	(85)	(2,762)
Balance as at November 30, 2013	19,792	481	6	105,993	126,272	4,537	130,809
Net income for the six-month period ended May 31, 2014	-	-	-	12,806	12,806	93	12,899
Other comprehensive income	-	-	(6)	-	(6)	-	(6)
Dividends	-	-	-	(3,250)	(3,250)	(30)	(3,280)
Balance as at May 31, 2014	**19,792**	**481**	**-**	**115,549**	**135,822**	**4,600**	**140,422**

The following dividends were declared and paid by the Company:

	May 31, 2014	May 31, 2013
	$	$
$0.170 per common share (2013 - $0.140 per common share)	**3,250**	2,677

See accompanying notes to the condensed interim consolidated financial statements

MTY FOOD GROUP INC.

Condensed interim consolidated statements of cash flows

For the three and six-month periods ended May 31, 2014 and May 31, 2013
(unaudited)
(in thousands of Canadian dollars except per share amounts)

	Three months ended May 31, 2014	**Six months ended May 31, 2014**	Three months ended May 31, 2013	Six months ended May 31, 2013
			$	$
Operating activities				
Net income and comprehensive income	**7,313**	**12,899**	6,189	11,804
Items not affecting cash:				
Interest on long-term debt	**70**	**161**	73	151
Depreciation – property, plant and equipment	**261**	**506**	256	509
Amortization – intangible assets	**1,434**	**2,886**	972	1,945
Loss (gain) on disposal of property, plant and equipment	**(411)**	**(354)**	(1)	(10)
Unrealized foreign exchange loss	**24**	**15**	-	-
Unrealized foreign exchange gain or loss on other comprehensive income	**12**	**(6)**	-	-
Change in fair value of investment in subsidiary held-for-sale	**170**	**222**	-	-
Income tax expense	**2,733**	**4,800**	2,176	4,258
Deferred revenue	**(143)**	**(46)**	(445)	585
	11,463	**21,083**	9,220	19,242
Income tax refunds received	**150**	**175**	25	427
Income taxes paid	**(2,319)**	**(4,909)**	(2,223)	(7,847)
Interest paid	**(78)**	**(101)**	(36)	(74)
Changes in non-cash working capital items (note 24)	**(3,176)**	**(1,484)**	(1,520)	(2,196)
Cash flows provided by operating activities	**6,040**	**14,764**	5,466	9,552
Investing activities				
Net cash outflow on acquisitions	-	-	(945)	(945)
Additions to property, plant and equipment	**(54)**	**(306)**	(206)	(490)
Additions to intangible assets	**(2)**	**(25)**	(73)	(140)
Adjustment to price of acquisition	-	**(207)**	-	-
Proceeds on disposal of property, plant and equipment	**479**	**723**	69	114
Cash flows used in by investing activities	**423**	**185**	(1,155)	(1,461)
Financing activities				
Repayment of line of credit	-	**(12,000)**	-	-
Issuance of shares to non-controlling interest of subsidiaries	-	-	49	49
Repayment of long-term debt	-	**(367)**	(363)	(436)
Dividends paid to non-controlling shareholders of subsidiaries	-	**(30)**	-	(25)
Dividends paid	**(1,625)**	**(3,250)**	(1,339)	(2,677)
Cash flows used in financing activities	**(1,625)**	**(15,647)**	(1,653)	(3,089)
Net (decrease) increase in cash and cash equivalents	**4,838**	**(698)**	2,658	5,002
Cash and cash equivalents, beginning of period	**600**	**6,136**	35,380	33,036
Cash and cash equivalents, end of period	**5,438**	**5,438**	38,038	38,038

See accompanying notes to the condensed interim consolidated financial statements

MTY FOOD GROUP INC.
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1. Description of the business

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

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

2. Basis of preparation

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

Statement of compliance

The Company's condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and apply the same accounting policies as those described in the Company's annual consolidated financial statements for the year ended November 30, 2013, prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB").

These condensed interim consolidated financial statements do not include all of the information required under IFRS for complete financial statements and they should therefore be read in conjunction with the Company's annual consolidated financial statements for the year ended November 30, 2013. The Company's annual consolidated financial statements are available on the SEDAR website at www.seadar.com and on the Company's website at www.mtygroup.com.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on July 9, 2014.

Seasonality of interim operations

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

2. Basis of preparation (continued)

Estimates, judgments and assumptions

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

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty are as those applied and described in the Company's audited annual financial statements for the year ended November 30, 2013.

3. Consolidation

a) Subsidiaries
An entity is considered as a subsidiary when it is controlled by the Company or indirectly through its subsidiaries. A Company controls an entity if and only if it has all of the following:

- Holds power over the entity;
- Is exposed or has rights to variable returns from its involvement with the entity; and
- Has the ability to use its power over the entity to affect the amount of returns it obtains.

Management must make significant judgments when it assesses these various elements and all related facts and circumstances as a whole to determine whether control exists.

The Company reassesses whether it controls an entity if facts and circumstances indicate that one or more of the above-listed points have changed. The consolidated financial statements include the Company's accounts and the accounts of its subsidiaries. Subsidiaries are consolidated from the date the Company obtains control until the date the Company ceases to have control. All intercompany balances, revenues and expenses and cash flows are fully eliminated upon consolidation. When necessary, adjustments are made to the financial statements of the subsidiaries in order to align their accounting policies with those of the Company.

b) Non-controlling interests
Non-controlling interests are recognized in equity separately from the equity attributable to the Company's shareholders. Changes in the Company's ownership interests in a subsidiary that do not result in loss of control over that subsidiary are recognized in equity. The carrying amounts of equity attributable to the Company's shareholders and of non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

(in thousands of Canadian dollars except per share amounts)

4. Future accounting changes

A number of new standards, interpretations and amendments to existing standards were issued by the International Accounting Standard Board ("IASB") that are not yet effective for the period ended May 31, 2014, and have not been applied in preparing these condensed interim consolidated financial statements.

The following standards may have an impact on the condensed interim consolidated financial statements of the Company:

Standard	Effective date [1]	Impact [2]
IFRS 9 *Financial Instruments*	To be determined	In assessment
IFRS 15 *Revenue from contracts with customers*	January 1, 2017	In assessment
Amendments to IAS 32 Financial Instruments: Presentation	January 1, 2014	No financial impact
IAS 19 *Employee benefits*	July 2014	No financial impact
IAS 39 *Financial instrument : Recognition and Measurement*	January 1, 2014	No financial impact
Annual Improvement to IFRS (2010-2012 cycle)	July 2014	In assessment [3]

1) Effective for annual periods starting on or after:
2) Impact on the consolidated financial statements estimated by the Company.
3)The Company will present the required disclosures in its annual consolidated financial statements for the year ending November 30, 2015.

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 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

IAS 32 was amended by the IASB to clarify certain requirements and address inconsistencies encountered upon practical application of this standard.

IAS 19 modifies the accounting treatment of employee or third-party contributions to a defined benefit plan.

IAS 39 was amended by the IASB to modify the identified criteria in the standard to be met in hedge accounting of a derivative financial instrument designated as a hedging instrument

Annual improvement to IFRS (2010-2012 cycle) was performed by IASB as part of its annual improvement process. Several standards were amended:

-IFRS 3: *Business Combinations*: Accounting for contingent consideration in business combination
-IFRS 8: *Operating segments*: Disclosure for aggregation of operating segments; and
-IAS 24: *Related Party Disclosures*: Disclosures related to key management personnel.

(in thousands of Canadian dollars except per share amounts)

5. Business acquisition

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, 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.

Consideration paid	$
Purchase price	**45,000**
Discount on non-interest bearing holdback	**(364)**
Net obligations assumed	**(537)**
Post-closing adjustments	**528**
Net purchase price	**44,625**
Holdbacks	**(4,136)**
Post-closing adjustments payable at year-end	**(528)**
Net cash outflow	**39,963**

The preliminary purchase price allocation is as follows:

Net assets acquired:	$
Current assets	
Cash and cash equivalents	**300**
Accounts receivable	**68**
Inventories	**28**
Income taxes receivable	**33**
Prepaid expense and deposits	**165**
	594
Property, plant and equipment	**500**
Franchise rights	**11,499**
Trademark	**17,792**
Goodwill (1)	**17,903**
	48,288
Current Liabilities	
Accounts payable	**294**
Deferred revenues	**1,525**
	1,819
Long-term debt	**554**
Deferred income taxes	**1,290**
	3,663
Net purchase price	**44,625**

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

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

(in thousands of Canadian dollars except per share amounts)

6. Accounts receivable

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

	May 31, 2014	November 30, 2013
	$	$
Total accounts receivable	**19,692**	15,739
Less : Allowance for doubtful accounts	**4,186**	2,287
Total accounts receivable, net	**15,506**	13,452
Of which:		
Not past due	**9,234**	8,245
Past due for more than one day but for no more than 30 days	**1,783**	1,917
Past due for more than 31 days but for no more than 60 days	**835**	633
Past due for more than 61 days	**3,654**	2,657
Total accounts receivable, net	**15,506**	13,452
Allowance for doubtful accounts beginning of year	**2,287**	1,168
Additions	**1,973**	1,449
Write-off	**(74)**	(330)
Allowance for doubtful accounts end of period	**4,186**	2,287

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

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

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

(in thousands of Canadian dollars except per share amounts)

7. Inventories

	May 31, 2014	November 30, 2013
	$	$
Raw materials	**1,015**	998
Work in progress	**50**	31
Total inventories	**1,065**	1,029

Inventories are presented net of a $42 allowance for obsolescence ($7 as at November 30, 2013). All of the inventories are expected to be sold within the next twelve months.

Inventories expensed during the three and six-month periods ended May 31, 2014 were $4,989 and $10,547 (2013 - $4,969 and $10,916).

8. Loans receivable

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

	May 31, 2014	November 30, 2013
	$	$
Loans receivable, carrying no interest and without terms of repayment	**9**	16
Loans receivable bearing interest between nil and 8% per annum, receivable in monthly instalments of $34 in aggregate, including principal and interest, ending in March 2021	**793**	962
	802	978
Current portion	**(304)**	(400)
	498	578

The capital repayments in subsequent years will be:

	$
2015	**304**
2016	**168**
2017	**166**
2018	**106**
2019	**15**
Thereafter	**43**
	802

(in thousands of Canadian dollars except per share amounts)

9. 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.

The value of the investment in subsidiary held-for-sale reported in the condensed interim consolidated statement of financial position is equal to 7687567 Canada Inc.'s net carrying value of assets less liabilities plus the value of a loan from the Company to 7687567 Canada Inc. No gains or losses were recognized in the Company's profit or loss. This investment represents a segment of the Company.

As at May 31, 2014, total assets and total liabilities for the investment were $5,443 and $5,530 respectively.

10. Credit facilities

As at May 31, 2014, 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 May 31, 2014, the bank's prime rate was 3.00%.

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

Under the terms of the credit facilities, the Company must satisfy a funded debt to EBITDA ratio of 2 to 1 and a minimum interest coverage ratio of 4.5:1. The credit facility is payable on demand and is renewable annually. As at May 31, 2014, no amount ($12,000 as at November 30, 2013) was drawn from the facilities and was netted with the Company's cash position. The Company is in compliance with the facility's covenants.

11. Provisions

Included in provisions are the following amounts:

	May 31, 2014	November 30, 2013
	$	$
Litigations and disputes	**283**	420
Closed stores	**313**	306
	596	726
Gift card liabilities/loyalty programs liabilities	**1,466**	1,065
Total	**2,062**	1,791

(in thousands of Canadian dollars except per share amounts)

11. Provisions (continued)

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, no amount was used and reversed into income. The amounts used in the period include $533 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 period include $404 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.

12. Deferred revenue and deposits

	May 31, 2014	November 30, 2013
	$	$
Franchise fee deposits	**2,312**	2,570
Deferred landlord lease incentives	**28**	-
Supplier contributions and other allowances	**1,269**	1,085
	3,609	3,655
Current portion	**(3,609)**	(3,655)
	-	-

(in thousands of Canadian dollars except per share amounts)

13. Long-term debt

	May 31, 2014	November 30, 2013
	$	$
Non-interest bearing holdbacks on acquisition of Valentine, repayable January 2014. The effective interest rate is 4.50%.	**-**	364
Non-interest bearing holdbacks on acquisition of Jugo Juice, repayable August 2014. The effective interest rate is 4.50%.	**132**	129
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**	105
Non-interest bearing holdbacks on acquisition of Extreme Brandz, repayable between September 2014 and March 2016. The effective interest rate is 4.50%.	**4,200**	4,167
Non-interest bearing holdbacks on acquisition of ThaïZone , repayable between September 2014 and September 2015. The effective interest rate is 4.50%.	**1,715**	1,677
Non-interest bearing contract cancellation fees	**559**	562
	6,876	7,169
Current portion	**(2,473)**	(2,703)
	4,403	4,466

14. Earnings per share

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

	May 31, 2014	November 30, 2013
Weighted daily average number of common shares	**19,120,567**	19,120,567

(in thousands of Canadian dollars except per share amounts)

15. Financial instruments

a) Classification

The classification, carrying value and fair value of financial instruments are as follows:

As at May 31, 2014

	Loans and receivables	Other financial liabilities at amortized cost	Total carrying Value	Fair value
	$	$	$	$
Financial assets				
Cash and cash equivalents	5,438	-	5,438	5,438
Accounts receivable	15,506	-	15,506	15,506
Loans receivable	802	-	802	802
	21,746	**-**	**21,746**	**21,746**
Financial liabilities				
Accounts payable and accrued liabilities	-	12,242	12,242	12,242
Long-term debt [1]	-	6,876	6,876	6,876
	-	**19,118**	**19,118**	**19,118**

As at November 30, 2013

	Loans and receivables	Other financial liabilities at amortized cost	Total carrying Value	Fair value
	$	$	$	$
Financial assets				
Cash and cash equivalents	6,136	-	6,136	6,136
Accounts receivable	13,452	-	13,452	13,452
Loans receivable	978	-	978	978
	20,566	**-**	**20,566**	**20,566**
Financial liabilities				
Line of credit	-	12,000	12,000	12,000
Accounts payable and accrued liabilities	-	11,903	11,903	11,903
Long-term debt [1]	-	7,169	7,169	7,169
	-	**31,072**	**31,072**	**31,072**

[1] Includes the current portion of long-term debt.

(in thousands of Canadian dollars except per share amounts)

15. Financial instruments (continued)

b) Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is established based on market information available at the date of the consolidated statement of financial position. In the absence of an active market for a financial instrument, the Company uses the valuation methods described below to determine the fair value of the instrument. To make the assumptions required by certain valuation models, the Company relies mainly on external, readily observable market inputs. Assumptions or inputs that are not based on observable market data are used in the absence of external data. These assumptions or factors represent management's best estimates of the assumptions or factors that would be used by market participants for these instruments. The credit risk of the counterparty and the Company's own credit risk have been taken into account in estimating the fair value of all financial assets and financial liabilities, including derivatives.

The following valuation assumptions and/or methods were used to estimate the fair value of financial instruments:

- The fair values of cash, accounts receivable, and accounts payable and accrued liabilities is approximately equal to their carrying values due to their short-term maturities. The loans receivable generally bear interest at market rates and therefore it is management's opinion that the carrying value approximates the fair value;

- The fair value of long-term debt, including finance lease obligations, 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.

16. Revenues

The Company's revenues include:

	Three months ended May 31, 2014	**Six months ended May 31, 2014**	Three months ended May 31, 2013	Six months ended May 31, 2013
	$	**$**	$	$
Royalties	**11,341**	**21,575**	8,641	16,630
Initial franchise fees	**743**	**2,097**	793	1,964
Rent	**895**	**2,109**	1,323	2,675
Sale of goods, including construction revenues	**9,948**	**17,978**	9,545	17,424
Other franchising revenue	**5,248**	**9,199**	3,807	7,322
Other	**1,227**	**2,046**	1,233	1,955
	29,402	**55,004**	25,342	47,970

(in thousands of Canadian dollars except per share amounts)

17. Operating expenses

Operating expenses are broken down as follows:

	Three months ended May 31, 2014	**Six months ended May 31, 2014**	Three months ended May 31, 2013	Six months ended May 31, 2013
			$	$
Cost of goods sold and rent	**10,016**	**18,162**	8,989	17,266
Wages and benefits	**4,989**	**9,569**	3,476	6,466
Consulting and professional fees	**830**	**1,602**	775	1,488
Royalties	**208**	**456**	217	415
Other [1]	**2,020**	**4,390**	2,334	3,981
	18,063	**34,179**	15,791	29,616

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

18. 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**
	$	**$**	**$**
2015	**63,208**	**59,937**	**3,271**
2016	**58,771**	**55,495**	**3,276**
2017	**53,940**	**51,262**	**2,678**
2018	**47,346**	**44,801**	**2,545**
2019	**40,864**	**38,997**	**1,867**
Thereafter	**98,472**	**91,411**	**7,061**
	362,601	**341,903**	**20,698**

18. Operating lease arrangements (continued)

Payments recognized as rent expense during the three and six-month period ended May 31, 2014 amount to $1,981 and $4,008 (2013 - $1,704 and $3,501 respectively).

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

During the three and six-month period, the Company has earned rental income of $895 and $2,109 (2013 - $1,352 and $2,675 respectively).

The Company has recognized a liability of $250 (November 30, 2013 - $306) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement (Note 11).

19. Commitments

The Company has entered into supplier agreements for purchases of coffee beans, wheat, sugar and shortening for delivery in 2014. The total commitment amounts to approximately $70.

20. 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, 2013).

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

(in thousands of Canadian dollars except per share amounts)

22. Income taxes

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

	May 31, 2014		May 31, 2013	
	$	**%**	$	%
Combined income tax rate	**4,690**	**26.5**	4,256	26.5
Add effect of:				
Impact of disposition of capital Property	**(47)**	**(0.3)**	(1)	(0.0)
Non-deductible items	**20**	**0.1**	24	0.1
Losses in a subsidiaries for which no deferred income tax asset was recorded	**79**	**0.4**	77	0.5
Amortization of accounting reserves	**-**	**-**	(29)	(0.2)
Adjustment to prior year provision	**53**	**0.3**	(78)	(0.5)
Other – net	**5**	**0.0**	9	0.0
Provision for income taxes	**4,800**	**27.0**	4,258	26.5

23. 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.

(in thousands of Canadian dollars except per share amounts)

23. Segmented information (continued)

Food processing operations

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

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

For the six-month period ended May 31, 2014:

	Franchising	Corporate	Distribution	Processing	Inter-Company	Total
	$	$	$	$	$	$
Operating revenues	43,400	4,975	2,655	4,291	(317)	55,004
Operating expenses	22,850	4,851	2,437	4,358	(317)	34,179
	20,550	124	218	(67)	-	20,825
Other expenses						
Depreciation - property, plant and equipment	212	293	1	-	-	506
Amortization – intangible assets	2,886	-	-	-	-	2,886
Interest on long-term debt	60	-	-	101	-	161
Other income						
Foreign exchange gain	47	-	-	(18)	-	29
Interest income	7	-	-	-	-	7
Other income (charges)	37	-	-	-	-	37
Loss on disposal of property, plant and equipment	354	-	-	-	-	354
Operating income	17,837	(169)	217	(186)	-	17,699
Current income taxes	4,004	(45)	58	-	-	4,017
Deferred income taxes	783	-	-	-	-	783
Net income	13,050	(124)	159	(186)	-	12,899

(in thousands of Canadian dollars except per share amounts)

23. Segmented information (continued)

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

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

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

24. Statement of cash flows

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

	Three months ended May 31, 2014	Six months ended May 31, 2014	Three months ended May 31, 2013	Six months ended May 31, 2013
	$	**$**	$	$
Accounts receivable	(3,419)	(2,054)	(760)	941
Inventories	(62)	(36)	252	93
Loans receivable	35	176	(290)	(175)
Prepaid expenses and deposits	104	(180)	(52)	(154)
Accounts payable and accrued liabilities	409	339	(440)	(2,939)
Provisions	(243)	271	(230)	38
	(3,176)	(1,484)	(1,520)	(2,196)

(in thousands of Canadian dollars except per share amounts)

25. Related party transactions

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

Compensation of key management personnel

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

	Three months ended May 31, 2014	**Six months ended May 31, 2014**	Three months ended May 31, 2013	Six months ended May 31, 2013
	$	**$**	$	$
Short-term benefits	**217**	**400**	203	402
Board member fees	**3**	**14**	9	20
Total remuneration of key management personnel	**220**	**414**	212	422

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.

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

	Three months ended May 31, 2014	**Six months ended May 31, 2014**	Three months ended May 31, 2013	Six months ended May 31, 2013
	$	**$**	$	$
Short-term benefits	**138**	**249**	66	146
Total remuneration of individuals related to key management personnel	**138**	**249**	66	146

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 May 31, 2014, dividends of nil (2013- nil) were paid by those subsidiaries to the above-mentioned company.

26. Subsequent events

On July 8, 2014, the Company announced that is had signed a binding agreement to acquire the assets of of a group of companies that owns and operate the Café Dépôt (www.cafedepot.com), Sushi Man (www.lesushiman.com), Muffin Plus (www.muffinplus.ca) and Fabrika concepts. The Company also acquires two buildings in the process. The total consideration for the transaction is expected to be $14.8 million, paid from MTY's cash on hand and available credit facilities. The closing of the transaction is scheduled to happen on or before October 15th, 2014 and remains subject to several closing conditions as well as to standard regulatory approvals.