

A&W Food Services of Canada Inc.

Q1/2021

Consolidated Financial Statements

For the first quarter ended
March 28, 2021

Provided as a supplement to the financial
statements of A&W Revenue Royalties Income
Fund



**A&W Food Services of Canada Inc.
Report to Unitholders of A&W Revenue Royalties Income Fund
January 3, 2021 to March 28, 2021**

This report and the interim consolidated financial statements of A&W Food Services of Canada Inc. (A&W or Food Services) for the 12 weeks ended March 28, 2021 are provided as a supplement to the interim condensed consolidated financial statements and Management Discussion and Analysis of the A&W Revenue Royalties Income Fund (the Fund) for the quarter ended March 28, 2021. This report is dated May 4, 2021 and should be read in conjunction with the interim consolidated financial statements of Food Services for the 12 weeks ended March 28, 2021 and the audited annual consolidated financial statements of Food Services for the 53 weeks ended January 3, 2021. Such financial statements and additional information about the Fund and Food Services are available at www.sedar.com or www.awincomefund.ca.

Glossary

A&W	Financial and operating results of A&W Food Services of Canada Inc. and A&W Root Beer Beverages of Canada Inc.
Beverages	A&W Root Beer Beverages of Canada Inc.
Consolidated Financial Statements	Consolidated financial statements which include the accounts of A&W Food Services of Canada Inc. and its 60% ownership interest in A&W Root Beer Beverages of Canada Inc.
Food Services	A&W Food Services of Canada Inc.
The Fund	A&W Revenue Royalties Income Fund
The Partnership or LP	A&W Trade Marks Limited Partnership
Trade Marks	A&W Trade Marks Inc. and A&W Trade Marks Limited Partnership

To align its financial reporting with the business cycle of its operations, Food Services uses a fiscal year comprising a 52 or 53 week period ending on the Sunday nearest December 31. The fiscal 2020 year was 53 weeks and ended January 3, 2021 (2019 – 52 weeks ended December 29, 2019). Food Services' first quarter ends 12 weeks after its fiscal year end. System Sales, System Sales Growth and Same Store Sales Growth (defined below) for the 12 weeks ended March 28, 2021 are compared to the 12 weeks ended March 22, 2020 so that the two years are comparable.

The financial results reported in this report are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRIC). The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of Food Services' annual consolidated financial statements for the year ended January 3, 2021.

Financial Highlights

The following selected information, other than "System Sales", "System Sales Growth", "Same Store Sales Growth", "Gross sales reported by A&W restaurants in the Royalty Pool", "Royalty Pool Same Store Sales Growth" and information with respect to numbers of restaurants has been derived from financial statements prepared in accordance with IFRS and all dollar amounts are reported in Canadian currency. See "Non-IFRS Measures".

(dollars in thousands)	12 week period ended Mar 28, 2021	12 week period ended Mar 28, 2020
System Sales ⁽ⁱ⁾	\$306,974	\$317,212
System Sales Growth ⁽ⁱⁱ⁾	-3.2%	+0.1%
Same Store Sales Growth ⁽ⁱⁱⁱ⁾	-5.6%	-4.0%
New restaurants opened	6	3
Restaurants permanently closed	3	2
Number of restaurants	1,009	995
Gross sales reported by A&W restaurants in the Royalty Pool ^(iv)	\$ 310,726	\$308,679
Royalty Pool Same Store Sales Growth ^(v)	-5.6%	-4.0%
Number of restaurants in the Royalty Pool	994	971
Franchising & corporate restaurant revenue	\$42,301	\$45,082
Operating costs and general and administrative	(28,749)	(37,003)
Depreciation of plant, equipment and right-of-use assets	958	924
Earnings before royalty expense, loss on impairment of leases receivable, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	\$14,510	\$9,003
Royalty expense	(9,081)	(9,260)
Net income (loss)	\$5,381	\$(8,456)

Notes:

- ⁽ⁱ⁾ "System Sales" is calculated in respect of all A&W restaurants in Canada as the amount of gross sales reported to Food Services by franchisees of such A&W restaurants without audit, verification or other form of independent assurance and the gross sales of A&W restaurants owned and operated by Food Services, in each case, after deducting amounts for discounts for coupons and other promotional offerings and applicable sales taxes. System Sales is a non-IFRS measure – see "Non-IFRS Measures". Food Services believes System Sales is a key performance indicator for Food Services as it provides investors with an indication of the sales figures on which Food Services' franchise revenues are based. See "System Sales".
- ⁽ⁱⁱ⁾ "System Sales Growth" is calculated in respect of all A&W Restaurants in Canada as the percentage change in System Sales for the 12 weeks ended March 28, 2021 compared to the 12 weeks ended March 22, 2020. System Sales Growth is a non-IFRS measure – see "Non-IFRS Measures". This important information is provided as it is a key driver of growth. See "System Sales".

- (iii) "Same Store Sales" and "Same Store Sales Growth" is calculated as the change in System Sales of A&W restaurants that operated, or were temporarily closed at any point due to the COVID-19 pandemic ("COVID-19"), during the entire 12-week periods ending March 28, 2021 and March 22, 2020, and is based on an equal number of days in each quarter and year. Same Store Sales Growth is a non-IFRS measure – see "Non-IFRS Measures". This important information is provided as it is a key driver of growth and provides investors with an indication of the change in year-over-year sales of A&W restaurants. See "Same Store Sales".
- (iv) "Gross sales reported by A&W restaurants in the Royalty Pool" is calculated in respect of A&W restaurants in Canada in the Royalty Pool (as defined below), as the amount of gross sales reported to Food Services by franchisees of such A&W restaurants in the Royalty Pool without audit, verification or other form of independent assurance and the gross sales of A&W restaurants owned and operated by Food Services in the Royalty Pool, in each case, after deducting amounts for discounts for coupons and other promotional offerings and applicable sales taxes. Gross sales reported by A&W restaurants in the Royalty Pool is reported for the Fund's first quarters ended March 28, 2021 and March 22, 2020. The Fund's fiscal year begins on January 1 and therefore the Gross sales reported by A&W restaurants in the Royalty Pool for 2021 are not directly comparable to 2020 as there were 87 days of sales in Q1 2021 compared to 82 days in Q1 2020. "Gross sales reported by A&W restaurants in the Royalty Pool" is a non-IFRS measure – see "Non-IFRS Measures".
- (v) "Royalty Pool Same Store Sales Growth" is calculated as the change in Gross sales reported by A&W restaurants in the Royalty Pool that operated, or were temporarily closed at any point due to COVID-19, during the entire 12-week periods ending March 28, 2021 and March 22, 2020, and is based on an equal number of days in each quarter. Royalty Pool Same Store Sales Growth is a non-IFRS measure – see "Non-IFRS Measures".

Same Store Sales

As noted above, Same Store Sales Growth⁽ⁱⁱⁱ⁾ is the change in gross sales of A&W restaurants that operated, or were temporarily closed at any point due to COVID-19, during the entire 12-week periods ended March 28, 2021 and March 22, 2020.

Same Store Sales⁽ⁱⁱⁱ⁾ for the first quarter of 2021 decreased by 5.6% as compared to the same quarter of 2020. In 2020, COVID-19 only impacted the last two weeks of the quarter, whereas in 2021, the impacts of COVID-19 were prevalent throughout the first quarter of the year. Actions required in response to COVID-19 continue to adversely impact A&W restaurant operations across Canada, particularly for those restaurants located on urban street fronts and in shopping centres. Throughout the first quarter of 2021, there continued to be a number of A&W restaurants that were either temporarily closed or were not able to offer dine-in services due to government imposed COVID-19 restrictions. As at May 4, 2021, 45 restaurants remained temporarily closed. See "Impact of COVID-19".

System Sales

System Sales⁽ⁱ⁾ for all A&W restaurants in Canada for the 12 weeks ended March 28, 2021 were \$306,974,000, a decrease of 3.2% or \$10,238,000 from the 12 weeks ended March 22, 2020. The decrease in System Sales was due to the impact of COVID-19. See "Impact of COVID-19". See "Financial Highlights" and "Non-IFRS Measures" for further information.

New Restaurant Openings and Permanent Restaurant Closures

Food Services opened six new A&W restaurants in first quarter of 2021, compared to three new restaurants in the same quarter of 2020. Three restaurants were permanently closed in the quarter, compared to two in the first quarter of 2020. As at March 28, 2021, there were 1,009 A&W restaurants in Canada, of which 999 were operated by franchisees and 10 were corporately owned and operated.

Overview

Food Services is the franchisor of the A&W restaurant chain in Canada. Food Services' revenue consists of service fees from franchised restaurants, revenue from the sale of food and supplies to franchisees and distributors, revenue from the opening of new franchised restaurants, revenue from company-owned restaurants, and revenue from sales of A&W Root Beer concentrate to licensed bottlers who produce and distribute A&W Root Beer for sale in retail grocery stores. Food Services' operating costs include the cost of materials, supplies and equipment sold either directly to franchisees or to distributors that service the restaurants or that are sold to the licensed

bottlers, and costs of sales and other expenses of the restaurants operated corporately by Food Services. General and administrative expenses are expenses associated with providing services to the franchised A&W restaurants and establishing new A&W restaurants.

The A&W trade-marks used in the A&W quick service restaurant business in Canada are owned by the Partnership. The Partnership has granted Food Services a licence (the Amended and Restated Licence and Royalty Agreement) to use the A&W trade-marks in Canada for a term expiring December 30, 2100, for which Food Services is required to pay a royalty of 3% of the gross sales reported by those A&W restaurants in Canada identified in the Amended and Restated Licence and Royalty Agreement, as amended from time to time (the Royalty Pool).

Impact of COVID-19

The effects of COVID-19 on many businesses, especially restaurants, have been unexpected, sudden and unprecedented. The future effect of COVID-19 on the economy and businesses, in general, remains uncertain. Over the past year jurisdictions across Canada have had varying levels of COVID-19 related restrictions in place and many of those restrictions have been modified several times in response to the fluctuating number of COVID-19 cases.

Actions required in response to the COVID-19 pandemic have adversely affected A&W restaurant operations in Canada, including the temporary closure of a large number of restaurants. At its peak impact, in the second quarter of 2020, a total of 230 A&W restaurants (out of 971 restaurants in the Royalty Pool) were temporarily closed due to public health measures in response to COVID-19. With COVID-19 case numbers across Canada on the rise throughout the first quarter of 2021, including a surge in the more easily transmittable variant strains of COVID-19, some of the A&W restaurants in operation have once again been restricted to drive-thru operations, take-out, delivery and mobile ordering only. As at March 28, 2021 there were 15 restaurants that remained temporarily closed (42 as at December 31, 2020). As at May 4, 2021, 45 restaurants remained temporarily closed. These temporarily closed A&W restaurants are expected to reopen when permitted to do so. It is possible that there could be temporary further closures or that the number of restaurants closed increases as the situation evolves.

Food Services and its franchisees work in partnership on initiatives to help accelerate sales recovery. These initiatives include, but are not limited to strengthening and expanding partnerships with third party delivery service providers, increasing the speed of service for drive-thru and enhancing the A&W mobile app. Food Services and its franchisees also continue to take and maintain significant measures in their restaurants and broader operations to protect the health of employees and guests in compliance with physical distancing recommendations and mandates of relevant public health authorities. Various levels of government have announced a number of important financial programs which have helped support individual restaurant businesses, including A&W franchisees; however, the duration of those programs remains uncertain. See “Risks and Uncertainties”.

In March 2020, and as a response to the sudden onset of COVID-19, the Fund temporarily suspended monthly distributions on the units; accordingly, no distributions were declared by the Fund for the months of March, April, and May 2020. Regular monthly distributions to unitholders resumed at 10 cents per unit in the third quarter of 2020 and special distributions totaling 50 cents per unit were paid in the fourth quarter of 2020. The monthly distribution rate was then increased to 13.5 cents per unit beginning with the February 2021 distribution that was paid March 31, 2021.

Food Services is the head lessee for the majority of its franchised locations and enters into agreements whereby Food Services licences the premises to the franchisee, for which Food Services receives a premises licence fee from its franchisees. Under the licence agreement, the franchisee is responsible for the obligations under the lease. IFRS 16 requires Food Services, where it acts as the intermediate lessor, to recognize a lease liability and a corresponding lease receivable. Leases receivable are reviewed for impairment based on expected losses at each balance sheet date in accordance with IFRS 9 – Financial instruments. An impairment loss is recorded when the credit risk is assessed to have increased for the leases receivable. As a result of the unprecedented impact of COVID-19, Food Services has developed a risk matrix used to assess the credit risk of all head leases and has included the impacts of COVID-19 response measures in its credit risk assumptions. As at March 28, 2021, Food Services had recorded an expected credit loss provision on lease receivables of \$4,281,000 (January 3, 2021 - \$4,281,000).

Annual Adjustment to the Royalty Pool

The Royalty Pool is adjusted annually to reflect gross sales from new A&W restaurants added to the Royalty Pool, net of the gross sales of any A&W restaurants that have permanently closed. Food Services is paid for the additional royalty stream related to the gross sales of the net new A&W restaurants, based on a formula set out in the Amended and Restated Licence and Royalty Agreement. The formula provides for a payment to Food Services based on 92.5% of the amount of estimated gross sales from the net new A&W restaurants and the current yield on the units of the Fund, adjusted for income taxes payable by Trade Marks. The consideration is paid to Food Services in the form of additional Limited Partnership units (LP units). The additional LP units are, at the option of Food Services, exchangeable for additional common shares of Trade Marks which are in turn exchangeable for units of the Fund on the basis of two common shares for one unit of the Fund. The consideration paid for the annual adjustment to the Royalty Pool is recorded by Food Services as an increase in its investment in Trade Marks, and an increase in the deferred gain.

The 2021 annual adjustment to the Royalty Pool took place on January 5, 2021. The number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants less 11 restaurants that permanently closed during 2020. The addition of these 23 net new restaurants brought the total number of A&W restaurants in the Royalty Pool to 994. The estimated annual sales of the 34 new A&W restaurants were \$45,248,000 at the time they were added to the Royalty Pool and annual sales for the 11 permanently closed restaurants were \$6,199,000 based on their sales during the first year such restaurants were included in the Royalty Pool. The initial consideration for the estimated additional royalty stream was \$16,588,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the units of the Fund for the 20-trading days ending October 26, 2020. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$13,271,000, by issuance of 465,316 LP units which were subsequently exchanged for 930,632 non-voting common shares of Trade Marks. The remaining 20% or \$3,318,000 and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be paid in December 2021 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks.

After the initial consideration was paid for the January 5, 2021 adjustment to the Royalty Pool, Food Services' indirect interest in the Fund increased to 26.0% on a fully diluted basis (24.2% as of January 3, 2021).

Common Shares of A&W Trade Marks Inc.

The common shares of Trade Marks are owned by the Fund and Food Services, with their respective ownership as at the end of the two most recently completed financial years and the current quarter being as follows:

(dollars in thousands)	Fund			Food Services			Total	
	Number of shares	Trade Marks' book value \$	%	Number of shares	Trade Marks' book value \$	%	Number of shares	Trade Marks' book value \$
Balance as at December 29, 2019	28,129,271	164,605	79.1	7,453,763	95,339	20.9	35,583,034	259,944
January 5, 2020 adjustment to the Royalty Pool ⁽¹⁾	-	-	(3.3)	1,519,260	28,881	3.3	1,519,260	28,881
Balance as at January 3, 2021	28,129,271	164,605	75.8	8,973,023	124,220	24.2	37,102,294	288,825
January 5, 2021 adjustment to the Royalty Pool ⁽²⁾	-	-	(1.8)	930,632	13,271	1.8	930,632	13,271
Balance as at March 28, 2021	28,129,271	164,605	74.0	9,903,655	137,491	26.0	38,032,926	302,096

⁽¹⁾ The number of common shares includes the 147,772 LP units exchanged for 295,544 common shares of Trade Marks representing the remaining consideration paid in December 2020 for the January 5, 2020 adjustment to the Royalty Pool.

⁽²⁾ The number of common shares does not include any LP units exchangeable for common shares of Trade Marks in respect of the remaining consideration payable to Food Services for the January 5, 2021 adjustment to the Royalty Pool, which LP units, if any, are held back until the number of LP units is determined in December 2021 based on the actual annual sales reported by the new restaurants. See "Adjustment to the Royalty Pool".

Ownership of the Fund

The ownership of the Fund as of March 28, 2021 and January 3, 2021, on a fully-diluted basis, is as follows:

	March 28, 2021		January 3, 2021	
	Number of units	%	Number of units	%
Fund units held by public unitholders	14,064,673	73.5	14,064,673	75.8
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services ⁽¹⁾	5,068,157	26.5	4,486,512	24.2
Total equivalent units	19,132,830	100.0	18,551,185	100.0

⁽¹⁾ Common shares of Trade Marks held by Food Services may be exchanged for units of the Fund on the basis of two common shares for one unit of the Fund.

On April 16, 2021, subsequent to the period end, A&W of Canada Inc. ("A&W Canada"), an indirect shareholder of Food Services, completed a reorganization to provide liquidity for some of its long-standing shareholders and to simplify the indirect ownership of Food Services (the "Reorganization").

As part of the Reorganization, and pursuant to the Amended and Restated Declaration of Trust (the “Declaration of Trust”) and the Amended and Restated Exchange Agreement, Food Services exchanged 1,042,000 common shares of Trade Marks for 521,000 units of the Fund, which were then purchased by shareholders of A&W Canada at a price of \$36.42 per unit. Food Services recognized a \$2,465,000 gain on the sale of the 521,000 units, net of transaction costs. The net proceeds from the sale of the units were used to fund dividends to Food Services’ shareholders.

The shareholders who purchased the 521,000 units of the Fund also entered into an agreement with three individuals (each a “Designated Representative”), which agreement provides that any two of the Designated Representatives are entitled to exercise the voting rights attached to the 521,000 units while they remain held by those shareholders. There is no agreement, arrangement, commitment or understanding among the Designated Representatives themselves or amongst the Designated Representatives and those shareholders as to how the voting rights attached to the 521,000 units will be exercised in any particular circumstance. The Designated Representatives, individually, therefore do not have control or direction over any of the 521,000 units.

In addition, Food Services exchanged 3,014,040 of its common shares of Trade Marks for 1,507,020 limited voting units of the Fund. The limited voting units will continue to be owned by Food Services and may be converted to publicly traded units of the Fund. Limited voting units have equal rights and privileges to units except that holders of the limited voting units, or the common shares of Trade Marks that are exchangeable for limited voting units, are not entitled in the aggregate to cast more than 40% of the votes cast upon a resolution with respect to the appointment or removal of Trustees of the Fund and are not entitled to cast votes upon a resolution to amend the Declaration of Trust. Food Services did not recognize a gain on the exchange of the 3,013,040 common shares of Trade Marks as the units continued to be held by Food Services. As part of this Reorganization, Food Services paid a dividend in the aggregate amount of \$66.3 million to its shareholders.

Prior to the Reorganization, Food Services owned 26.0% of the outstanding voting securities of the Fund on a fully diluted basis. Following the Reorganization, but excluding the issuance of the excess units that represent the remaining 20% of the initial consideration for the January 5, 2021 adjustment to the Royalty Pool that are payable in December 2021, Food Services owned approximately 23.3% of the outstanding voting securities of the Fund on a fully diluted basis. Including the issuance of the excess units that represent the remaining 20% of the initial consideration for the January 5, 2021 payable in December 2021, Food Services’ ownership in the Fund is approximately 23.8% on a fully diluted basis (26.5% prior to the Reorganization). Post Reorganization, Food Services holds both limited voting units in the Fund and exchangeable common shares of Trade Marks, whereas prior to the Reorganization, Food Services only held exchangeable common shares of Trade Marks.

The Fund did not receive any proceeds from the Reorganization and Food Services paid for the expenses of the Reorganization. The Reorganization does not constitute a change of control of Food Services, as the existing shareholders will continue to maintain majority control of Food Services. There is no change in management or the operations of the Food Services' business in connection with the Reorganization.

Q1 2021 Operating Results

Revenue

Food Services' franchising and corporate revenue for the first quarter of 2021 was \$42,301,000 compared to \$45,082,000 for the first quarter of 2020. Franchising revenue decreased by \$2,252,000 as service fees, advertising fund contributions and revenue related to the distribution of food, equipment and supplies were down due to lower System Sales.

Corporate restaurant System Sales were \$3,500,000 for the first quarter of 2021 compared to \$4,029,000 for the first quarter of 2020. The \$529,000 decrease was due to COVID-19 which only affected System Sales for two out of the twelve weeks of the first quarter of 2020 versus the entirety of the first quarter of 2021.

Operating costs and general and administrative expenses

Operating costs for the first quarter of 2021 were \$20,639,000 compared to \$26,065,000 for the first quarter of 2020, a decrease of \$5,426,000. The decrease is driven by the decrease in revenues noted above and a decrease in advertising spend.

General and administrative expenses represent costs of providing services to franchised restaurants and establishing new restaurants, and were \$8,110,000 for the first quarter of 2021 compared to \$10,938,000 for the first quarter of 2020, a decrease of \$2,828,000. General and administrative expenses in the first quarter of 2021 are net of wage subsidies totaling \$860,000 (2020 - \$nil) which were received or are receivable under federal government subsidy programs in connection with COVID-19.

Operating earnings

(dollars in thousands)	12 week period ended Mar 28, 2021	12 week period ended Mar 28, 2020
Franchising & corporate restaurant revenue	\$42,301	\$45,082
Operating costs and general and administrative expenses	(28,749)	(37,003)
Depreciation of plant, equipment and right-of-use assets	958	924
Earnings before royalty expense, loss on impairment of leases receivable, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	\$14,510	\$9,003

Operating earnings for the first quarter of 2021 increased by \$5,507,000 to \$14,510,000 as compared to \$9,003,000 for the first quarter of 2020. The operating margin for the first quarter of 2021 was 34.3% compared to 20.0% for the first quarter of 2020 due to the decrease in operating costs and general and administrative expenses.

Royalty expense

Royalty expense for the first quarter of 2021 was \$9,081,000 compared to royalty expense of \$9,260,000 for the first quarter of 2020. The decrease in royalty expense and gross sales for the quarter is due to the decline in Royalty Pool Same Store Sales Growth^(v) as a result of the impact of COVID-19, partially offset by the gross sales from the additional net 23 new restaurants added to the Royalty Pool on January 5, 2021. See "Impact of COVID-19". It is important to note that

the royalty expense reported by Food Services differs in amount from the royalty income reported by the Fund for the first quarter of 2021 as the Fund's royalty income is based on Gross sales reported by A&W restaurants in the Royalty Pool^(iv) from January 1, 2021 to March 28, 2021 whereas the royalty expense is based on Gross sales reported by A&W restaurants in the Royalty Pool^(iv) from January 4, 2021 to March 28, 2021.

Earnings (loss) after royalty expense

(dollars in thousands)	12 week period ended Mar 28, 2021	12 week period ended Mar 28, 2020
Earnings before royalty expense, loss on impairment of leases receivable, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	\$14,510	\$9,003
Royalty expense	(9,081)	(9,260)
Earnings (loss) after royalty expense (before loss on impairment of leases receivable, share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	\$5,429	\$(257)

Earnings (loss) after royalty expense (but before loss on impairment of leases receivable, Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) increased by \$5,686,000 to \$5,429,000 for the first quarter of 2021 compared to a loss of \$257,000 for the first quarter of 2020. The increase was attributable to the \$5,507,000 increase in operating earnings and the \$179,000 decrease in royalty expense. See "Financial Highlights" and "Non-IFRS Measures" for further information.

Loss on impairment of leases receivable

Food Services is the head lessee for the majority of its franchised locations and enters into agreements whereby Food Services licences the premises to the franchisee, for which Food Services receives a premises licence fee. Under the licence agreement, the franchisee is responsible for the obligations under the lease. IFRS 16 requires Food Services, where it acts as the intermediate lessor, to recognize a lease receivable. Leases receivable are reviewed for impairment based on expected losses at each balance sheet date in accordance with IFRS 9 – Financial instruments. An impairment loss is recorded when the credit risk is assessed to have increased for the leases receivable. As a result of the unprecedented impact of COVID-19, Food Services has developed a risk matrix used to assess the credit risk of all head leases. For the first quarter of 2020, Food Services recognized a loss on impairment of lease receivables of \$11,765,000. Food Services did not record an impairment loss on lease receivables for the first quarter of 2021. As at March 28, 2021 Food Services has an expected credit loss provision on lease receivables of \$4,281,000 (January 3, 2021 - \$4,281,000).

Finance expense - net

(dollars in thousands)	12 week period ended Mar 28, 2021	12 week period ended Mar 28, 2020
Interest income	-	(25)
Standby fees	15	5
Interest cost on supplementary retirement benefit plan	113	113
Interest on leases receivable	(4,992)	(4,813)
Interest on lease liabilities	5,159	4,978
Amortization of financing fees	9	-
	\$304	\$258

Net interest expense increased by \$46,000 for the first quarter of 2021 as compared to the first quarter of 2020 due to a decrease in interest income and an increase in standby fees as a result of the increase to the credit facility in the second quarter of 2020.

Food Services' share of Trade Marks' income

Food Services' share of Trade Marks' income for the first quarter of 2021 increased by \$130,000 to \$1,428,000 compared to \$1,298,000 for the first quarter of 2020. The increase is primarily attributable to higher royalty income due to the increase in Gross sales reported by A&W restaurants in the Royalty Pool^(iv).

Net income (loss)

(dollars in thousands)	12 week period ended Mar 28, 2021	12 week period ended Mar 28, 2020
Earnings (loss) after royalty expense (before loss on impairment of leases receivable, share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	\$5,429	\$(257)
Loss on impairment of lease receivables	-	(11,765)
Finance expense	(304)	(258)
Depreciation of plant, equipment and right-of-use assets	(958)	(924)
Amortization of deferred gain	724	676
Share of income from A&W Trade Marks Inc.	1,428	1,298
Income (loss) before income taxes	6,319	(11,230)
(Provision for) recovery of income taxes	(938)	2,774
Net income (loss) for the period	\$5,381	\$(8,456)

The increase in income (loss) before income taxes and in net income (loss) is primarily attributable to the \$5,507,000 increase in operating earnings and the \$11,765,000 decrease in the loss on impairment of lease receivables.

Net income attributable to non-controlling interests

The non-controlling interest in Beverages represents the 40% interest of Beverages owned by Unilever Canada Inc.

Other comprehensive loss

Other comprehensive loss consists of actuarial gains and losses, net of tax, on the supplementary retirement benefit plan. Actuarial gains result from an increase in the discount rate used to determine the accrued benefit obligation and actuarial losses result from a decrease in the discount rate. The actuarial gain, net of tax, for the first quarter of 2021 was \$984,000 compared to a loss of \$1,022,000 for the first quarter of 2020.

Liquidity and Capital Resources

Food Services is primarily a franchise business with 999 of its 1,009 restaurants franchised. Food Services' capital requirements are related to its corporate restaurants and head office and investments in technology and information. Future restaurant growth is expected to continue to be funded by franchisees although from time to time, Food Services expects to incur capital expenditures to open new corporate restaurants in the Ottawa market. Food Services expects to have sufficient capital resources to fund these capital requirements and has sufficient cash on hand to meet its obligations.

Food Services has a demand operating loan facility with a Canadian chartered bank (the Bank) of \$25,000,000 (January 3, 2021 - \$25,000,000) to fund working capital requirements and for general corporate purposes. This credit facility is secured solely by Food Services' indirect interest in the Fund, as permitted under the existing agreements between Food Services and the Fund. Amounts advanced under the facility bear interest at the Bank's prime rate plus 1.0% and are repayable on demand. As at March 28, 2021, letters of credit totaling \$36,000 (January 3, 2021 - \$36,000) have been issued by the Bank to cities for development of new restaurants, leaving \$24,964,000 of the facility available (January 3, 2021 - \$24,964,000).

Subsequent to the period end, on April 23, 2021, Food Services increased its credit facility from \$25,000,000 to \$40,000,000 to fund working capital and for general corporate purposes. Consistent with the terms under the \$25,000,000 credit facility, amounts advanced under the \$40,000,000 facility bear interest at the bank prime rate plus 1.0% and are repayable on demand. The covenants, which remain unchanged from those of the \$25,000,000 credit facility, include the requirement to meet certain debt to earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) ratios and debt to Food Services' investment in Trade Marks ratios during each trailing four quarter period. The amendment included a reduction to the number of common shares of Trade Marks that Food Services is required to pledge from 7,000,000 shares to 5,000,000 shares. The reduction did not have an impact on Food Service's ability to comply with its covenants. As at May 4, 2021 Food Services had drawn \$5,317,000 on the facility and letters of credit totaling \$36,000 had been issued by the Bank to cities for development of new restaurants, leaving \$34,647,000 of the facility available. Food Services was in compliance with all of its financial covenants as at May 4, 2021, March 28, 2021 and January 3, 2021.

In the second quarter of 2020, Food Services' shareholders invested \$10 million of common equity in the company to ensure sufficient liquidity during the period of uncertainty caused by COVID-19.

Off-Balance Sheet Arrangements

Food Services has no off-balance sheet arrangements.

Related Party Transactions and Balances

Royalty expense for the first quarter of 2021 \$9,081,000 (2020 - \$9,260,000), of which \$3,275,000 (January 3, 2021- \$3,692,000) is payable to the Partnership at March 28, 2021.

During the quarter, Trade Marks declared common share dividends payable to Food Services of \$1,164,000 (2020 - \$1,380,000). The \$668,000 dividend declared on March 3, 2021 and paid to Food Services on March 31, 2021 is reported by Food Services as a current asset as at March 28, 2021 (January 3, 2021 - \$nil).

During the 2020 period, Food Service paid \$125,000 to a professional baseball club, of which a shareholder and director of Food Services is a part owner, in exchange for advertising the A&W brand at the ballpark. The amount paid during the 2021 period was \$nil. At March 28, 2021, \$nil (January 3, 2021 - \$nil) is payable to the baseball club by Food Services.

Other related party transactions and balances are referred to elsewhere in this report, including, without limitation, under the headings “Annual Adjustment to the Royalty Pool”, “Common Shares of A&W Trade Marks Inc.” and “Ownership of the Fund”.

Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. It is reasonably possible that circumstances may arise that would cause actual results to differ from management estimates; however, management does not believe it is likely that such differences will materially affect Food Services’ financial position. Significant areas requiring the use of management estimates and judgements are investment in Trade Marks, supplementary retirement benefit plan, deferred income taxes and leases receivable. The supplementary retirement benefit plan and deferred income taxes are not “critical accounting estimates” as (i) they do not require Food Services to make assumptions about matters that are highly uncertain at the time the estimate is made, and (ii) different estimates that could have been used, or changes in the accounting estimates that are reasonably likely to occur from period to period, would not have had a material impact on Food Services’ financial condition, changes in financial condition or financial performance.

Risks and Uncertainties

COVID-19

Since March 2020, the COVID-19 pandemic has had significant impacts on the Canadian economy, the QSR industry, and the willingness of the general public to dine outside their homes and travel. These have negatively impacted Food Services, its franchisees and the Fund (including Trade Marks and the Partnership), and have adversely affected each of their respective investments, results of operations and financial condition. Restrictions on the operations of A&W restaurants in response to COVID-19, as well as temporary restaurant closures, continues to impact system sales at A&W restaurants in 2021. System sales drive the fees payable to Food Services by its franchisees and the amount of royalties payable to the Fund (through the Partnership), and correspondingly, the funds available to be paid as dividends by Trade Marks to Food Services and the Fund and available to distribute to unitholders of the Fund. Food Services may become liable for the lease obligations of certain of its franchisees, if such franchisees default on their leases as a result of the impacts of COVID-19 or otherwise, and such obligations

may be significant and Food Services may be unsuccessful in seeking recovery from such franchisees, all of which may adversely affect Food Services' investments, results of operations and financial condition. Food Services' projections may be inaccurate, and do not represent a financial forecast and actual results may differ materially from those anticipated by the projections. Monthly distributions on units are not guaranteed and may be reduced, suspended or terminated at any time. Recent sales improvements A&W restaurants may not continue and may slow or regress. Certain A&W restaurants that are currently temporarily closed may not reopen, and further locations may close temporarily or permanently due to the impacts of COVID-19. Government restrictions related to COVID-19 may have their durations extended, or may be reinstated in the case of those that have recently been lifted, which measures may restrict the ability of A&W restaurants to operate, or result in forced closures, further reduced guest traffic, supply interruptions or staff shortages. Government programs expected to be helpful to A&W franchisees may not be available to some franchisees, and may not be available in amounts expected for those franchisees for which such programs are available and may be terminated at any time. As at May 4, 2021, 45 A&W restaurants are temporarily closed due to COVID-19. See "Impact of COVID-19".

In addition, it is unknown if and to what extent the COVID-19 pandemic will alter consumer behaviour and demand for QSR services. Health epidemics or pandemics can adversely affect consumer spending and confidence levels and supply availability and costs, as well as the local operations in impacted markets, all of which can adversely affect the financial results, condition and outlook of Food Services and A&W franchisees. Importantly, the global pandemic resulting from COVID-19 has disrupted global health, economic and market conditions, consumer behavior and A&W restaurant operations beginning in early 2020. Local and national governmental mandates or recommendations and public perceptions of the risks associated with the COVID-19 pandemic have caused, and may continue to cause, consumer behavior to change and worsening or volatile economic conditions, which could continue to adversely affect Food Services' and A&W franchisees' business.

The COVID-19 pandemic may also heighten other risks disclosed herein, such as, but not limited to, those related to consumer behavior, consumer perceptions of the A&W brand, supply chain interruptions, commodity costs and labor availability and cost.

Information regarding the other risks and uncertainties applicable to the business operations of the Fund is contained elsewhere in this report, including under the heading "Forward-Looking Information, and in the Fund's most recent Annual Information Form under the heading "Risk Factors". Additional risks and uncertainties not currently known to the Trustees of the Fund or that are currently not considered to be material may also impair Food Service's business operations. If any of the risks actually occur, the Food Services' business, results of operations and financial condition, could be adversely affected.

Outlook

Food Services believes that the food service industry, and more particularly the quick service restaurant (QSR) segment of the industry, will recover from the impact of COVID-19. However, the timing and strength of the recovery cannot yet be predicted with any degree of certainty. Against this backdrop, the success of the A&W brand and individual franchised A&W restaurants is paramount to the long-term success of the overall A&W system and, in turn, to the Fund. Both Food Services and its franchisees have worked diligently to develop and implement plans and programs to mitigate the effects of the COVID-19 pandemic. Food Services' objective is to ensure that as many as possible of A&W's 1,009 restaurants are able to safely operate (as

permitted by health authorities and government regulations mandated from time to time) with the objective of emerging from this period of uncertainty in financial condition that enables them to compete effectively and grow their businesses.

Food Services believes that its mission “To become #1 with millennial burger lovers, chosen and trusted for truly good food and the convenience they crave” will help it to rebound from the impact of COVID-19. Strategic initiatives, including repositioning and differentiating the A&W brand through the use of natural ingredients; continued new restaurant growth, and delivering an industry leading guest experience, have all contributed to A&W’s strong appeal and the trust it has built with Canadian consumers over many years. These strengths will be key to delivering strong results and improved market share as the QSR industry and the QSR burger market resume growth.

A&W is proud to be a Canadian company, 100% Canadian owned and operated, and a leader in sourcing simple, great-tasting ingredients, farmed with care. In 2013, Food Services became the first and only national burger chain in Canada to serve beef raised without artificial hormones or steroids, and since then Food Services has introduced countless other natural ingredient firsts; including chicken raised without the use of antibiotics, Organic Fairtrade coffee, eggs from hens fed a diet without animal by-products, bacon from pork raised without the use of antibiotics, real cheese on all burgers and breakfast sandwiches, and A&W Root Beer served in restaurants made from natural cane sugar and all-natural flavours.

In 2018, A&W further strengthened its positioning as a leader in food and innovation with the introduction of the BEYOND MEAT⁽¹⁾ branded plant-based burger. Food Services was very excited to be the first national burger chain in Canada to offer burger lovers across Canada this burger patty made using 100% plant-based protein with peas, rice, mung beans, coconut oil, pomegranates, potatoes, apples and beets. A&W continues to enhance its position as a leader in great tasting plant-based options with regular introductions of new recipes and products to its plant-based line-up.

⁽¹⁾ Trademark of Beyond Meat, Inc., used under license.

In 2020, A&W announced that all of its beef is grass-fed, from cattle that only graze on grass and other forage, like hay.

A&W continues to innovate to serve the increasing number of guests that are mobile app users and offered its mobile app users unlimited free coffee for the month of March 2021 through a trial of the A&W ‘Sipscription’, a coffee subscription program. On April 1, 2021 Food Services announced that it is expanding the beverage offerings at A&W restaurants with the phased rollout of the A&W Brew Bar. The A&W Brew Bar offers a variety of frozen beverages as well as hot and cold espresso-based beverages.

A&W is also committed to reducing its environmental impact through conscious use of packaging, waste, energy and water, and high-efficiency equipment is being introduced into A&W restaurants to use less energy.

Food Services has continued to grow new A&W restaurants, particularly in the key Ontario and Quebec markets. Six new restaurants were opened across the country in the first quarter of 2021. As at March 28, 2021, an additional 50 restaurants are under construction or in varying stages of permitting.

The health and safety of A&W's customers and restaurant team members remains a top priority. A&W has implemented stringent protocols in its dining rooms to limit contact and ensure physical distancing. Other services that encourage physical distancing such as drive-thru, third party delivery and pickup through A&W's mobile app are available to A&W's guests.

A&W's brand positioning is strong. Growth of new locations, industry leading innovation, a safe and stable supply chain, and continued efforts to consistently deliver great food and a better guest experience are all expected to contribute to building loyalty and enhancing performance over the long term. Food Services remains committed to the long-term health and success of its franchise network and the Fund.

Non-IFRS Measures

Food Services believes that disclosing certain non-IFRS financial measures provides readers of this report with important information regarding Food Services' financial performance and its ability to pay the royalty to the Partnership. By considering these measures in combination with the most closely comparable IFRS measure, if any, Food Services believes that readers are provided with additional and more useful information about Food Services than readers would have if they simply considered IFRS measures alone.

Food Services uses "System Sales", "System Sales Growth", "Same Store Sales Growth", "Gross sales reported by A&W restaurants in the Royalty Pool" and "Royalty Pool Same Store Sales Growth" as non-IFRS measures in this report. These measures do not have a standardized meaning prescribed by IFRS and Food Services' method of calculating these measures may differ from those of other issuers or companies and may not be comparable to similar measures used by other issuers or companies. For further details, including how such measures are calculated by Food Services, see "Financial Highlights" above.

FORWARD LOOKING INFORMATION

Certain statements in this report contain forward-looking information within the meaning of applicable securities laws in Canada (forward-looking information). The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words.

The forward-looking information in this report includes, but is not limited to: the expectation that currently closed A&W restaurants will reopen when they are able to do so; the expectation that the Fund's Trustees will continue to review distribution levels on a regular basis and that any change in monthly distributions will be implemented with a view to maintain the continuity of uniform monthly distributions; expectations with respect to timing for the payment of the remaining \$3,318,000 by the Partnership to Food Services and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants; the impact of COVID-19, including its impact on the global economy in general and on the businesses of Food Services and A&W franchisees in particular; statements with respect to government restrictions on business operations, and in particular restaurants; statements regarding the extent to which the COVID-19 pandemic will alter consumer behaviour and demand for QSR services; expectations regarding improvements in sales trends at A&W restaurants; statements regarding the duration of various government support programs; Food Services' expectation that the food service industry, and more particularly the QSR segment, will recover; the success of the A&W brand and individual franchised restaurants being paramount to the long-term success of the overall A&W system and, in turn, to the unitholders of the Fund; Food Services' objectives with respect to the A&W restaurants and its planned strategies to achieve those objectives; statements regarding future restrictions on the operations of A&W restaurants as well as temporary restaurant closures and the corresponding reductions to the amounts of royalties payable to and earned by the Fund, as well as funds available to

distribute to unitholders of the Fund; the expectation that Trade Marks will remain in compliance with all covenants related to its term debt based on current projections; the expectation that Food Services will remain in compliance with all covenants related to its operating loan facility based on current projections; the expectation that the remaining 20% of the initial consideration payable to Food Services in respect of the January 5, 2021 adjustment to the Royalty Pool will be paid in December 2021, and that the amount thereof may vary depending on the actual annual sales report by the new A&W restaurants; Food Services' expectation that future restaurant growth will be funded by franchisees; Food Services' expectation that it will incur capital expenditures to open new corporate restaurants in the Ottawa market and that it will have sufficient capital resources to fund these capital requirements; Food Services' belief that its mission "to become #1 with millennial burger lovers, chosen and trusted for truly good food and the convenience they crave" will help it to rebound from the impact of COVID-19; Food Services' belief that strategic initiatives will be key to delivering strong results and improved market share as the QSR industry and the QSR burger market resume growth; growth of new locations, industry leading innovation, a safe and stable supply chain, and continued efforts to consistently deliver great food and a better guest experience are all expected to contribute to building loyalty and enhancing performance over the long term; and Food Services remaining committed to the long-term health and success of its franchise network and the Fund.

The forward looking information is based on various assumptions that include, but are not limited to:

- the general risks that affect the restaurant industry will not arise, other than those related to COVID-19;
- there are no changes in availability of experienced management and hourly employees;
- there are no material changes in government regulations concerning menu labelling and disclosure and drive-thru restrictions;
- no publicity from any food borne illness;
- no material changes in competition;
- no material increases in food and labour costs;
- the continued availability of quality raw materials;
- continued additional franchise sales and maintenance of franchise operations;
- Food Services is able to maintain and grow the current system of franchises;
- Food Services is able to locate new retail sites in desirable locations;
- Food Services is able to obtain qualified operators to become A&W franchisees;
- no material impact from new or increased sales taxes upon gross sales;
- continued availability of key personnel;
- continued ability to preserve intellectual property;
- no material litigation from guests at A&W restaurants;
- Food Services continues to pay the royalty;
- Food Services can continue to comply with its obligations under its credit arrangements;
- Trade Marks can continue to comply with its obligations and covenants under its credit arrangements;
- current store closures will be temporary and restaurant performance will continue to improve;
- the Fund will receive sufficient revenue in the future (in the form of royalty payments from Food Services) to maintain the payment of monthly distributions;
- the projections for the A&W business provided by Food Services are accurate;
- the impacts of the COVID-19 pandemic on the A&W system will not significantly worsen;
- the remaining 20% of the initial consideration payable to Food Services in respect of the January 5, 2021 adjustment to the Royalty Pool will be paid in December 2021; and
- Food Services will be successful in executing on its business strategies and such strategies will achieve their intended results.

The forward-looking information is subject to risks, uncertainties and other factors related to the quick service restaurant industry that include, but are not limited to:

- the general risks that affect the restaurant industry in general and the quick service segment in particular, including competition with other well-capitalized franchisors and operators of quick service restaurants;
- changes in consumer preferences that adversely affect the consumption of quick service restaurant hamburgers, chicken, fries, breakfast items or soft drinks;
- negative publicity, litigation or complaints from perceived or actual food safety events or other events involving the foodservice industry in general or A&W restaurants in particular;
- changes in the availability and quality of raw materials, including A&W's natural ingredients;
- the possible lack of success of new products and advertising campaigns;
- changes in climate or increases in environmental regulation;
- changes in Food Services' ability to continue to grow same store sales, locate new retail sites in desirable locations and obtain qualified operators to become A&W franchisees;
- increases in closures of A&W restaurants adversely affecting the royalty;
- decreases in traffic at shopping centres and other retail modes;
- changes in Food Services' ability to pay the royalty due to changes in A&W franchisees' ability to generate sales and pay franchise fees and other amounts to Food Services;
- changes in government regulation that affect the restaurant industry in general or the quick service restaurant industry in particular, including franchise legislation and sales tax legislation;
- changes in the availability of key personnel, including qualified franchise operators;
- changes in the ability to enforce or maintain intellectual property;
- technological breakdowns, cybersecurity breaches and the security of consumer and personal information;
- the amplificatory effects of media and social media;
- risks related to global health crises, disease outbreaks (including COVID-19), and other unexpected events which could affect Food Services' and A&W franchisees' supply chains, business continuity, and financial results;
- the availability and adequacy of insurance coverage;
- occurrence of catastrophic events; and
- risks related to COVID-19 set forth in this report, including under the headings "Risks and Uncertainties – COVID-19" and "Impact of COVID-19".

The forward-looking information is subject to risks, uncertainties and other factors related to the structure of the Fund that include, but are not limited to:

- dependence of the Fund on Trade Marks, Partnership and Food Services;
- dependence of the Partnership on Food Services;
- risks related to leverage and restrictive covenants;
- the risk that cash distributions are not guaranteed and will fluctuate with the Partnership's performance and could be reduced or suspended at any time;
- risks related to the unpredictability and volatility of unit prices;
- risks related to the nature of units;
- risks related to the distribution of securities on redemption or termination of the Fund;
- risks related to the Fund issuing additional units diluting existing unitholders' interests;
- risks related to income tax matters and investment eligibility;
- risks related to the limitations of internal controls over financial reporting;
- risks related to COVID-19 set forth in this report, including under the headings "Risks and Uncertainties – COVID-19" and "Impact of COVID-19"; and
- risks related to Food Services not meeting its objectives, and the possibility that its strategies to meet its objectives may not be successful.

These risks, uncertainties and other factors are more particularly described in the Fund's most recent Annual Information Form under the heading "Risk Factors".

All forward-looking information in this report is qualified in its entirety by this cautionary statement and, except as required by law, Food Services undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

A&W Food Services of Canada Inc.
Interim Condensed Consolidated Balance Sheet
Unaudited

(in thousands of dollars)

	Note	March 28 2021	January 3 2021
Assets			
Current assets			
Cash and cash equivalents		\$ 41,786	\$ 39,569
Accounts receivable		21,259	22,485
Dividends receivable	12	668	-
Lease receivable	4	26,910	27,657
Inventories		7,178	5,852
Prepaid expenses		1,035	1,377
Income taxes recoverable		291	-
Other assets		3,318	-
		102,445	96,940
Non-current assets			
Investment in A&W Trade Marks Inc.	5	135,576	122,041
Deferred income taxes		24,345	24,240
Right-of-use asset	4	21,035	19,980
Lease receivable	4	556,242	548,104
Plant and equipment		11,961	11,087
Total assets		\$ 851,604	\$ 822,392
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 32,239	\$ 36,361
Royalties payable	12	3,275	3,692
Dividends payable	12	668	-
Lease liability	4	29,064	30,328
Deposits on franchise and equipment sales		16,092	10,088
Deferred revenue		2,407	3,549
Income taxes payable		-	1,184
		83,745	85,202
Non-current liabilities			
Deferred gain	5	250,310	234,446
Deferred revenue		27,107	26,019
Lease liability	4	579,616	569,673
Supplementary retirement benefit plan		13,350	14,775
Other long-term liabilities		36	38
		954,164	930,153
Shareholders' Deficiency			
Share capital	14	20,500	20,500
Accumulated deficit		(123,522)	(128,410)
		(103,022)	(107,910)
Non-controlling interest			
		462	149
Total deficiency		(102,560)	(107,761)
Total liabilities and deficiency		\$ 851,604	\$ 822,392
Subsequent events	16		

These interim condensed consolidated financial statements have been prepared by and are the responsibility of management. As A&W Food services of Canada Inc. is a private entity, the company's auditor has not performed a review of these financial statements.

The accompanying notes form an integral part of these financial statements.

A&W Food Services of Canada Inc.
Interim Condensed Consolidated Statement of Income
Unaudited

(in thousands of dollars)

		12 week period ended March 28, 2021	12 week period ended March 22, 2020
	Note		
Revenue			
Franchising	8	\$ 38,801	\$ 41,053
Corporate restaurants		3,500	4,029
		42,301	45,082
Expenses (income)			
Operating costs	9	20,639	26,065
General and administrative expenses		8,110	10,938
Royalty expense	12	9,081	9,260
Loss on impairment of lease receivables	4	-	11,765
Finance expense - net	10	304	258
Amortization of deferred gain	5	(724)	(676)
Share of income from A&W Trade Marks Inc.	5	(1,428)	(1,298)
		35,982	56,312
Income (loss) before income taxes		6,319	(11,230)
Provision for (recovery of) income taxes			
Current		1,404	995
Deferred		(466)	(3,769)
		938	(2,774)
Net income (loss) for the period		\$ 5,381	\$ (8,456)
Net income (loss) attributable to:			
Shareholders of A&W Food Services of Canada Inc.		\$ 5,068	\$ (8,564)
Non-controlling interest		313	108
		\$ 5,381	\$ (8,456)

A&W Food Services of Canada Inc.
Interim Condensed Consolidated Statement of Comprehensive Income
Unaudited

(in thousands of dollars)

		12 week period ended March 28, 2021	12 week period ended March 22, 2020
Net income (loss) for the period		\$ 5,381	\$ (8,456)
Other comprehensive income (loss)			
Items that will not be reclassified to net income			
Actuarial gain (loss) on supplementary retirement benefit plan - net of tax		984	(1,022)
Comprehensive income (loss)		\$ 6,365	\$ (9,478)
Comprehensive income (loss) attributable to:			
Shareholders of A&W Food Services of Canada Inc.		\$ 6,052	\$ (9,586)
Non-controlling interest		313	108
		\$ 6,365	\$ (9,478)

The accompanying notes form an integral part of these financial statements.

A&W Food Services of Canada Inc.

Interim Condensed Consolidated Statement of Changes in Shareholders' Deficiency

Unaudited

(in thousands of dollars)

		Share capital	Accumulated deficit	Total	Non- controlling interest	Total deficiency
Balance - December 29, 2019		10,500	(141,736)	(131,236)	207	(131,029)
Change in accounting policy		-	158	158	-	158
Net income for the period		-	(8,564)	(8,564)	108	(8,456)
Dividends on common shares	12	-	(690)	(690)	-	(690)
Actuarial loss on supplementary retirement benefit plan - net of tax		-	(1,022)	(1,022)	-	(1,022)
Balance - March 22, 2020		10,500	(151,854)	(141,354)	315	(141,039)
Net income for the period		-	29,435	29,435	674	30,109
Dividends on common shares	12	-	(6,121)	(6,121)	(840)	(6,961)
Capital contribution		10,000	-	10,000	-	10,000
Actuarial gain on supplementary retirement benefit plan - net of tax		-	130	130	-	130
Balance - January 3, 2021	\$	20,500	\$ (128,410)	\$ (107,910)	\$ 149	\$ (107,761)
Net income for the period		-	5,068	5,068	313	5,381
Dividends on common shares	12	-	(1,164)	(1,164)	-	(1,164)
Actuarial gain on supplementary retirement benefit plan - net of tax		-	984	984	-	984
Balance - March 28, 2021		20,500	(123,522)	(103,022)	462	(102,560)

The accompanying notes form an integral part of these financial statements.

A&W Food Services of Canada Inc.
Interim Condensed Consolidated Statement of Cash Flows

Unaudited

(in thousands of dollars)

		12 week period ended Note March 28, 2021	12 week period ended March 22, 2020
Cash flows generated from (used in) operating activities			
Net income (loss) for the period		\$ 5,381	\$ (8,456)
Adjustments for			
Depreciation of plant and equipment	9	450	447
Depreciation of right-of-use asset	9	508	477
Deferred income taxes		(466)	(3,769)
Increase in deposits on franchise and equipment sales		6,004	2,154
Supplementary retirement benefit plan		(194)	(194)
Decrease in deferred revenue		(54)	(261)
Decrease in other long-term liabilities		(2)	(2)
Amortization of deferred finance fees		(9)	-
Amortization of deferred gain	5	(724)	(676)
Loss on impairment of lease receivables	4	-	11,765
Share of income of A&W Trade Marks Inc.	5	(1,428)	(1,298)
Current income tax expense		1,404	995
Income tax paid		(2,879)	(5,114)
Finance expense - net	10	304	258
Interest (paid) received		(15)	20
Changes in items of non-cash working capital	11	(4,297)	(1,506)
Net cash generated from (used in) operating activities		3,983	(5,160)
Cash flows generated from (used in) investing activities			
Purchase of plant and equipment		(1,324)	(299)
Redemption of short-term investment		-	5,525
Dividends from A&W Trade Marks Inc.	12	496	690
Net cash generated from (used in) investing activities		(828)	5,916
Cash flows used in financing activities			
Operating lease payments		(442)	(647)
Dividends paid to shareholder	12	(496)	(690)
Net cash used in financing activities		(938)	(1,337)
Increase (decrease) in cash and cash equivalents		2,217	(581)
Cash and cash equivalents - beginning of period		39,569	7,819
Cash and cash equivalents - end of period		\$ 41,786	\$ 7,238

The accompanying notes form an integral part of these financial statements.

(figures in tables are expressed in thousands of dollars)

1. General information

A&W Food Services of Canada Inc. (the Company or Food Services) is in the business of developing and franchising quick-service restaurants in Canada. During the period ended March 28, 2021, the Company opened six locations and permanently closed three locations, bringing the total number of A&W restaurants to 1,009, of which 999 are franchised and 10 are owned and operated corporately. Food Services' registered offices are located at Suite 300 - 171 West Esplanade, North Vancouver, British Columbia, Canada.

Impact of COVID-19

Actions required in response to the COVID-19 pandemic have affected A&W restaurant operations in Canada, including the temporary closure of a number of restaurants. As at March 28, 2021, 15 A&W restaurants were temporarily closed due to increased provincial health restrictions (January 3, 2021 – 43). As at May 4, 2021, 45 restaurants remained temporarily closed. These temporarily closed A&W restaurants are expected to reopen when permitted to do so. The future effect of COVID-19 on the Company as well as the economy and businesses, in general, remains uncertain.

In 2020 Food Services took steps to improve its liquidity to ensure it was well positioned to support the A&W system through this challenging period. These steps included an equity investment made in April 2020 of \$10 million by Food Services' shareholder, as well as an increase in Food Services' credit facility from \$6,000,000 to \$25,000,000 in May 2020 (note 6). This credit facility is secured solely by Food Services' indirect interest in the Fund, as permitted under the existing agreements between Food Services and the Fund. As at March 28, 2021, letters of credit totaling \$36,000 (January 3, 2021 - \$36,000) have been issued by the Bank to cities for development of new restaurants, leaving \$24,964,000 of the facility available (January 3, 2021 - \$24,964,000). Subsequent to the period ended March 28, 2021, Food Services increased its credit facility to \$40,000,000 for reasons unrelated to COVID-19. See "Subsequent events".

Food Services is the head lessee for the majority of its franchised locations and enters into agreements whereby Food Services licences the premises to the franchisee, for which Food Services receives a premises licence fee from its franchisees. Under the licence agreement, the franchisee is responsible for the obligations under the lease. IFRS 16 requires Food Services, where it acts as the intermediate lessor, to recognize a lease liability and a corresponding lease receivable. Leases receivable are reviewed for impairment based on expected losses at each balance sheet date in accordance with IFRS 9, Financial Instruments. An impairment provision is recorded based on the estimated expected credit loss. Food Services has developed a risk matrix used to assess the credit risk of all head leases and has included the impacts of COVID-19 response measures in its credit risk assumptions. Factors

(figures in tables are expressed in thousands of dollars)

taken into consideration include restaurant concept, payment performance and future expectations for the restaurant operations (note 4). Food Services recorded an expected credit loss provision on long-term leases receivable of \$4,281,000 as at March 28, 2021 (January 3, 2021 - \$4,281,000).

Management updated its expected credit loss model and did not identify any impairment for the period ended March 28, 2021 (loss on impairment of receivables of \$11,765,000 recognized for the period ended March 22, 2020).

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as applicable to interim financial reports including International Accounting Standards (IAS) 34, Interim Financial Reporting. The interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with Food Services' audited annual consolidated financial statements as at January 3, 2021.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of Food Services' annual consolidated financial statements for the year ended January 3, 2021.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors of Food Services on May 4, 2021.

3. Significant accounting policies

Consolidation

The financial statements include the accounts of Food Services and its 60% interest in A&W Root Beer Beverages of Canada Inc. (Beverages). The non-controlling interest represents an equity interest in Beverages owned by outside parties, and is presented as a component of equity.

Fiscal year

To align its financial reporting with the business cycle of its operations, the Company uses a fiscal year comprising a 52- or 53-week period ending the Sunday nearest December 31. The fiscal 2020 year was 53 weeks and ended January 3, 2021 (2019 - 52 weeks ended December 29, 2019).

Beverages uses a fiscal year ending December 31. The first quarter ends 12 weeks after the fiscal year end.

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Wage subsidies

Food Services recognizes wage subsidies from the federal government in connection with COVID-19 when there is a reasonable assurance that Food Services complies with the conditions attached to the subsidies and that the subsidies will be received. Wage subsidies received or receivable are recorded on an accrual basis and are netted against related payroll costs and included in operating costs and general and administrative expenses on the consolidated statement of income (Note 9).

4. Leases**Leases receivables**

Food Services is considered an intermediate lessor on certain franchise locations. The following table presents the lease receivables for the Company:

	March 28, 2021 \$	January 3, 2021 \$
Current lease receivable	26,910	27,657
Non-current lease receivable	556,242	548,104
	<u>583,152</u>	<u>575,761</u>

The following table outlines the annual contractual undiscounted payments for leases receivable as at March 28, 2021:

	March 28, 2021 \$
Year 1	49,293
Year 2	48,614
Year 3	48,077
Year 4	47,299
Year 5	45,946
Thereafter	<u>610,064</u>
Total undiscounted leases receivable	849,293
Unearned interest income	(261,860)
Impairment loss	<u>(4,281)</u>
	<u>583,152</u>

Interest income on lease receivables for the period ended March 28, 2021 was \$4,992,000 (\$4,813,000 for the period ended March 22, 2020).

 (figures in tables are expressed in thousands of dollars)

Leases receivable are reviewed for impairment based on expected losses at each balance sheet date in accordance with IFRS 9, Financial Instruments. An impairment loss is recorded when the credit risk is assessed to have increased for leases receivable. Food Services has developed a risk matrix used to assess the credit risk of leases receivable where Food Services are guarantors for head leases and has included the impacts of COVID 19 response measures in its credit risk assumptions. Factors taken into consideration include restaurant concept, payment performance and future expectations for the restaurant operations. Food Services recorded an expected credit loss provision on long-term leases receivable of \$4,281,000 as at March 28, 2021 (January 3, 2021 - \$4,281,000). During the period ended March 28, 2021 there were no additional indicators of impairment therefore no further loss on impairment of lease receivables was recognized (loss of \$11,765,000 recognized for the period ended March 22, 2020).

Right-of-use assets

Right-of-use assets comprise the Company's leases for corporate restaurant premises, head office space, and automobiles. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date, which is the possession date of the asset. The right-of-use asset is initially measured based on the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received, and excludes all sales taxes. Right-of-use assets are depreciated to the earlier of the end of the useful life of the asset or the lease term using the straight-line method. The lease term includes periods associated with options to extend or excludes periods associated with options to terminate the lease when it is reasonably certain that management will exercise these options. Additionally, right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The following table presents the right-of-use assets for the Company:

	Real Estate	Automobiles	Total
	\$	\$	\$
Balance – January 3, 2021	18,573	1,407	19,980
Additions	1,929	240	2,169
Disposals	(575)	(19)	(594)
Remeasurement of lease liability	(12)	-	(12)
Depreciation	(322)	(186)	(508)
Balance – March 28, 2021	19,593	1,442	21,035

(figures in tables are expressed in thousands of dollars)

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments over the lease term. The lease term includes periods associated with options to extend or excludes periods associated with options to terminate the lease when it is reasonably certain that management will exercise these options. The lease payments are discounted using the interest rate implicit in the leases; if that cannot be readily determined, the Company uses its incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liabilities are measured at amortized cost using the effective interest method. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

Food Services has elected not to recognize a right-of-use asset and lease liability for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The following table presents the lease liabilities for the Company:

	March 28, 2021 \$	January 3, 2021 \$
Current lease liabilities	29,064	30,328
Non-current lease liabilities	579,616	569,673
	<u>608,680</u>	<u>600,001</u>

Interest expense on lease liabilities for the period ended March 28, 2021 was \$5,159,000 (\$4,978,000 for the period ended March 22, 2020).

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Costs not included in the measurement of the lease obligation for the 12 week periods ended March 28, 2021 and March 22, 2020 are as follows:

	12 week period ended Mar 28, 2021	12 week period ended Mar 22, 2020
	\$	\$
Low-value lease costs	12	13
Short-term lease costs	-	35
Variable lease costs	164	158
	<u>176</u>	<u>206</u>

5. Investment in A&W Trade Marks Inc. and deferred gain

- A) In 2002, Food Services sold the A&W trade-marks used in the A&W quick service restaurant business in Canada to A&W Trade Marks Inc. (Trade Marks), which subsequently transferred them to the A&W Trade Marks Limited Partnership (the Partnership). The Partnership has granted Food Services a licence (the Amended and Restated Licence and Royalty Agreement) to use the A&W trade-marks in Canada for a term expiring December 30, 2100, for which Food Services pays a royalty of 3% of the sales reported to Food Services by specific A&W restaurants in Canada (the Royalty Pool). The gain realized on the sale of the A&W trade-marks was deferred and is being amortized over the term of the Amended and Restated Licence and Royalty Agreement. Prior to October 2003, the amortization was based upon the present value of the expected royalty payments made under the Amended and Restated Licence and Royalty Agreement. Amortization of the gain is recognized on the consolidated statement of income. The amortization for the period ended March 28, 2021 was \$724,000 (\$676,000 for the period ended March 22, 2020).

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The deferred gain as at March 28, 2021 is as follows:

	Number of restaurants in Royalty Pool	Deferred gain \$	Accumulated amortization \$	Net deferred gain \$
Balance – December 29, 2019	934	231,442	(22,950)	208,492
January 5, 2020 adjustment to Royalty Pool	37	23,263	-	23,263
Amortization of deferred gain	-	-	(676)	(676)
Balance – March 22, 2020	971	254,705	(23,626)	231,079
January 5, 2020 adjustment to Royalty Pool	-	5,618	-	5,618
Amortization of deferred gain	-	-	(2,251)	(2,251)
Balance – January 3, 2021	971	260,323	(25,877)	234,446
January 5, 2021 adjustment to Royalty Pool	23	16,588	-	16,588
Amortization of deferred gain	-	-	(724)	(724)
Balance – March 28, 2021	994	276,911	(26,601)	250,310

- B) The Royalty Pool is adjusted annually to reflect sales from new A&W restaurants added to the Royalty Pool, net of the sales of any A&W restaurants that have permanently closed. Food Services is paid for the additional royalty stream related to the sales of the net new restaurants, based on a formula set out in the Amended and Restated Licence and Royalty Agreement. The formula provides for a payment to Food Services based on 92.5% of the amount of estimated sales from the net new restaurants and the current yield on the Units of the A&W Revenue Royalties Income Fund (the Fund), adjusted for income taxes payable by Trade Marks. The consideration is paid to Food Services in the form of additional limited partnership units (LP units). The additional LP units are, at the option of Food Services, exchangeable for additional common shares of Trade Marks which are in turn exchangeable for Units of the Fund on the basis of two common shares for one unit of the Fund. The consideration paid for the annual adjustment to the Royalty Pool is recorded by Food Services as an increase in its investment in Trade Marks, and an increase in the deferred gain. These additions to the deferred gain are amortized over the remaining term of the Amended and Restated Licence and Royalty Agreement from the date of addition.

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The 2021 annual adjustment to the Royalty Pool took place on January 5, 2021. The number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants less 11 restaurants that permanently closed during 2020. The estimated annual sales of the 34 new A&W restaurants are \$45,248,000 at the time they were added to the Royalty Pool and annual sales for the 11 permanently closed restaurants were \$6,199,000 based on their sales during the first year such restaurants were included in the Royalty Pool. The initial consideration for the estimated additional royalty stream was \$16,588,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the units of the Fund for the 20 trading days ending October 26, 2020. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$13,271,000, by issuance of 465,316 LP units which were subsequently exchanged for 930,632 non-voting common shares of Trade Marks. The remaining consideration payable to Food Services for the January 5, 2021 adjustment to the Royalty Pool of \$3,318,000 is to be paid by issuance of additional LP units, which issuance is held back until the number of LP units is determined in December 2021 based on the actual annual sales reported by the new restaurants. Food Services has recorded the \$3,318,000 receivable as a current asset as at March 28, 2021 (January 3, 2021 - \$nil). The actual amount of the consideration paid in December 2021 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

Food Services' 26.0% (January 3, 2021 – 24.2%) investment in Trade Marks is recorded using the equity method.

	Common shares \$	Cumulative equity in earnings \$	Cumulative dividend \$	Total \$
Balance – December 29, 2019	95,340	45,610	(48,162)	92,788
January 5, 2020 adjustment to Royalty Pool	28,881	-	-	28,881
Equity in earnings	-	7,183	-	7,183
Dividends	-	-	(6,811)	(6,811)
Balance – January 3, 2021	124,221	52,793	(54,973)	122,041
January 5, 2021 adjustment to Royalty Pool	13,271	-	-	13,271
Equity in earnings	-	1,428	-	1,428
Dividends	-	-	(1,164)	(1,164)
Balance – March 28, 2021	137,492	54,221	(56,137)	135,576

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6. Operating loan facility

On May 26, 2020, Food Services increased its demand operating loan facility with a Canadian chartered bank (the Bank) from \$6,000,000 to \$25,000,000 to fund working capital requirements and for general corporate purposes. Subsequent to the period ended March 28, 2021, on April 23, 2021, the facility was increased to \$40,000,000. See “Subsequent events”.

This credit facility is secured solely by Food Services’ indirect interest in the Fund, as permitted under the existing agreements between Food Services and the Fund. Amounts advanced under the facility bear interest at the bank prime rate plus 1.0% and are repayable on demand. As at March 28, 2021, letters of credit totaling \$36,000 (January 3, 2021 - \$36,000) have been issued by the Bank to cities for development of new restaurants, leaving \$24,964,000 of the facility available (January 3, 2021 - \$24,964,000).

7. New restaurant openings

Food Services opened six new franchised restaurants during the quarter (2020 – three). There was an increase in turnkey fees and revenue related to the sale of equipment for new restaurants and corresponding increase in operating costs in the period as compared to the prior year related to the increase in the number of new restaurants opened.

8. Franchising revenue

Franchising revenues disaggregated by revenue source are outlined below. The table also shows the basis on which franchising revenues are recognized.

	12 week period ended Mar 28, 2021 \$	12 week period ended Mar 22, 2020 \$
At a point in time		
Advertising fund contributions	9,487	10,416
Distribution revenue and service fees	19,936	20,784
Equipment and turnkey revenue	5,986	7,820
Other revenue	2,834	1,378
Over time		
Initial franchise fees and renewal fees	558	655
	<u>38,801</u>	<u>41,053</u>

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Equipment and turnkey revenue includes revenues related to equipment sales for both new and existing restaurants.

9. Expenses by nature

Included in operating costs and general and administrative expenses are the following expenses by nature:

	12 week period ended Mar 28, 2021	12 week period ended Mar 22, 2020
	\$	\$
Depreciation of plant and equipment	450	447
Depreciation of right-of-use asset	508	477
Employee benefit costs		
Wages and salaries and other termination benefits	5,831	6,602
Pension costs - defined contribution plan	197	269
	6,028	6,871

Employee wages and salaries are net of wage subsidies of \$860,000 for the 12 week period ended 2021 (12 week period ended March 22, 2020 - \$nil) received or receivable under federal government subsidy programs in connection with COVID-19.

10. Finance (income) expense

	12 week period ended Mar 28, 2021	12 week period ended Mar 22, 2020
	\$	\$
Interest income	-	(25)
Standby fees	15	5
Interest cost on supplementary retirement benefit plan	113	113
Interest on lease receivables	(4,992)	(4,813)
Interest on lease liabilities	5,159	4,978
Amortization of deferred financing fees	9	-
	304	258

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11. Working capital

Net changes in items of non-cash working capital are as follows:

	12 week period ended Mar 28, 2021	12 week period ended Mar 22, 2020
	\$	\$
Accounts receivable	1,226	10,642
Inventories	(1,326)	(2,181)
Prepaid expenses	342	159
Dividends receivable	(668)	-
Accounts payable and accrued liabilities	(4,122)	(9,690)
Dividends payable	668	-
Royalties payable	(417)	(436)
	<u>(4,297)</u>	<u>(1,506)</u>

12. Related party transactions and balances

Royalty expense for the period was \$9,081,000 (2020 - \$9,260,000), of which \$3,275,000 (January 3, 2021- \$3,692,000) is payable to the Partnership at March 28, 2021.

During the period, Trade Marks declared common share dividends payable to Food Services of \$1,164,000 (2020 - \$1,380,000). The \$668,000 dividend declared on March 3, 2021 was paid to Food Services subsequent to the period end on March 31, 2021 and is reported as a current asset as at March 28, 2021 (January 3, 2021 - \$nil).

During the period, Food Services declared dividends of \$1,164,000 (2020 - \$690,000) from working capital to its shareholder. The \$668,000 dividend declared on March 3, 2021 was paid to its shareholder subsequent to the period end on April 1, 2021 and is reported as a current liability as at March 28, 2021 (January 3, 2021 - \$nil).

During the 2020 period, Food Service paid \$125,000 to a professional baseball club, of which a shareholder and director of Food Services is a part owner, in exchange for advertising the A&W brand at the ballpark. The amount paid during the 2021 period was \$nil. At March 28, 2021, \$nil (January 3, 2021 - \$nil) is payable to the baseball club by Food Services.

Other related party transactions are disclosed elsewhere within these consolidated financial statements.

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13. Key management compensation

Key management includes the Company's executive team. The compensation awarded to key management includes:

	12 week period ended Mar 28, 2021 \$	12 week period ended Mar 22, 2020 \$
Salaries, bonuses and other short-term employee benefits	831	776
Pension costs - defined contribution plan	38	84
Pension costs - supplementary retirement benefit plan	113	-
Total	982	860

14. Share capital**Authorized**

Unlimited number of common shares

Unlimited number of preferred shares

Issued

	March 28, 2021 \$	January 3, 2021 \$
4,781,250 common shares	20,500	20,500

15. Financial instruments and financial risk management

Food Services' financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and royalties payable.

Fair values

Management estimates that the fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and royalties payable approximate their carrying values given the short term to maturity of these instruments.

Credit risk

The Company's exposure to credit risk is as indicated by the carrying amount of its accounts receivable. Receivables are due from franchisees and distributors. COVID-19 has impacted system

(figures in tables are expressed in thousands of dollars)

sales at A&W restaurants and subsequently revenue from franchised restaurants, which may increase the credit risk associated with receivables from franchisees. Management has made allowances for expected credit losses using historical information and adjusted for specific circumstances due to COVID-19. The Company does not believe it has a significant exposure to any individual franchisee. As at March 28, 2021, \$5,450,000 (January 3, 2021 – \$4,272,000) is receivable from one distributor.

Liquidity risk

The primary sources of liquidity risk are the royalty payment to the Partnership and dividends on the common shares. The primary sources of funds to pay the royalty and dividends are the fees from franchised restaurants and revenues from the development of franchised restaurants, the sale of food and supplies to franchisees and distributors, revenue from Company-owned restaurants and the sale of A&W Root Beer concentrate. Despite the impact of COVID-19, the liquidity risk is assessed as low due to the nature of the income Food Services receives from the franchisees and the Company's ability to reduce future dividends if necessary. On April 14, 2020, Food Services' shareholders invested \$10 million of common equity in the company to ensure that Food Services has sufficient liquidity during the period of uncertainty caused by COVID-19. On May 26, 2020, Food Services increased its demand operating loan facility with a Canadian chartered bank (the "Bank") from \$6,000,000 to \$25,000,000 to fund working capital requirements and for general corporate purposes. On April 23, 2021, the facility was increased to \$40,000,000. See "Subsequent events".

Interest rate risk

The Company has limited exposure to interest rate risk. The operating loan facility bears a floating rate of interest as disclosed in note 6. Cash and cash equivalents earn interest at market rates. All of the Company's other financial instruments are non-interest bearing.

16. Subsequent events

- A) On April 6, 2021, Trade Marks declared dividends of \$668,000 on its common shares held by Food Services.
- B) On April 16, 2021, A&W of Canada Inc. ("A&W Canada"), an indirect shareholder of Food Services, completed a reorganization to provide liquidity for some of its long-standing shareholders and to simplify the indirect ownership of Food Services (the "Reorganization").

As part of the Reorganization, and pursuant to the Amended and Restated Declaration of Trust and the Amended and Restated Exchange Agreement, Food Services exchanged 1,042,000 common shares of Trade Marks for 521,000 units of the Fund, which units were then purchased by shareholders of A&W Canada at a price of \$36.42 per. Food Services recognized a \$2,465,000 gain

(figures in tables are expressed in thousands of dollars)

on the sale of the 521,000 units, net of transaction costs. The net proceeds from the sale of the units were used to fund dividends to Food Services' shareholder.

In addition, Food Services exchanged 3,014,040 of its common shares of Trade Marks for 1,507,020 limited voting units of the Fund. The limited voting units will continue to be owned by Food Services and may be converted to publicly traded units of the Fund. Limited voting units have equal rights and privileges as units except that holders of the limited voting units, or the common shares of Trade Marks that are exchangeable for limited voting units, are not entitled in the aggregate to cast more than 40% of the votes cast upon a resolution with respect to the appointment or removal of Trustees of the Fund and are not entitled to cast votes upon a resolution to amend the Declaration of Trust. Food Services did not recognize a gain on the exchange of the 3,013,040 common shares of Trade Marks as the units continued to be held by Food Services. As part of this Reorganization, Food Services paid a dividend in the aggregate amount of \$66.3 million to its shareholders.

Prior to the Reorganization, Food Services owned 26.0% of the outstanding voting securities of the Fund on a fully diluted basis. Following the Reorganization, but excluding the issuance of the excess units that represent the remaining 20% of the initial consideration for the January 5, 2021 adjustment to the Royalty Pool that are payable in December 2021, Food Services owned approximately 23.3% of the outstanding voting securities of the Fund on a fully diluted basis. Including the issuance of the excess units that represent the remaining 20% of the initial consideration for the January 5, 2021 payable in December 2021, Food Services' ownership in the Fund is approximately 23.8% on a fully diluted basis (26.5% prior to the Reorganization). Post Reorganization, Food Services holds both limited voting units in the Fund and exchangeable common shares of Trade Marks, whereas prior to the Reorganization, Food Services only held exchangeable common shares of Trade Marks.

The Fund did not receive any proceeds from the Reorganization and Food Services paid for the expenses of the Reorganization. The Reorganization does not constitute a change of control of Food Services, as the existing shareholders will continue to maintain majority control of Food Services. There is no change in management or the operations of the Food Services' business in connection with the Reorganization.

- C) On April 23, 2021, Food Services increased its credit facility from \$25,000,000 to \$40,000,000 to fund working capital and for general corporate purposes. Consistent with the terms under the \$25,000,000 credit facility, amounts advanced under the \$40,000,000 facility bear interest at the bank prime rate plus 1.0% and are repayable on demand. The covenants, which remain unchanged from those of the \$25,000,000 credit facility, include the requirement to meet certain debt to

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earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) ratios and debt to Food Services' investment in Trade Marks Inc. ratios during each trailing four quarter period. The amendment included a reduction to the number of Trade Marks common shares that Food Services is required to pledge from 7,000,000 shares to 5,000,000 shares. The reduction did not have an impact on Food Service's ability to comply with its covenants. As at May 4, 2021 Food Serviced had drawn \$5,317,000 on the facility and letters of credit totaling \$36,000 had been issued by the Bank to cities for development of new restaurants, leaving \$34,647,000 of the facility available.



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