

Consolidated financial statements of

MTY FOOD GROUP INC.

*For the nine-month period ended August 31, 2011
(Unaudited)*

MTY FOOD GROUP INC.

Consolidated statement of earnings and comprehensive income

For the nine-month period ended August 31, 2011

unaudited

NOTICE: The consolidated financial statements of MTY Food Group Inc. for the nine-month periods ended August 31, 2011 and 2010 have not been reviewed by an external auditor.

	Three months ended August 31, 2011	Three months ended August 31, 2010	Nine months ended August 31, 2011	Nine months ended August 31, 2010
	\$	\$	\$	\$
Revenue (Notes 17 and 24)	19,334,519	15,941,775	55,166,164	47,542,721
Expenses				
Operating expenses (Note 24)	12,251,573	9,064,206	36,391,573	28,549,268
Amortization – capital assets	322,363	265,652	1,047,769	715,402
Amortization – intangible assets	773,957	738,574	2,294,146	2,264,622
Interest on long-term debt	45,872	-	108,794	-
	13,393,765	10,068,432	39,842,282	31,529,292
Other income				
Gain (loss) on foreign exchange	(707)	(900)	(38,122)	2,289
Interest income	106,568	60,335	288,752	131,713
(Loss) gain on disposal of assets	149,316	77,022	818,187	(120,143)
Restructuring (Note 18)	(50,000)	-	(446,579)	-
	205,177	136,457	622,238	13,859
Income before income taxes and non-controlling interest	6,145,931	6,009,800	15,946,120	16,027,288
Income taxes (Note 22)				
Current	582,819	1,821,100	896,917	4,366,545
Future	1,181,105	-	3,450,837	616,903
	1,763,924	1,821,100	4,347,754	4,983,448
Income before non-controlling interest	4,382,007	4,188,700	11,598,366	11,043,840
Non-controlling interest	19,514	(37,886)	(173,927)	(80,293)
Net income and comprehensive income	4,401,521	4,150,814	11,424,439	10,963,547

Earnings per share (Note 23)

Basic	0.23	0.22	0.60	0.57
Fully diluted	0.23	0.22	0.60	0.57

See accompanying notes to consolidated financial statements

MTY FOOD GROUP INC.

Consolidated statement of retained earnings

for the nine-month period ended August 31, 2011

unaudited

	August 31, 2011	August 31, 2010
	\$	\$
Balance, beginning of period	55,924,397	41,338,029
Net income	11,424,439	10,963,547
Dividends	(2,581,277)	-
Balance, end of period	64,767,559	52,301,576

See accompanying notes to consolidated financial statements

MTY FOOD GROUP INC.

Consolidated balance sheet

as at August 31, 2011

	August 31, 2011 unaudited \$	November 30, 2010 audited \$
Assets		
Current assets		
Cash	6,536,742	5,636,912
Temporary investments (Note 4)	19,902,696	23,383,261
Accounts receivable	8,838,359	7,577,435
Income taxes receivable	2,453,960	-
Inventories (Note 5)	1,394,402	645,528
Franchise locations under construction held for resale	972,074	1,091,488
Loans receivable (Note 6)	434,441	336,067
Prepaid expenses	198,949	140,549
Deposits	130,042	45,292
Future income taxes (Note 22)	365,800	3,561,864
	41,227,465	42,418,396
Loans receivable (Note 6)	780,138	908,619
Other receivable (Note 3)	-	2,697,762
Capital assets (Note 7)	9,994,536	7,138,466
Intangible assets (Note 8)	41,236,074	36,266,114
Goodwill (Note 9)	14,488,381	7,124,751
	107,726,594	96,554,108

Liabilities

Current liabilities		
Accounts payable and accrued liabilities	13,843,109	12,529,748
Income taxes payable	-	851,138
Deferred revenue and deposits (Note 11)	1,352,047	1,485,295
Current portion of long-term debt (Note 12)	2,133,218	1,873,213
	17,328,374	16,739,394
Deferred revenue and deposits (Note 11)	5,731	8,708
Long-term debt (Note 12)	4,619,917	930,000
Future income taxes (Note 22)	814,752	2,605,882
Non-controlling interest	(83,527)	71,939
	22,685,247	20,355,923

Commitments, guarantee and contingent liabilities (Notes 19, 20 and 21)

Shareholders' equity

Capital stock (Note 13)	19,792,468	19,792,468
Contributed surplus	481,320	481,320
Retained earnings	64,767,559	55,924,397
	85,041,347	76,198,185
	107,726,594	96,554,108

See accompanying notes to consolidated financial statements

Approved by the Board

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

MTY FOOD GROUP INC.

Consolidated statement of cash flows for the nine-month period ended August 31, 2011 unaudited

	Three months ended August 31, 2011	Three months ended August 31, 2010	Nine months ended August 31, 2011	Nine months ended August 31, 2010
	\$	\$	\$	\$
Operating activities				
Net income	4,401,521	4,150,814	11,424,439	10,963,547
Items not affecting cash:				
Amortization – capital assets	322,363	265,652	1,047,769	715,402
Amortization – intangible assets	773,957	738,574	2,294,146	2,264,622
Deferred revenue	(43,777)	60,090	(337,576)	24,346
Investment from non-controlling shareholders in subsidiary companies	-	55	25,049	55
Dividends paid to non-controlling shareholders of subsidiaries	(10,000)	(15,000)	(346,100)	(60,000)
Share buyback paid to non-controlling shareholders of subsidiaries companies	(6,113)	-	(16,144)	-
Non-controlling interest	(19,514)	37,886	173,927	80,293
Loss (gain) on disposal of capital assets	(149,316)	(77,022)	(818,187)	120,143
Future income taxes	1,181,105	555,911	3,450,837	616,902
	6,450,226	5,716,960	16,898,160	14,725,310
Changes in non-cash working capital items (Note 25)	445,071	1,590,843	(5,206,794)	1,614,274
Cash flows provided by operating activities	6,895,297	7,307,803	11,691,366	16,339,584
Investing activities				
Business acquisitions (Note 3)	(11,906,446)	-	(15,403,556)	-
Temporary investments	9,568,255	2,180,107	3,480,565	(3,170,028)
Additions to capital assets	(102,689)	(146,461)	(706,189)	(644,530)
Proceeds on disposal of assets	320,850	199,699	1,461,555	525,462
Cash flows (used in) provided by investing activities	(2,120,030)	2,233,345	(11,167,625)	(3,289,096)
Financing activities				
Issuance of long-term debt	-	-	3,500,000	-
Repayment of long-term debt	(460)	(281,322)	(542,634)	(348,188)
Dividends paid	(860,426)	-	(2,581,277)	-
Cash flows (used in) provided by financing activities	(860,886)	(281,322)	376,089	(348,188)
Net increase in cash	3,914,381	9,259,826	899,830	12,702,300
Cash, beginning of period	2,622,361	4,688,318	5,636,912	1,245,844
Cash, end of period	6,536,742	13,948,144	6,536,742	13,948,144

See accompanying notes to consolidated financial statements

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at August 31, 2011

unaudited

1. Description of the business

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

During the first nine months of its 2011 fiscal year, the company has opened 90 stores and acquired 136, bringing the total number of stores to 1,893. Of this number, 30 were corporate stores at the end of period.

2. Accounting policies

a) Basis of consolidation

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

The consolidated financial statements must include the variable interest entities (“VIEs”). VIEs are entities in which equity investors do not have controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties. VIEs are consolidated by their primary beneficiary (i.e., the party that receives the majority of the expected residual returns and/or absorbs the majority of the entity’s losses). Management of the Company conducted a review of the ownership and contractual interest in entities and determined that no significant VIEs exist as of August 31, 2011.

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

b) Use of estimates

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

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

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2. Accounting policies (cont.)

b) Use of estimates (cont.)

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

c) Inventories

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

d) Franchise locations under construction held for resale

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

e) Capital assets

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

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

f) Goodwill

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

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at August 31, 2011

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2. Accounting policies (cont.)

g) Intangible assets

Franchise rights and master franchise rights

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

During the second quarter of our 2011 fiscal period, the franchise rights of Country Style Food Services have been tested for impairment. An impairment adjustment in the carrying value of the tested franchise rights was not required.

Trademarks

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

During the second quarter of our 2011 fiscal period, the trademark of Country Style Food Services was tested for impairment. An impairment adjustment in the carrying value of the tested trademark was not required.

Leases

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

Other

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

h) Impairment of long-lived assets

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

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at August 31, 2011

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2. Accounting policies (cont.)

i) Revenue recognition

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

i. Revenue from franchise locations

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

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

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

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

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

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

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

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

ii. Revenue from distribution center

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

iii. Revenue from food processing

Food processing revenues are recognized when goods have been delivered to end-users or when significant risks and rewards of ownership have been transferred to distributors.

iv. Revenue from corporate-owned locations

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

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

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2. Accounting policies (cont.)

j) Foreign currency

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

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

k) Income taxes

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

l) Financial instruments

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

Classification

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

Held for trading

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

Loans and receivables

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

Other liabilities

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

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at August 31, 2011

unaudited

2. Accounting policies (cont.)

l) Financial instruments (cont.)

Effective interest method

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

Embedded derivatives

An embedded derivative is a component of a contract with characteristics similar to a derivative. Management of the Company conducted a review of its contracts and determined that no embedded derivatives exist as at August 31, 2011.

Derivative financial instruments

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

m) Future accounting policies

i. International Financial Reporting Standards

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

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. The Company is currently preparing its IFRS conversion. The Company is currently assessing the impact of the new reporting framework on its consolidated financial statements and is developing an implementation strategy.

ii. Business Combinations

In January 2009, the CICA issued the following new Handbook sections: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests which replace Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements. These new Sections will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption is permitted to the extent the three new Sections are adopted simultaneously. Together, the new Sections establish standards for the accounting for a business combination, the preparation of consolidated financial statements and the accounting for a non-controlling interest in subsidiary in consolidated financial statements subsequent to a business combination. The Company is currently evaluating the impact of the adoption of these new Sections on its consolidated financial statements. The Company has elected not to adopt these Sections early.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at August 31, 2011

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3. Business acquisitions

I) 2011 acquisition

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

\$

Consideration paid	3,497,110
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The preliminary purchase price allocation is as follows:

Net assets acquired:

Current Assets

Inventories	339,663
Deferred expenses	30,192
	<hr/>
	369,855
Land	562,203
Building	986,834
Equipment	1,712,093
Future income tax asset	44,207
Goodwill	300,000
	<hr/>
	3,975,192

Current Liabilities

Accounts payable	178,082
Mandatorily redeemable preferred shares	100,000
	<hr/>
	278,082
Mandatorily redeemable preferred shares	200,000
Total purchase price	<hr/>
	3,497,110

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

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at August 31, 2011

unaudited

3. Business acquisitions (cont.)

II) 2011 acquisition

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

Consideration paid

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

The preliminary purchase price allocation is as follows:

Net assets acquired:

Current Assets

Cash	1,200
Inventory	5,580
Franchise locations under construction held for resale	40,701
Current portion of loans receivable	62,237
Deposits	9,818
	119,536
Loans receivable	59,907
Property, plant and equipment	570,888
Franchise rights	3,606,196
Trademark	3,657,909
Goodwill (tax deductible)	5,613,312
Future income taxes	2,001,695
	15,629,443

Current Liabilities

Accounts payable	586,646
Unearned revenue	201,351
	787,997

Net purchase price	14,841,446
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The final purchase price for the acquisition has not yet been finalized.

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at August 31, 2011

unaudited

3. Business acquisitions (cont.)

III) 2010 acquisition

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

Consideration paid

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

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

The purchase price allocation is as follows:

Net assets acquired:

Current Assets

Cash	4,336
Accounts receivable	499,247
Inventory	324,962
Franchise locations under construction held for resale	270,631
Current portion of loans receivable	117,695
Prepaid expenses	26,246
	1,243,117
Loans receivable	232,735
Property, plant and equipment	4,322,764
Franchise rights	860,770
Trademark	3,337,895
Goodwill (not tax deductible)	1,446,061
Minority interest	20,657
	11,463,999

Current Liabilities

Accounts payable	1,193,109
Income taxes payable	87,005
Loans payable	129,683
Unearned revenue	104,860
	1,514,657
Future income taxes	1,185,216
Total purchase price	8,764,126

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

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at August 31, 2011

unaudited

3. Business acquisitions (cont.)

IV) 2009 acquisition

On May 1, 2009, the Company's wholly-owned subsidiary, MTY Tiki Ming Enterprises Inc., acquired all of the issued and outstanding shares of Country Style Food Services Holdings Inc. The Company has paid \$7,936,791 in cash and \$6,750,000 as repayment of long-term debt on closing and retained the amounts of \$997,868 and \$794,576 as holdbacks and withholding taxes respectively.

An amount of \$2,697,762 of post-closing adjustments was claimed to the sellers following the transaction and was under litigation at the last balance sheet date. In May of 2011, a settlement was reached that ended the litigation whereby MTY Tiki Ming Enterprises Inc. received a compensation of \$1,247,444 from the sellers, which was made of \$205,000 received in cash and \$1,042,444 as an offset from the remaining holdbacks and withholding taxes.

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

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

	\$
<u>Consideration paid</u>	
Share purchase	9,729,235
Repayment of long-term debt	6,750,000
Post closing adjustments	(1,247,444)
Acquisition costs	29,091
Total purchase price	15,260,882

Net assets acquired:

Current Assets

Cash	127,381
Accounts receivable	2,039,936
Inventory	368,768
Franchise locations under construction held for resale	627,542
Prepaid expenses	196,000
Future income taxes	1,290,000
	4,649,627

Future income taxes	4,458,559
Property, plant and equipment	1,584,724
Franchise rights	1,016,000
Trademarks	4,096,000
Distribution agreements	272,000
Goodwill (not tax deductible)	3,154,759
	19,231,669

Current Liabilities

Accounts payable and accrued liabilities	3,970,787
Total purchase price	15,260,882

MTY FOOD GROUP INC.

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4. Temporary investments

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

5. Inventories

Inventories expensed during the three and nine-month periods were \$6,904,694 and \$14,919,596 respectively (2010 - \$3,042,186 and \$10,177,499).

6. Loans receivable

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

	<u>August 31, 2011</u>	<u>November 30, 2010</u>
	\$	\$
Loans receivable, carrying no interest and without terms of repayment	88,787	-
Loans receivable bearing interest between nil and 10% per annum, receivable in monthly instalments of \$26,463 in aggregate, including principal and interest, ending in April 2017	1,125,792	1,244,686
	<u>1,214,579</u>	<u>1,244,686</u>
Current portion	<u>(434,441)</u>	<u>(336,067)</u>
	<u>780,138</u>	<u>908,619</u>

The capital repayments in subsequent years will be:

	\$
12 months ending August 2012	434,441
12 months ending August 2013	218,678
12 months ending August 2014	227,039
12 months ending August 2015	154,149
12 months ending August 2016	41,446
Thereafter	138,826
	<u>1,214,579</u>

MTY FOOD GROUP INC.

Notes to the consolidated financial statements

As at August 31, 2011

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7. Capital assets

	<u>August 31, 2011</u>		
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>
	\$	\$	\$
Corporate-owned locations			
Equipment	1,401,612	490,720	910,892
Leasehold improvements	1,210,357	578,705	631,652
Computer hardware	32,000	25,751	6,249
Land	1,847,484	-	1,847,484
Buildings	3,487,605	103,174	3,384,431
Equipment	2,437,477	417,305	2,020,172
Computer hardware	469,248	261,902	207,346
Computer software	215,754	129,019	86,735
Leasehold improvements	1,662,909	782,570	880,339
Rolling stock	39,558	20,322	19,236
	12,804,004	2,809,468	9,994,536

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

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8. Intangible assets

	<u>August 31, 2011</u>		
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>
	\$	\$	\$
Franchise and master franchise rights ⁽¹⁾	34,981,800	12,729,699	22,252,101
Trademarks	18,514,764	-	18,514,764
Leases	1,000,000	591,223	408,777
Other	504,725	444,293	60,432
	55,001,289	13,765,215	41,236,074

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

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

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9. Goodwill

The changes in the carrying amount of goodwill for the nine months ended August 31, 2011 are as follows:

	<u>August 31, 2011</u>
	\$
Balance, beginning of the year	7,124,751
Goodwill acquired during the year (Note 3)	5,913,312
Adjustment of purchase price following settlement of litigation (Note 3)	1,450,318
Balance, end of period	<u>14,488,381</u>

10. Bank indebtedness

As at August 31, 2011, the Company has an authorized operating line of credit of \$5,000,000. Bank indebtedness is secured by a moveable hypothec on all the assets of the Company. The interest rate charged is the bank's annual prime rate (2.75% on August 31, 2011) plus 1.00%. Under the terms of the line of credit, the Company must satisfy a funded debt to EBITDA ratio of 1 to 1, a current ratio of 1.45 to 1, and a debt service coverage ratio of 1.8 to 1. The company is in compliance with all these ratios. The operating line of credit is payable on demand and is renewable annually.

11. Deferred revenue and deposits

	<u>August 31, 2011</u>	<u>November 30, 2010</u>
	\$	\$
Franchise fee deposits	910,054	903,876
Distribution rights	447,724	590,127
	<u>1,357,778</u>	<u>1,494,003</u>
Current portion	1,352,047	(1,485,295)
	<u>5,731</u>	<u>8,708</u>

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12. Long-term debt

	<u>August 31, 2011</u>	<u>November 30, 2010</u>
	\$	\$
Non-interest bearing holdbacks on acquisition, repayable upon resolution of remaining disputes and litigation related to events having occurred prior to acquisition	178,135	179,070
Non-interest bearing holdbacks on acquisition, repayable between March 2012 and September 2013	930,000	961,518
Non-interest bearing holdbacks on acquisition, repayable between February 2012 and August 2014	1,735,000	-
Bank loans backed by the assets of two subsidiaries	-	125,916
Non-interest bearing holdbacks and withholding taxes on the acquisition of Country Style Food Services Holdings Inc., repayable at various dates, due no later than 2011	-	1,253,309
Bank loan bearing interest at the bank's prime plus 0.50%, secured by the capital assets of a subsidiary, repayable in fixed monthly capital repayments at \$24,305.56 plus interest. The first capital repayment is due in December 2011 ⁽ⁱ⁾	3,500,000	-
Mandatorily redeemable preferred shares, non-cumulative, redeemable in three yearly installments beginning December 2011, with redemption value based on the performance of a subsidiary	300,000	-
Non-interest bearing loans from non-controlling shareholders of subsidiaries with no terms of repayment	110,000	283,400
	6,753,135	2,803,213
Current portion	(2,133,218)	(1,873,213)
	4,619,917	930,000

⁽ⁱ⁾ This loan is subject to restrictive covenants beginning in our 2012 fiscal year. The requirements are to maintain certain working capital, interest coverage and debt to equity ratios.

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13. Capital stock

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

	<u>August 31, 2011</u>		<u>November 30, 2010</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
		\$		\$
Balance, beginning and end of period	19,120,567	19,792,468	19,120,567	19,792,468

14. Stock options

Under various plans, the Company may grant stock options on the common shares at the discretion of the Board of Directors, to senior executives, directors and certain key employees. Of the 3,000,000 common shares initially reserved for issuance, 699,500 were available for issuance under the share option plan as at August 31, 2011. There are no options outstanding as at August 31, 2011.

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15. Financial instruments

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

Fair value of recognized financial instruments

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

	<u>August 31, 2011</u>		<u>November 30, 2010</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>value</u>	<u>value</u>	<u>value</u>	<u>value</u>
	\$	\$	\$	\$
Financial assets				
Cash	6,536,742	6,536,742	5,636,912	5,636,912
Temporary investments	19,902,696	19,902,696	23,383,261	23,383,261
Accounts receivable	8,838,359	8,838,359	7,577,435	7,577,435
Loans receivable	1,214,579	1,214,579	1,244,686	1,244,686
Other receivable	-	-	2,697,762	N/A
Deposits	130,042	130,042	45,292	45,292
Financial liabilities				
Accounts payable and accrued liabilities	13,843,109	13,843,109	12,529,748	12,529,748
Long-term debt	6,753,135	6,733,885	2,803,213	2,786,336

Determination of fair value

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

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

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

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

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

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

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15. Financial instruments (cont.)

Risk management policies

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

Credit risk

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

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

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

	<u>August 31, 2011</u>	<u>November 30, 2010</u>
	\$	\$
Total accounts receivable	9,620,699	8,360,696
Less: Allowance for doubtful accounts	782,340	783,261
Total accounts receivable, net	8,838,359	7,577,435
Of which:		
Not past due	5,980,981	5,665,888
Past due for more than one day but for no more than 30 days	612,568	255,948
Past due for more than 31 days but for no more than 60 days	587,926	217,314
Past due for more than 61 days	1,656,884	1,438,285
Total accounts receivable, net	8,838,359	7,577,435
Allowance for doubtful accounts beginning of year	783,261	754,110
Additions	241,099	384,531
Write-off	(242,020)	(355,380)
Allowance for doubtful accounts end of period	782,340	783,261

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

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

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15. Financial instruments (cont.)

Foreign exchange risk

The Company has entered into a contract to minimize its exposure to fluctuations in foreign currencies, mainly on purchases of coffee. As of August 31, 2011, the total value of such contracts was approximately \$1,772,000. Immediate liquidation of the contracts at August 31, 2011 would have resulted in a gain of \$46,000.

Other than the above-mentioned contracts, the Company has minimal exposure to the US\$ and is subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in the currency. The Company considers this risk to be relatively limited.

Interest rate risk

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

Liquidity risk

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

The following are the contractual maturities of financial liabilities as at August 31, 2011:

	Carrying Amount	Contractual Cash Flows	0 to 6 Months	6 to 12 Months	12 to 24 Months
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	13,843,109	13,843,109	12,943,109	600,000	300,000
Long-term debt	6,753,135	6,753,135	1,604,052	529,167	775,000
	20,596,244	20,596,244	14,547,161	1,129,167	1,075,000

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

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

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16. Capital Disclosures

The Company's objectives when managing capital are:

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

The company defines its capital as follows:

- 1- Shareholders' equity;
- 2- Long-term debt including the current portion;
- 3- Deferred revenue including the current portion;
- 4- Cash and temporary investments.

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

The Company monitors capital on the basis of the debt-to-equity ratio. The debt-to-equity ratios at August 31, 2011 and November 30, 2010 were as follows:

	<u>August 31, 2011</u>	<u>November 30, 2010</u>
	\$	\$
Debt	22,768,774	20,283,984
Equity	85,041,347	76,198,185
Debt-to-equity ratio	0.27	0.27

During the three quarters of 2011, the addition of \$5,535,000 of debt and holdbacks related to the acquisitions discussed in Note 3 caused the ratio to go up slightly. During the second quarter of 2011, the settlement of the post-closing adjustments that were under litigation (Note 3), which were part of the Company's liabilities, combined with the income generated by the Company during the first nine months of the year, reduced the debt-to-equity ratio. The Company intends to reduce its total debt with the positive cash flows generated from its operations. Maintaining a low debt-to-equity ratio is a priority in order to permit the Company to secure financing at a reasonable cost for future acquisitions.

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17. Franchise fees

Included in revenue from franchise locations are initial franchise fees in the amount of \$1,434,996 (\$2,174,448 in 2010).

18. Restructuring

During the second quarter, the Company has undertaken a restructuring of its Country Style operations following unsatisfactory performances. The total cost of the terminations incurred during the second quarter was \$446,579; no additional terminations are expected as part of this restructuring activity, but some of the provided amounts are still being negotiated and could therefore vary from the original estimate. As at August 31, 2011, \$301,789 remains in liabilities.

19. Commitments

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

	<u>Lease commitments</u>	<u>Sub leases</u>	<u>Net commitments</u>
	\$	\$	\$
12 months ending August 2012	42,082,747	40,076,340	2,006,407
12 months ending August 2013	39,433,593	37,508,864	1,924,729
12 months ending August 2014	36,667,012	34,912,831	1,754,181
12 months ending August 2015	33,328,356	31,752,881	1,575,475
12 months ending August 2016	28,632,737	27,205,453	1,427,284
Thereafter	80,681,681	75,817,970	4,863,711
	<u>260,826,126</u>	<u>247,274,339</u>	<u>13,551,787</u>

The Company has entered into supplier agreements for purchases of coffee beans, wheat, sugar and shortening for delivery dates ranging from September 2011 to March 2012. The total commitment amounts to approximately \$2,038,000. Based on market rates at August 31, 2011, a gain of \$242,000 would result from immediate liquidation of all contracts.

20. Guarantee

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

21. Contingent liabilities

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

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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:

	<u>August 31, 2011</u>		<u>August 31, 2010</u>	
	\$	%	\$	%
Combined income tax rate	4,528,697	28.4	4,888,323	30.4
Add effect of:				
Impact of disposition of capital property	(116,362)	(0.7)	36,523	0.3
Permanent impact of tax assessment	-	-	52,310	0.3
Non-deductible items	27,668	0.2	19,130	0.1
Variation in tax reserves	(49,760)	(0.3)	-	-
Adjustments in prospective tax rates	(121,046)	(0.8)	-	-
Losses in a subsidiary for which no future income tax asset was recorded	127,602	0.8	-	-
Adjustment to 2010 provisions	(38,000)	(0.2)	-	-
Other – net	(11,045)	(0.1)	(12,838)	(0.0)
Provision for income taxes	4,347,754	27.3	4,983,448	31.1

As at August 31, 2011 there were approximately \$6,706,035 of net allowable capital losses which may be applied against capital gains for future years and be carried forward indefinitely. The future income tax benefit of these capital losses has not been recognized.

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

	<u>August 31, 2011</u>	<u>November 30, 2010</u>
	\$	\$
Future income tax assets		
Financial statements reserves on payables	365,000	-
Non-capital loss carry-forward	-	3,561,864
	<u>365,000</u>	<u>3,561,864</u>
Future income tax liabilities		
Capital assets	232,425	(61,834)
Intangible assets	582,327	2,667,716
	<u>814,752</u>	<u>2,605,882</u>

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23. Earnings per share

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

	Three months ended August 31, 2011	Three months ended August 31, 2010	Nine months ended August 31, 2011	Nine months ended August 31, 2010
Weighted daily average number of common shares	19,120,567	19,120,567	19,120,567	19,120,567
Diluted effect of stock options	-	-	-	-
Weighted average number of diluted common shares	19,120,567	19,120,567	19,120,567	19,120,567

24. Segmented Information

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

Nine-month period ended August 31, 2011:

	Franchising	Corporate	Distribution	Processing	Intercompany	Total
	\$	\$	\$	\$	\$	\$
Operating Revenues	39,731,238	7,496,164	4,195,129	4,316,417	(572,784)	55,166,164
Operating expenses	21,436,177	7,391,806	3,788,842	4,347,532	(572,784)	36,391,573
Operating margin	18,295,061	104,358	406,287	(31,115)	-	18,774,591
Other expenses						
Amortization- capital assets	529,178	257,329	3,505	257,757	-	1,047,769
Amortization- intangible assets	2,294,146	-	-	-	-	2,294,146
Interest on long-term debt	-	7,103	-	101,691	-	108,794
Other income						
Foreign exchange (loss)	(38,122)	-	-	-	-	(38,122)
Interest income	288,752	-	-	-	-	288,752
Gain on disposal	818,187	-	-	-	-	818,187
Restructuring	(446,579)	-	-	-	-	(446,579)
Operating income	16,093,975	(160,074)	402,782	(390,563)	-	15,946,120
Current income taxes						896,917
Future income taxes						3,450,837
Income before non-controlling interest						11,598,366
Non-controlling interest						(173,927)
Net income						11,424,439

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24. Segmented Information (cont.)

Nine-month period ended August 31, 2010

	Franchising	Corporate	Distribution	Processing	Intercompany	Total
	\$	\$	\$	\$	\$	\$
Operating Revenues	41,410,462	6,132,259	-	-	-	47,542,721
Operating expenses	23,377,664	5,171,604	-	-	-	28,549,268
Operating margin	18,032,798	960,655	-	-	-	18,993,453
Other expenses						
Amortization- capital assets	357,490	357,912	-	-	-	715,402
Amortization- intangible assets	2,264,622	-	-	-	-	2,264,622
Other income						
Foreign exchange gain	2,289	-	-	-	-	2,289
Interest income	131,713	-	-	-	-	131,713
(Loss) on disposal	(120,143)	-	-	-	-	(120,143)
Operating income	15,424,545	602,743	-	-	-	16,027,288
Current income taxes						4,366,545
Future income taxes						616,903
Income before non-controlling interest						11,043,840
Non-controlling interest						(80,293)
Net income						10,963,547

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25. Statement of cash flows

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

	Three months ended August 31, 2011 \$	Three months ended August 31, 2010 \$	Nine months ended August 31, 2011 \$	Nine months ended August 31, 2010 \$
Accounts receivable	71,674	752,106	(1,260,924)	(7,857)
Income taxes receivable	(260,965)	-	(2,453,960)	-
Inventory	(211,124)	115,800	(403,630)	128,634
Franchise locations under construction held for resale	99,585	(104,900)	160,115	97,464
Loans receivable	73,903	(52,014)	152,251	(367,038)
Other receivable	-	-	205,000	-
Prepaid expenses	31,838	41,716	(28,208)	(16,032)
Deposits	1,187	1,163	(74,933)	(50,088)
Accounts payable and accrued liabilities	638,973	803,450	(651,367)	1,451,677
Income taxes payable	-	33,522	(851,138)	377,514
	445,071	1,590,843	(5,206,794)	1,614,274

Supplemental disclosure of cash flows

Income taxes paid	1,116,914	1,407,201	4,522,935	4,255,601
Income tax refund received	284,003	175,535	320,920	266,569

26. Proposed acquisitions

On August 15, 2011, the company announced it had reached a binding agreement to acquire all of the assets of Koryo Korean BBQ Franchise Corporation for an estimated consideration of \$1.8 million, to be funded from the Company's cash on hand.

On August 18, 2011, the company announced it had reached a binding agreement to acquire all of the assets of Mr. Submarine Limited for an estimated consideration of \$23.0 million, to be funded from the Company's cash on hand and an available credit facility.

Both acquisitions remain subject to standard regulatory approvals and closing conditions. The Company expects that it will complete both acquisitions during the fourth quarter of its 2011 fiscal period.

27. Comparative Figures

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