

DONINI INC.

Annual Report

May 31, 2012

(OTC Pink: DNNC)

OTC Pink Basic Disclosure Guidelines

1) Name of the issuer and its predecessors (if any)

In answering this item, please also provide any names used by predecessor entities in the past five years and the dates of the name changes.

DONINI INC.

a) Incorporated in the State of New Jersey on October 22, 1991 under the name of "PRS SUB VI, INC."

b) On February 6, 2001, the Company amended its Certificate of Incorporation changing its name from PRS Sub VI, Inc. to Donini, Inc.

2) Address of the issuer's principal executive offices

Company Headquarters Address:

1510 Henri Bourassa Blvd. West, Suite 200, Montreal, Quebec, Canada H3M 3E3

Email: derospeter@gmail.com

3) Security Information

Trading Symbol: DNNC

Exact title and class of securities outstanding: COMMON

CUSIP: 257755306

Par or Stated Value: 0.001

Total shares authorized: 750,000,000 as of: October __, 2014

Total shares outstanding: 447,598,300 as of: October __, 2014

Transfer Agent Name: OLDE MONMOUTH STOCK TRANSFER CO., INC.

Address 1: 5200 MEMORIAL PARKWAY, SUITE 101, ATLANTIC HIGHLANDS, NEW JERSEY 07716

Phone: (732) 872-2727

Is the Transfer Agent registered under the Exchange Act?* Yes

*To be included in the OTC Pink Current Information tier, the transfer agent must be registered under the Exchange Act.

List any restrictions on the transfer of security: None

Describe any trading suspension orders issued by the SEC in the past 12 months.

NONE

4) Issuance History

List below any events, in chronological order, that resulted in changes in total shares outstanding by the issuer in the past two fiscal years and any interim period. The list shall include all offerings of securities,

whether private or public, and all shares or any other securities or options to acquire such securities issued for services, describing (1) the securities, (2) the persons or entities to whom such securities were issued and (3) the services provided by such persons or entities. The list shall indicate:

- A. The nature of each offering (e.g., Securities Act Rule 504, intrastate, etc.);
- B. Any jurisdictions where the offering was registered or qualified;
- C. The number of shares offered;
- D. The number of shares sold;
- E. The price at which the shares were offered, and the amount actually paid to the issuer;
- F. The trading status of the shares; and
- G. Whether the certificates or other documents that evidence the shares contain a legend (1) stating that the shares have not been registered under the Securities Act and (2) setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act.

With respect to private offerings of securities, the list shall also indicate the identity of the persons who purchased securities in such private offering; *provided, however*, that in the event that any such person is an entity, the list shall also indicate (a) the identity of each natural person beneficially owning, directly or indirectly, more than ten percent (10%) of any class of equity securities of such entity and (b) to the extent not otherwise disclosed, the identity of each natural person who controlled or directed, directly or indirectly, the purchase of such securities for such entity.

Common Shares Issuances between June 1, 2008 to May 31, 2009:

- a) Free-Trading Common Shares Issuances:
 - Number of Shares: 23,500,000 (issued in exchange for debt)
 - Number of Shareholders: 4
- b) Restricted Common Shares Issuances:
 - Number of Shares: 73,900,000 (issued for services rendered)
 - Number of Shareholders: 12

Common Shares Issuances between June 1, 2009 to May 31, 2010:

- a) Free-Trading Common Shares Issuances:
 - Number of Shares: 62,000,000 (issued in exchange for debt)
 - Number of Shareholders: 4
- b) Restricted Common Shares Issuances:
 - Number of Shares: 288,000,000 (issued in exchange for services rendered)
 - Number of Shareholders: 13

Common Shares Issuances between June 1, 2010 to May 31, 2011, and to May 31, 2012:

- a) Free-Trading Common Shares Issuances:
 - Number of Shares: nil
 - Number of Shareholders: nil
- b) Restricted Common Shares Issuances:
 - Number of Shares: nil
 - Number of Shareholders: nil

5) Financial Statements

Provide the financial statements described below for the most recent fiscal year end or quarter end to maintain qualification for the OTC Pink Current Information tier. For the initial disclosure statement (qualifying for Current Information for the first time) please provide reports for the two previous fiscal years and any interim periods.

- A. Balance sheet;
- B. Statement of income;
- C. Statement of cash flows;
- D. Financial notes; and
- E. Audit letter, if audited

The financial statements requested pursuant to this item shall be prepared in accordance with US GAAP by persons with sufficient financial skills.

You may either (i) attach/append the financial statements to this disclosure statement or (ii) post such financial statements through the OTC Disclosure & News Service as a separate report using the appropriate report name for the applicable period end. ("Annual Report," "Quarterly Report" or "Interim Report").

If you choose to publish the financial reports separately as described in part (ii) above, you must state in the accompanying disclosure statement that such financial statements are incorporated by reference. You may reference the document(s) containing the required financial statements by indicating the document name, period end date, and the date that it was posted to otciq.com in the field below.

*The Financial Statements ending May 31, 2012 are incorporated by reference in the Annual Report as posted to otciq.com on October __, 2014.

Information contained in a Financial Report is considered current until the due date for the subsequent Financial Report. To remain in the OTC Pink Current Information tier, a company must post its Annual Report within 90 days from its fiscal year-end date and Quarterly Reports within 45 days of its fiscal quarter-end date.

6) Describe the Issuer's Business, Products and Services

Describe the issuer's business so a potential investor can clearly understand the company. In answering this item, please include the following:

A. a description of the issuer's business operations;

Donini Inc. ("we", "our", the "Company") was incorporated in the State of New Jersey. The Company had two Canadian subsidiaries, Donini Group, Inc. and Pizzacorp Franchises DTC, Inc., whose purposes were, respectively, to hold and control the intellectual property of the Company and to license the trademarks and oversee licensed franchisees. Through its Canadian subsidiaries, the Company was the franchisor of eight (8) pizza delivery restaurants operating under the trade name "Pizza Donini", with seating of between 23 to 50 seats and one (1) 120-seat, fully-licensed Italian restaurant operating under the trade name "Donini Resto Bar". All units were operated by third parties and were located in the Greater Montreal area, in the province of Quebec, Canada.

During the years ended May 31, 2009 and 2008, certain of the Company's subsidiaries filed proceedings similar to Chapter XI Bankruptcy Proceedings and have ceased all operations. Furthermore, the Company ceased all of its production activities and its call center, outsourcing those functions to third parties. The subsidiaries that formerly performed these activities were re-organized in a bankruptcy-type proceeding and liquidated. The Company also converted all of its remaining operating units to franchised units, operated by third parties. This further reduced costs, but also substantially reduced gross revenues, which consisted of royalty payments and volume allowances of products to the franchise units.

Effective September 1, 2009, three (3) of the Company's franchises terminated their relationship with Donini Inc.

During the year ended May 31, 2010, and as the licenses for the franchisees came due, the Company, for various reasons such as underperformance, were not renewed. Some franchisees elected to take over the licenses under newly-formed trade or operating names. During the year ended May 31, 2010, the Company disposed of its two (2) subsidiaries and all their related assets and incurred a loss of \$129,946 from their disposal.

Since the year ended May 31, 2010, the Company has not engaged in any business operations but is currently evaluating other businesses for acquisitions. Its plan is to engage in a merger or acquisition with another operating company or entity. No assurances can be given, however, that the Company will be successful in identifying or negotiating with another company or entity in the future.

B. Date and State (or Jurisdiction) of Incorporation:

Incorporated in the State of New Jersey on October 22, 1991

C. the issuer's primary and secondary SIC Codes; SIC CODE 5812 - Retail - Eating Places

D. the issuer's fiscal year end date;

MAY 31

E. principal products or services, and their markets;

See 6A.

7) Describe the Issuer's Facilities

The goal of this section is to provide a potential investor with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer.

In responding to this item, please clearly describe the assets, properties or facilities of the issuer, give the location of the principal plants and other property of the issuer and describe the condition of the properties. If the issuer does not have complete ownership or control of the property (for example, if others also own the property or if there is a mortgage on the property), describe the limitations on the ownership.

If the issuer leases any assets, properties or facilities, clearly describe them as above and the terms of their leases.

The Company previously leased a 1,053 square foot office as its principal headquarters. The term of the lease was for 5 years, commencing June 1, 2007. As of May 31, 2010, this office lease was no longer an obligation by Donini Inc. as the lease was taken over by the independent subsidiaries.

8) Officers, Directors, and Control Persons

The goal of this section is to provide an investor with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant shareholders.

A. Names of Officers, Directors, and Control Persons. In responding to this item, please provide the names of each of the issuer's executive officers, directors, general partners and control persons (control persons are beneficial owners of more than five percent (5%) of any class of the issuer's equity securities), as of the date of this information statement.

1. Peter Deros - CEO, CFO, Chairman & Director 8220 Birnam #2, Montreal, Quebec, Canada H3N 2T9

2. Jean Vassiliadis - Director & beneficial owner of 5.02% 467 CROISSANT DES ORCHIDEES, STE-JULIE, QC J3E 2C3

3. Mary Jean Chyrek - beneficial owner of 6.03% C/O FROHLING ASSOCIATES LLC 17 FULTON ST, NEWARK, NJ 07102

4. Constantinos Deros - beneficial owner of 10.50% 8220 Birnam #1, Montreal, Quebec, Canada H3N 2T9

5. Irene Deros - beneficial owner of 10.50% 8220 Birnam #1, Montreal, Quebec, Canada H3N 2T9

6. Sylvia Deros - beneficial owner of 10.50% 8220 Birnam #1, Montreal, Quebec, Canada H3N 2T9

7. John Frohling - beneficial owner of 9.17% 901 Summit Ave., Jersey City, NJ 07307

8. Edward Frohling - beneficial owner of 5.60% C/O John FROHLING 901 Summit Ave., Jersey City, NJ 07307

9. Carlos Olivares - beneficial owner of 9.99% 9213 Olivier Mauzault, Montreal, Quebec, Canada H2M 2K6

B. Legal/Disciplinary History. Please identify whether any of the foregoing persons have, in the last five years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

NONE

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

NONE

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

NONE

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

NONE

C. Beneficial Shareholders. Provide a list of the name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer's equity securities. If any of the beneficial shareholders are corporate shareholders, provide the name and address of the person(s) owning or controlling such corporate shareholders and the resident agents of the corporate shareholders.

1. Constantinos Deros - beneficial owner of 10.50% 8220 Birnam #1, Montreal, Quebec, Canada H3N 2T9

2. Irene Deros - beneficial owner of 10.50% 8220 Birnam #1, Montreal, Quebec, Canada H3N 2T9

3. Sylvia Deros - beneficial owner of 10.50% 8220 Birnam #1, Montreal, Quebec, Canada H3N 2T9

4. Carlos Olivares - beneficial owner of 9.99% 9213 Olivier Mauzault, Montreal, Quebec,
Canada H2M 2K6

9) Third Party Providers

Please provide the name, address, telephone number, and email address of each of the following outside providers that advise your company on matters relating to operations, business development and disclosure:

Legal Counsel

Name:

Firm:

Address 1:

Phone:

Email:

Accountant or Auditor

Name: Accounting Books

Address 1: 124 Danforth Avenue, Toronto, ON, M4J 5B5

Phone: 416-868-8592

Email: icece@accounting.com

Other Advisor: Any other advisor(s) that assisted, advised, prepared or provided information with respect to this disclosure statement. n/a

10) Issuer Certification

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles, but having the same responsibilities).

The certifications shall follow the format below:

I, Peter Deros certify that:

1. I have reviewed this annual disclosure statement of DONINI INC.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

October __, 2014

/s/ "Peter Deros", Chief Executive Officer

A handwritten signature in black ink, appearing to be "Peter Deros", written over a horizontal line.

DONINI INC.
CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2012
(UNAUDITED)

The accompanying notes are an integral part of these consolidated financial statements

May 31, 2012

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Donini Inc.
Consolidated Balance Sheets
(Unaudited)

	May 31, 2012	May 31, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$ -	\$ -
Accounts receivables - net	-	-
Total Current Assets	-	-
Property and equipment - net	-	-
Investment in related company	-	-
Trademarks - net	-	-
Total Assets	\$ -	\$ -
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	\$ 95,048	\$ 94,299
Accrued liabilities	254,731	220,646
Convertible notes payable	160,000	160,000
Loans from related parties	128,558	125,473
Loans payable	140,000	140,000
Total Current Liabilities	778,337	740,418
Notes payable	500,000	500,000
Total Liabilities	1,278,337	1,240,418
Commitments and Contingency		
Stockholders' Deficit		
Common Stock: 750,000,000 shares authorized, \$0.001 par value, 447,598,300 and 447,598,300 shares issued and outstanding as of May 31, 2012, and May 31, 2011, respectively	447,598	447,598
Additional Paid-in Capital	6,873,472	6,873,472
Common stock issued as collateral for note payable	(672,000)	(672,000)
Foreign currency translation adjustment	(552,252)	(552,252)
Deficit Accumulated During the Development Stage	(7,375,155)	(7,337,236)
Total Stockholders' Deficit	(1,278,337)	(1,240,418)
Total Liabilities and Stockholders' Deficit	\$ -	\$ -



The accompanying notes are an integral part of these consolidated financial statements

Donini Inc.
Consolidated Statements of Expenses
(Unaudited)

	For the year ended May 31,	
	2012	2011
Revenues		
Sales	\$ -	\$ -
Royalties and other related revenues	-	-
Total Revenues	-	-
Cost of Goods Sold	\$ -	\$ -
Gross Profit	\$ -	\$ -
Expenses		
General and administrative	\$ 3,835	\$ 3,606
Advertising and promotion	-	-
Depreciation and amortization expense	-	-
Total Operating Expenses	3,835	3,606
Gain (Loss) from Operations	(3,835)	(3,606)
Other Income (Expense)		
Interest expense	(34,084)	(31,920)
Gain on forgiveness	-	10,290
Total Other Income (Expense)	(34,084)	(21,630)
Gain (Loss) Before Discontinued Operations	(37,919)	(25,236)
Loss from Discontinued Operations	-	-
Net Gain (Loss)	\$ (37,919)	\$ (25,236)
Net Gain (Loss) Per Common Share -- Basic and Diluted available to Donini Inc.	\$ 0.00008	\$ 0.00006
Weighted Average Common Shares Outstanding --Basic and Diluted	447,598,300	447,598,300

The accompanying notes are an integral part of these consolidated financial statements

Donini Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	For the year ended May 31,	
	2012	2011
Cash Flows From Operating Activities:		
Net gain (loss)	\$ (37,919)	\$ (25,236)
Adjustment to reconcile net gain (loss) to net cash used in operating activities:		
Depreciation and amortization	-	-
Changes in operating assets and liabilities:		
Accounts receivable	-	-
Accounts payable and accrued liabilities	34,834	52,387
Net Cash Used in Operating Activities	(3,085)	27,151
Cash Flows From Financing Activities:		
Repayments of convertible notes	-	-
Repayments of loans payables	3,085	(27,151)
Cash Provided by Financing Activities	3,085	(27,151)
(Decrease) Increase in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents – Beginning of Period	-	-
Cash and Cash Equivalents – End of Period	\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements

Donini Inc.
Consolidated Statements of Stockholders' Equity (Deficit)
(Unaudited)

	Common Stock			Common Stock Issued As Collateral for Note Payable	Accumulated Deficit	Foreign Currency Translation	Total Stockholders' Deficit
	Shares	Amount	Additional Paid-In Capital				
Balance – May 31, 27, 2007	61,898,176	\$ 61,898	\$6,714,271	\$ (672,000)	\$ (7,571,739)	\$ (532,405)	\$ (1,999,975)
Currency translation adjustment	-	-	-	-	-	(10,773)	(10,773)
Issuance of common shares for debt	36,750,000	36,750	60,750	-	-	-	97,500
Net loss for the year	-	-	-	-	(63,546)	-	(63,546)
Balance – May 31, 2008	98,648,176	\$ 98,648	\$ 6,775,021	\$ (672,000)	\$ (7,635,285)	\$ (543,178)	\$ (1,976,794)
Currency translation adjustment	-	-	-	-	-	3,836	3,836
Effect of 500:1 reverse stock split	(98,450,880)	(98,451)	98,451	-	-	-	-
Issuance of common shares for debt	97,400,000	97,400	-	-	-	-	97,400
Net loss for the year	-	-	-	-	(40,156)	-	(40,156)
Balance – May 31, 2009	97,597,296	\$ 97,597	\$ 6,873,472	(672,000)	\$ (7,675,441)	\$ (539,342)	\$ (1,915,714)
Issuance of common shares in exchange for debt and services rendered	350,000,000	350,000	-	-	-	-	350,000
Adjustment for fractional shares	1,004	1	-	-	-	-	1
Currency translation adjustment	-	-	-	-	-	(12,910)	(12,910)
Net gain (loss) for the year	-	-	-	-	363,441	-	363,441
Balance – May 31, 2010	447,598,300	\$ 447,598	\$ 6,873,472	(672,000)	\$ (7,312,000)	\$ (552,252)	\$ (1,215,182)
Net gain (loss) for the year	-	-	-	-	(25,236)	-	(25,236)
Balance – May 31, 2011	447,598,300	\$ 447,598	\$ 6,873,472	(672,000)	\$ (7,337,236)	\$ (552,252)	\$ (1,240,418)
Net gain (loss) for the year	-	-	-	-	(37,919)	-	(37,919)
Balance – May 31, 2012	447,598,300	\$ 447,598	\$ 6,873,472	(672,000)	\$ (7,375,155)	\$ (552,252)	\$ (1,278,337)

The accompanying notes are an integral part of these consolidated financial statements

Donini Inc.
Notes to the Consolidated Financial Statements

1. Nature of Operations and Basis of Presentation

Donini Inc. (“we”, “our”, the “Company”) was incorporated in the State of New Jersey on October 2, 1991. The Company had two Canadian subsidiaries, Donini Group, Inc. and Pizzacorp Franchises DTC, Inc., whose purposes were, respectively, to hold and control the intellectual property of the Company and to license the trademarks and oversee licensed franchisees. Through its Canadian subsidiaries, the Company was the franchisor of eight (8) pizza delivery restaurants operating under the trade name “Pizza Donini”, with seating of between 23 to 50 seats and one (1) 120-seat, fully-licensed Italian restaurant operating under the trade name “Donini Resto Bar”. All units were located in the Greater Montreal area, in the province of Quebec, Canada.

During the years ended May 31, 2009 and 2008, certain of the Company’s subsidiaries filed proceedings similar to Chapter XI Bankruptcy Proceedings and have ceased all operations. Furthermore, the Company ceased all of its production activities and its call center, outsourcing those functions to third parties. The subsidiaries that formerly performed these activities were re-organized in a bankruptcy-type proceeding and liquidated. The Company also converted all of its remaining operating units to franchised units, operated by third parties. This further reduced costs, but also substantially reduced gross revenues, which consisted of royalty payments and volume allowances of products to the franchise units.

During the year ended May 31, 2010, the Company disposed of its remaining 2 subsidiaries and all related assets and incurred a loss of \$129,946 from their disposal.

Since the year ended May 31, 2010, the Company has not engaged in any business operations but is currently evaluating other businesses for acquisitions. Its plan is to engage in a merger or acquisition with another operating company or entity. No assurances can be given, however, that the Company will be successful in identifying or negotiating with another company or entity in the future.

Basis of Presentation

These accompanying unaudited year-end financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (“SEC”), and should be read in conjunction with the unaudited financial statements and notes thereto contained in the Company’s May 31, 2012 Annual Report filed with the OTC Markets. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations have been reflected herein.

Going Concern

These consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. However, the accompanying financial statements reflect that the Company has incurred significant operating losses, has a deficit in shareholders’ equity and a working capital deficit of \$778,337 at May 31, 2012. These factors raise substantial doubt regarding the Company’s ability to continue as a going concern. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to obtain necessary equity financing to continue operations. As at May 31, 2012, the Company has accumulated losses of \$7,375,155 since inception. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. Significant Accounting Policies

Basic Presentation and Consolidation

These consolidated financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States, and are expressed in US dollars.

Use of Estimates

The preparation of financial statements in conformity with US generally accepted accounting principles 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 the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to useful life and recoverability of long-lived assets, stock-based compensation, and deferred income tax valuations. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The

Donini Inc.
Notes to the Consolidated Financial Statements

actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents.

Earnings (Loss) Per Share

The Company computes net earnings (loss) per share in accordance with ASC 260 "*Earnings per Share*". ASC 260 requires presentation of both basic and diluted earnings per share ("EPS") on the face of the income statement. Basic EPS is computed by dividing net earnings (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method.

Financial Instruments and Fair Value Measurements

ASC 820 "*Fair Value Measurements*" requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company's financial instruments consist principally of cash, amounts due from related parties, accounts payable, convertible notes payable, loans payable, loans from related parties, and amounts due to related parties. Pursuant to ASC 820, the fair value of cash equivalents is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. The Company believes that the recorded values of all of other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

Income Taxes

The Company accounts for income taxes using the asset and liability method in accordance with ASC 740, "*Income Taxes*". The asset and liability method provides that deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company records a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized. The Company has adopted guidance issued by the FASB that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Any interest and penalties related to uncertain tax positions would be recorded as part of income tax expense. No such interest or penalties were incurred in 2012 or 2011.

Recently Adopted Accounting Pronouncements

The Company has implemented all new accounting pronouncements that are in effect and that may impact its financial statements and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

Donini Inc.
Notes to the Consolidated Financial Statements

3. Related Party Transactions

- a) On September 1, 2005, the Company entered into a Convertible Promissory Note with the Company's CEO for \$50,000 ("CEO Loan"), which is included in loans from related parties. The loan bears interest at 8% per annum, compounded annually and was due on September 1, 2006. On January 15, 2008, \$2,000, \$8,000, \$8,000 and \$5,500 were assigned to third parties in exchange for debt and, subsequently converted into 2,000,000, 8,000,000, 8,000,000 and 5,500,000 shares of common stock, respectively. At May 31, 2012, a principal balance of \$26,500 of the CEO Loan remains unpaid, including \$20,654 in accrued interest.

At May 31, 2012, the Company is indebted to the CEO of the Company for \$91,540.02 (Canadian Dollars) of a former subsidiary's accounts payables guaranteed by the CEO of the Company.

4. Loans payable

- a) On November 25, 2005, the Company received \$25,000 from an affiliate of the Company and entered into an unsecured loan agreement, bearing interest at 8% per annum. At May 31, 2012, the principal balance of \$25,000 plus accrued interest of \$13,038 remain outstanding and is included in accrued liabilities.
- b) On December 27, 2006, the Company received \$15,000 and entered into a promissory note agreement with an affiliate of the Company. Under the terms of the note, the principal of the loan is unsecured and bears 12% interest. At May 31, 2012, the principal balance of \$15,000 plus accrued interest of \$9,774 remain outstanding and is included in accrued liabilities.
- c) On May 7, 2007, the Company entered into a promissory note in the principal amount of \$100,000. Under the terms of the note, the principal of the loan is unsecured and bears 14% interest per annum. At May 31, 2012, the Company has not repaid the note and accrued interest of \$70,933 remain outstanding and is included in accrued liabilities.

As at May 31, 2012, the Company is in default of loans amounting to an aggregate principal of \$140,000.

5. Convertible Notes Payable

- a) On July 23, 2004, the Company borrowed \$250,000 and entered into an 8%, 5-year Promissory Note. The Note is guaranteed by the Company. The Promissory Note is payable in monthly installments of \$5,054, including interest commencing in October 2004 through September 2009.

On September 2, 2009, a portion of the Promissory Note was assigned to a third party and the Company issued 6,000,000 shares of common stock upon the conversion of the principal amount of \$6,000.

On January 15, 2010, portions of the Promissory Note were assigned to third parties and the Company issued 32,000,000, 22,000,000, 2,500,000 and 5,500,000 shares of common stock upon the conversion of the principal amounts of \$32,000, \$22,000, \$2,500 and \$5,500, respectively.

Due to underperformance of the franchisee's operations, the franchisee was unable to make the monthly instalments and defaulted on the Promissory Note. The franchisee filed for bankruptcy and the franchisee ceased its operations on June 21, 2010.

At May 31, 2012, the principal balance of \$150,000 on the Promissory Note plus \$138,167 in accrued interest remains unpaid.

- b) On June 7, 2004, the Company entered into a Securities Purchase Agreement with Global Capital Funding Group, L.P. ("Global"), whereby Global purchased a \$1,500,000 convertible note (the "Note") for \$1,200,000. The Note was secured by the Company's accounts receivable, inventory, property and equipment, and general tangibles and matured on June 7, 2007.

Pursuant to the agreement, the Company issued a warrant to Global to purchase 500,000 shares of common stock as additional finance costs. In addition, the Company issued a warrant to an unrelated corporation to purchase 50,000 shares of common stock as a finder's fee. Both warrants were exercisable at \$0.495 per share and expired on June 7, 2009.

On October 1, 2004, the Company and Global entered into an Exchange Agreement whereby the Note was exchanged for a new note (the "new Note") in the amount of \$1,540,000. The New Note matured on June 7, 2006 and was secured

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by a first lien on the Company's non-real estate assets and the issuance and pledge of 8,400,000 shares of common stock. The effective interest rate on the New Note is 13%.

Other terms under the New Note are as follows:

- i) As long as there is no event of default (as defined), the Company may, at its option, prepay the New Note at a price equal to the outstanding principal amount of the New Note, \$40,000 of liquidating damages and all accrued and unpaid interest.
- ii) Global has the right to convert the New Note into shares of common stock upon an event of default (as defined) or at any time following June 7, 2005 at the following conversion price – (a) Principal amount being converted together with the accrued and unpaid interest through the date of conversion divided by (b) 100% of the three lowest bid prices during the twenty (20) trading days immediately preceding the date of conversion. Global can only convert (other than due to an event of default) if the price of the Company's common stock is equal to or greater than \$0.60 per share at the time of conversion.

During the quarter ended August 31, 2009, Global instituted a lawsuit in the United States District Court of New Jersey to collect on its defaulted loan. The Company subsequently filed an Answer to the Complaint. During the following quarter ended November 30, 2009, the Company and Global settled, in principal, their lawsuit and all disputes on the following terms:

- i) The Company shall pay Global a total principal amount of \$500,000 in two (2) years, evidenced by an interest-free note ("Interest-Free Note");
- ii) Global shall retain its 16,800 (post 1:500 split) common shares, held as security, which shall be returned upon payment of the Interest-Free Note;
- iii) Global shall return the 16,800 shares upon the payment of the first \$25,000 due on the Note;
- iv) The matter has been settled and an Order was entered reflecting the same.

At May 31, 2012, the principal balance of \$500,000 on the Interest-Free Note remains unpaid.

6. Common and Preferred Stock

Common stock issued during the years ended May 31, 2011 and 2012: -nil-

Common stock issued during the year ended May 31, 2010:

During the year ended May 31, 2010, the Company issued 350,000,000 shares of common stock to 17 employees/consultants/advisors in exchange for debt and services rendered..

7. Contingencies

- a) The Company is a guarantor on a five-year, 8% promissory note ("Promissory Note") of \$250,000 made by a non-affiliated person to a franchisee of the Company. The Promissory Note is payable in monthly instalments of \$5,054, including interest commencing in October 2004 through September 2009.

On September 2, 2009, a portion of the Promissory Note was assigned to a third party and the Company issued 6,000,000 shares of common stock upon the conversion of the principal amount of \$6,000.

On January 15, 2010, portions of the Promissory Note were assigned to third parties and the Company issued 32,000,000, 22,000,000, 2,500,000 and 5,500,000 shares of common stock upon the conversion of the principal amounts of \$32,000, \$22,000, \$2,500 and \$5,500, respectively.

Due to underperformance of the franchisee's operations, the franchisee was unable to make the monthly instalments and defaulted on the Promissory Note. The franchisee filed for bankruptcy and the franchisee ceased its operations on June 21, 2010.

At May 31, 2012, the principal balance of \$150,000 on the Promissory Note plus \$138,167 in accrued interest remains unpaid.

- b) On June 7, 2004, the Company entered into a Securities Purchase Agreement with Global Capital Funding Group, L.P. ("Global"), whereby Global purchased a \$1,500,000 convertible note (the "Note") for \$1,200,000. The Note was

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secured by the Company's accounts receivable, inventory, property and equipment, and general tangibles and matured on June 7, 2007.

Pursuant to the agreement, the Company issued a warrant to Global to purchase 500,000 shares of common stock as additional finance costs. In addition, the Company issued a warrant to an unrelated corporation to purchase 50,000 shares of common stock as a finder's fee. Both warrants were exercisable at \$0.495 per share and expired on June 7, 2009.

On October 1, 2004, the Company and Global entered into an Exchange Agreement whereby the Note was exchanged for a new note (the "new Note") in the amount of \$1,540,000. The New Note matured on June 7, 2006 and was secured by a first lien on the Company's non-real estate assets and the issuance and pledge of 8,400,000 shares of common stock. The effective interest rate on the New Note is 13%.

Other terms under the New Note are as follows:

- i) As long as there is no event of default (as defined), the Company may, at its option, prepay the New Note at a price equal to the outstanding principal amount of the New Note, \$40,000 of liquidating damages and all accrued and unpaid interest.
- ii) Global has the right to convert the New Note into shares of common stock upon an event of default (as defined) or at any time following June 7, 2005 at the following conversion price – (a) Principal amount being converted together with the accrued and unpaid interest through the date of conversion divided by (b) 100% of the three lowest bid prices during the twenty (20) trading days immediately preceding the date of conversion. Global can only convert (other than due to an event of default) if the price of the Company's common stock is equal to or greater than \$0.60 per share at the time of conversion.

During the year ended May 31, 2010, Global instituted a lawsuit in the United States District Court of New Jersey to collect on its defaulted loan. The Company subsequently filed an Answer to the Complaint. During the year ended May 31, 2010, the Company and Global settled, in principal, their lawsuit and all disputes on the following terms:

- i) The Company shall pay Global a total principal amount of \$500,000 in two (2) years, evidenced by an interest-free note ("Interest-Free Note");
- ii) Global shall retain its 16,800 (post 1:500 split) common shares, held as security, which shall be returned upon payment of the Interest-Free Note;
- iii) Global shall return the 16,800 shares upon the payment of the first \$25,000 due on the Note;
- iv) The matter has been settled and an Order was entered reflecting the same.