

# **A&W Food Services of Canada Inc.**

## **Q1/2022**

### **Consolidated Financial Statements**

For the first quarter ended  
March 27, 2022

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, 2022 to March 27, 2022**

This report and the unaudited interim condensed consolidated financial statements of A&W Food Services of Canada Inc. (“A&W” or “Food Services”) for the 12 weeks ended March 27, 2022 are provided as a supplement to the unaudited 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 27, 2022. This report is dated May 3, 2022 and should be read in conjunction with the audited annual consolidated financial statements of Food Services for the 52 weeks ended January 2, 2022. Such financial statements and additional information about the Fund and Food Services are available at [www.sedar.com](http://www.sedar.com) or [www.awincomefund.ca](http://www.awincomefund.ca).

**Glossary**

A&W	Financial and operating results of Food Services and Beverages
Beverages	A&W Root Beer Beverages of Canada Inc.
Consolidated Financial Statements	Consolidated financial statements which include the accounts of Food Services and its 60% ownership interest in Beverages
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 2021 year was 52 weeks and ended January 2, 2022 (2020 – 53 weeks ended January 3, 2021). System Sales, System Sales Growth and Same Store Sales Growth – Franchised Restaurants for the 12 weeks ended March 27, 2022 are compared to the 12 weeks ended March 28, 2021 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 applicable to interim financial reports, including International Accounting Standards 34, Interim Financial Reporting. The accounting policies applied in the preparation of the interim condensed consolidated financial statements and this report are consistent with those followed in the preparation of Food Services’ annual consolidated financial statements for the year ended January 2, 2022.

## Selected Information

The following selected information, other than “System Sales”, “System Sales Growth”, “Same Store Sales Growth – Franchised Restaurants”, “Gross sales reported by A&W restaurants in the Royalty Pool”, “Royalty Pool Same Store Sales Growth”, “Operating Earnings” 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”.

<b>(dollars in thousands)</b>	<b>12-week period ended Mar 27, 2022</b>	<b>12-week period ended Mar 28, 2021</b>
System Sales <sup>(i)</sup>	<b>\$352,613</b>	\$306,974
System Sales Growth <sup>(ii)</sup>	<b>14.9%</b>	-3.2%
Same Store Sales Growth - Franchised Restaurants <sup>(iii)</sup>	<b>11.5%</b>	-5.6%
New restaurants opened	<b>4</b>	6
Restaurants permanently closed	<b>2</b>	3
Number of restaurants	<b>1,031</b>	1,009
Gross sales reported by A&W restaurants in the Royalty Pool <sup>(iii)</sup>	<b>\$352,614</b>	\$310,726
Royalty Pool Same Store Sales Growth <sup>(iii)</sup>	<b>11.5%</b>	-5.6%
Number of restaurants in the Royalty Pool	<b>1,015</b>	994
Revenue from franchising	<b>\$51,031</b>	\$38,801
Revenue from corporate restaurants	<b>3,966</b>	3,500
Total revenue	<b>54,997</b>	42,301
Operating costs and general and administrative expenses	<b>(37,209)</b>	(28,749)
Depreciation of plant, equipment and right-of-use assets	<b>985</b>	958
Operating Earnings <sup>(i)</sup>	<b>18,773</b>	14,510
Royalty expense	<b>(10,397)</b>	(9,081)
Income before taxes	<b>10,395</b>	6,319
Net income	<b>\$9,059</b>	\$5,381

<sup>(i)</sup> “System Sales” and “Operating Earnings” are non-IFRS financial measures. Refer to the tables below for reconciliations of these measures to the most comparable IFRS measures and the “Non-IFRS Measures” section of this report for further details on how these measures are used to assess Food Services’ performance.

<sup>(ii)</sup> “System Sales Growth” is a non-IFRS ratio and is calculated as the change in “System Sales”, a non-IFRS financial measure. Refer to the table below for a reconciliation of “System Sales” to the most comparable IFRS measure and the “Non-IFRS Measures” section of this report for further details on how “System Sales Growth” is calculated and used to assess Food Services’ performance.

<sup>(iii)</sup> “Same Store Sales Growth – Franchised Restaurants”, “Gross sales reported by A&W restaurants in the Royalty Pool”, “Royalty Pool Same Store Sales Growth”, are non-IFRS supplementary financial measures. Refer to the “Non-IFRS Measures” section of this report for further details on how these measures are calculated and used to assess Food Services’ performance.

The following table provides a reconciliation of “System Sales” to “Revenue from Corporate Restaurants”, the most comparable IFRS measure, for the periods indicated.

<b>(dollars in thousands)</b>	<b>12-week period ended Mar 27, 2022</b>	<b>12-week period ended Mar 28, 2021</b>
Revenue from corporate restaurants	<b>\$3,966</b>	\$3,500
Sales reported by franchised restaurants	<b>348,647</b>	303,474
System Sales	<b>\$352,613</b>	\$306,974

The following table provides a reconciliation of “Operating Earnings” to “Income before income taxes”, the most comparable IFRS measure, for the periods indicated.

<b>(dollars in thousands)</b>	<b>12-week period ended Mar 27, 2022</b>	<b>12-week period ended Mar 28, 2021</b>
Income before income taxes	<b>\$10,395</b>	\$6,319
Depreciation of plant, equipment and right-of-use assets	<b>985</b>	958
Royalty expense	<b>10,397</b>	9,081
Finance expense - net	<b>300</b>	304
Amortization of deferred gain	<b>(796)</b>	(724)
Share of income from associates	<b>(2,508)</b>	(1,428)
Operating Earnings	<b>\$18,773</b>	\$14,510

## **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 IFRS measures, 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. 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 companies.

### **Non-IFRS financial measures**

The following non-IFRS financial measures are disclosed in this report:

*System Sales.* System Sales is a non-IFRS financial measure and is calculated in respect of all A&W restaurants in Canada as the sum of (1) gross sales reported to Food Services by franchisees of such A&W restaurants without audit, verification or other form of independent assurance and (2) revenue from corporate restaurants. System Sales reflect sales after deducting amounts for discounts for coupons and other promotional offerings and applicable sales taxes. Food Services believes System Sales is a key performance indicator as it is the main driver of Food Services’ revenues and provides an indication of the growth of the overall A&W restaurant chain. See “System Sales”. Refer to the “Selected Information” section for a reconciliation of System Sales to revenue from corporate restaurants, the most comparable IFRS measure, for the current and comparable reporting period.

*Operating Earnings.* Operating Earnings is a non-IFRS financial measure and is calculated by taking income before taxes and adding back the depreciation on plant, equipment and right-of-use assets, royalty expense, (recovery of) loss on impairment of leases receivable and finance expense (net) and deducting the amortization of deferred gain, gains on the sale Units of the Fund (“Units”) and share of income from associates. Food Services believes that Operating Earnings is a useful measure of operating performance, as it provides a more relevant picture of operating results in that it excludes the effects of financing and investing activities and other non-recurring income and expenses that are not reflective of Food Services’ underlying business performance. Food Services use Operating Earnings to facilitate a comparison of its operating performance on a consistent basis. Refer to the “Selected Information” section for a reconciliation of Operating Earnings to income before taxes, the most comparable IFRS measure, for the current and comparable reporting periods.

### **Non-IFRS ratios**

The following non-IFRS ratio is disclosed in this report:

*System Sales Growth.* System Sales Growth is a non-IFRS ratio and calculated as the percentage change in System Sales for the current reporting period as compared to the comparable reporting period in the prior year. Food Services believes that System Sales Growth is a key performance indicator as it provides an indication of the growth of the overall A&W restaurant chain. See “System Sales”.

### **Non-IFRS supplementary financial measures:**

The following non-IFRS supplementary financial measures are disclosed in this report:

*Same Store Sales Growth – Franchised Restaurants.* Same Store Sales Growth – Franchised Restaurants reflects the change in gross sales of franchised A&W restaurants that operated, or were temporarily closed at any point due to COVID-19, during the entirety of the 12-week periods ended March 27, 2022 and March 28, 2021 and is based on an equal number of days in each period. This measure is a key performance indicator for Food Services as it highlights the performance of existing franchised restaurants.

*Gross sales reported by A&W restaurants in the Royalty Pool.* Gross sales reported by A&W restaurants in the Royalty Pool (the “Royalty Pool”) reflects the sum of (1) the gross sales reported to Food Services by franchisees of A&W restaurants that are in the Royalty Pool without audit, verification or other form of independent assurance and (2) the gross sales of A&W restaurants owned and operated by Food Services that are in the Royalty Pool. The Gross sales reported by A&W restaurants in the Royalty Pool reflect sales 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 the basis for which the royalty is payable by Food Services to the Partnership therefore is a key driver of the royalty expense.

*Royalty Pool Same Store Sales Growth.* Royalty Pool Same Store Sales Growth reflects the change in gross sales of A&W restaurants in the Royalty Pool that operated, or were temporarily closed at any point due to COVID-19, during the entirety of the Fund’s first quarters ending March 27, 2022 and March 28, 2021 and is based on an equal number of days in each quarter. This measure is a key performance indicator for Trade Marks Inc. (“Trade Marks”) and the Fund, both of which Food Services has investments in, and is also a key driver of the royalty expense as it highlights the performance of the existing A&W restaurants in the Royalty Pool.

## **Same Store Sales Growth – Franchised Restaurants**

Same Store Sales Growth – Franchised Restaurants<sup>(iii)</sup> for the first quarter of 2022 was +11.5% as compared to the first quarter of 2021. The Same Store Sales Growth – Franchised Restaurants was primarily driven by there being fewer public health restrictions related to COVID-19 in place across Canada during the first quarter of 2022 as compared to the first quarter of 2021. In Q1 2021 there were a number of A&W restaurants that were temporarily closed or were not able to offer dine-in services due to restrictions. There were no temporary closures of A&W restaurants due to COVID-19 restrictions in Q1 2022, however, many A&W restaurants were still required to operate with reduced operating hours and capacity limits on dine-in guests for all, or a portion, of the quarter. See “Impact of COVID-19”.

Since March 2020, COVID-19 has adversely impacted A&W restaurant operations across Canada, particularly for those restaurants located on urban street fronts and in shopping centres. However, since the second quarter of 2020 when COVID-19 impacts on A&W were at their peak, the impact of COVID-19 on Royalty Pool Same Store Sales Growth has steadily declined.

<sup>(iii)</sup> “Same Store Sales Growth – Franchised Restaurants” is a non-IFRS supplementary financial measure. Refer to the “Non-IFRS Measures” section of this report for further details on how this measure is calculated and used to assess Food Services’ performance.

## **System Sales**

System Sales<sup>(i)</sup> for the first quarter of 2022 were \$352,613,000, an increase of 14.9% or \$45,639,000 from the first quarter of 2021. The increase in System Sales was driven by the increase in Same Store Sales Growth – Franchised Restaurants discussed above as well as the net addition of new restaurants. See “Impact of COVID-19”, “New Restaurant Openings and Permanent Restaurant Closures” and “Financial Highlights” for further information.

<sup>(i)</sup> “System Sales” is a non-IFRS financial measure. Refer to the table in the “Selected Information” section for a reconciliation of this measure to the most comparable IFRS measure and the “Non-IFRS Measures” section of this report for further details on how this measure is used to assess Food Services’ performance.

## **New Restaurant Openings and Permanent Restaurant Closures**

Food Services opened four new A&W restaurants in the first quarter of 2022, compared to six openings during the first quarter of 2021. Two restaurants were permanently closed during the first quarter of 2022 versus three in the first quarter of 2021. As at March 27, 2022, there were 1,031 A&W restaurants in Canada, of which 1,021 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 and other retail.

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

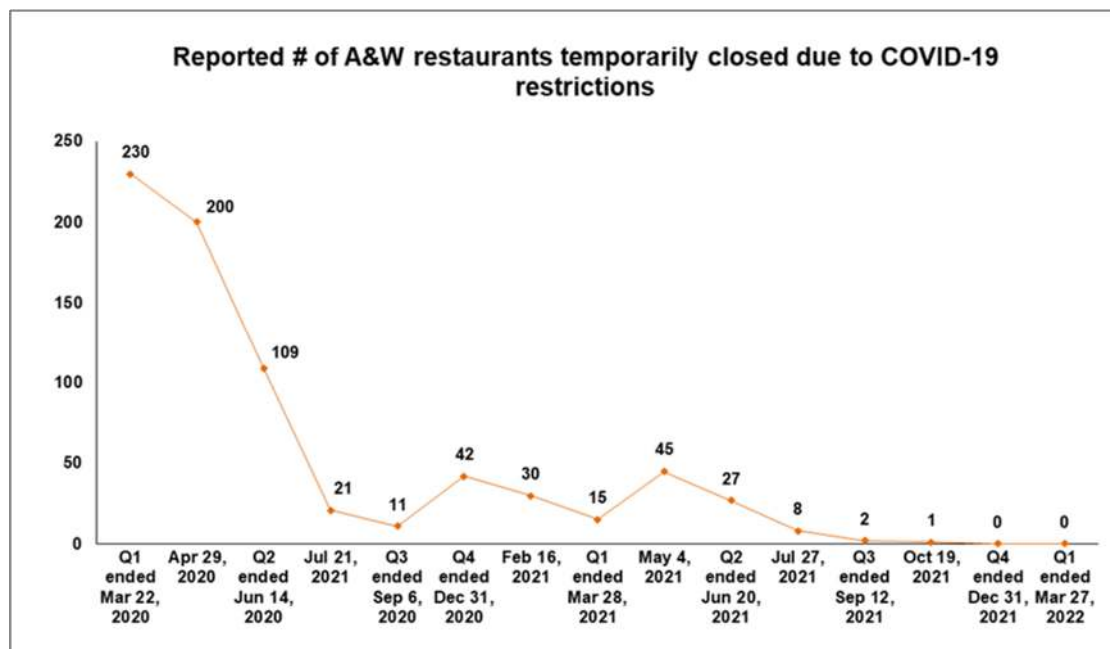
administrative expenses are expenses associated with providing services to the franchised A&W restaurants and establishing new A&W restaurants.

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 the Royalty Pool which are identified in the Amended and Restated Licence and Royalty Agreement, as amended from time to time.

### Impact of COVID-19

COVID-19 has significantly impacted many businesses across Canada, especially restaurants, and the future effect of COVID-19 continues to be uncertain. Since the onset in March 2020, jurisdictions across Canada have had varying levels of COVID-19 related restrictions in place and many of those restrictions have been modified multiple times in response to the fluctuating number of COVID-19 cases. During the first quarter of 2022 many A&W restaurants continued to operate under varying levels of COVID-19 related restrictions which included, but were not limited to, capacity limits on dine-in guests, reduced hours of operation and requirements for dine-in guests to show proof of vaccination.

Actions required in response to the COVID-19 pandemic have adversely affected A&W restaurant operations in Canada, including the temporary closure of A&W restaurants in 2020 and 2021. At its peak impact in the second quarter of 2020, a total of 230 A&W restaurants (out of the then 971 restaurants in the Royalty Pool) were temporarily closed due to public health measures in response to COVID-19. The COVID-19 related public health restrictions began to ease in the second quarter of 2021, by the end of 2021 all of the A&W restaurants that were temporarily closed due to restrictions had reopened. The chart below shows the reported number of A&W restaurants that were temporarily closed due to COVID-19 restrictions at specified dates.



Throughout the pandemic, Food Services and its franchisees have worked together on initiatives to help accelerate sales recovery. These initiatives include, but are not limited to promotional activity, strengthening and expanding partnerships with third party delivery service providers, increasing the speed of service for drive-thru and innovating to serve the increasing number of guests on 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 other mandates of relevant public health authorities, such as the requirement for dine-in guests to show proof of vaccination in jurisdictions where required and the requirement for restaurant staff who have contracted, or been exposed to, COVID-19 to self-isolate.

During the pandemic to date, various levels of government have offered a number of important financial programs which have helped support individual restaurant businesses, including A&W franchisees; however, most of those programs have now ceased. See “Risks and Uncertainties”.

In response to the sudden onset of COVID-19, the Fund temporarily suspended monthly distributions on the Units in March 2020 and accordingly no distributions were declared by the Fund in the second quarter of 2020. Regular monthly distributions to unitholders resumed at 10¢ per Unit in the third quarter of 2020 and special distributions totaling 50¢ per Unit were paid in the fourth quarter of 2020. In 2021, the monthly distribution rate was increased three times, with the last increase bringing the monthly distribution rate to 15.5¢ per Unit. The Fund also paid a special distribution of 5.0¢ per Unit on December 31, 2021. The monthly distribution rate remained at 15.5¢ per Unit for the duration of the first quarter of 2022.

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. Lease receivables 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 taken into consideration include restaurant concept, payment performance and future expectations for the restaurant operations. Food Services recorded an expected credit loss provision on leases receivable of \$2,257,000 as at March 27, 2022 (January 2, 2022 - \$2,257,000). There were no additional indicators of impairment during the first quarter of 2022 and no loss or recovery on impairment of leases receivable was recognized in Q1 2022 or Q1 2021.

### **Annual Adjustment to the Royalty Pool**

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, 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 or limited voting units of the Fund (“Limited Voting Units” and together with the Units, “Trust Units”) on the basis of two common shares for one Trust Unit. 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.

The 2022 annual adjustment to the Royalty Pool took place on January 5, 2022. The number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants less 13 restaurants that permanently closed during 2021. The estimated annual sales of the 34 new A&W restaurants are \$50,688,000 at the time they were added to the Royalty Pool and annual sales for the 13 permanently closed restaurants were \$7,536,000 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 \$21,472,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the Units for the 20 trading days ending November 1, 2021. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$17,178,000, by issuance of 444,327 LP units which were subsequently exchanged for 888,654 non-voting common shares of Trade Marks. The remaining consideration payable to Food Services for the January 5, 2022 adjustment to the Royalty Pool of \$4,294,000 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 2022 based on the actual annual sales reported by the new restaurants. Food Services has recorded the \$4,294,000 receivable as a current asset as at March 27, 2022 (January 2, 2022 - \$nil). The actual amount of the consideration paid in December 2022 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

After the initial consideration for the January 5, 2022 adjustment to the Royalty Pool but before the issuance of the excess exchangeable LP units that represent the remaining 20% of the initial consideration for the January 5, 2022 adjustment to the Royalty Pool that are payable in December 2022, Food Services’ indirect interest in the Fund increased to 26.0% on a fully diluted basis (24.3% as of January 2, 2022).

## 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 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 <sup>(1)</sup>	-	-	(2.9)	1,413,998	20,164	2.9	1,413,998	20,164
April 16, 2021 exchange of common shares for Trust Units <sup>(2)</sup>	4,056,040	63,193	10.6	(4,056,040)	(63,193)	(10.6)	-	-
Balance as at January 2, 2022	32,185,311	227,798	83.5	6,330,981	81,191	16.5	38,516,292	308,989
January 5, 2022 adjustment to the Royalty Pool <sup>(3)</sup>	-	-	(1.9)	888,654	17,178	1.9	888,654	17,178
Balance as at March 27, 2022	32,185,311	227,798	81.7	7,219,635	98,369	18.3	39,404,946	326,167

- <sup>(1)</sup> The number of common shares includes the 241,683 LP units exchanged for 483,366 common shares of Trade Marks representing the remaining consideration paid in December 2021 for the January 5, 2021 adjustment to the Royalty Pool.
- <sup>(2)</sup> On April 16, 2021, A&W of Canada Inc., an indirect shareholder of Food Services, completed a reorganization to provide liquidity for some of its shareholders and to simplify the indirect ownership of Food Services (the "Reorganization"). Further details regarding the Reorganization can be found in the Fund's MD&A for the fourth quarter ended December 31, 2021, available at [www.sedar.com](http://www.sedar.com) or [www.awincomefund.ca](http://www.awincomefund.ca).
- <sup>(3)</sup> 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, 2022 adjustment to the Royalty Pool, which LP units, if any, are held back until the number of LP units is determined in December 2022 based on the actual annual sales reported by the new restaurants. See "Adjustment to the Royalty Pool"

## Ownership of the Fund

The table below shows the ownership of the Fund as of March 27, 2022 and January 2, 2022 on a fully-diluted basis, where the ownership of the Fund as at March 27, 2022 includes the issuance of the excess exchangeable LP units that represent the remaining 20% of the initial consideration for the January 5, 2022 adjustment to the Royalty Pool that are payable to Food Services in December 2022.

	March 27, 2022		January 2, 2022	
	Number of units	%	Number of units	%
Units held by public unitholders	14,585,673	73.6	14,585,673	75.7
Limited Voting Units held by Food Services <sup>(1)</sup>	1,507,020	7.6	1,507,020	7.8
Number of Trust Units issuable upon exchange of securities of Trade Marks held by Food Services <sup>(2)</sup>	3,720,900	18.8	3,165,491	16.5
Total equivalent units	19,813,593	100.0	19,258,184	100.0

<sup>(1)</sup> Limited Voting Units in the Fund held by Food Services may be exchanged for Units on the basis of one Limited Voting Unit for one Unit.

<sup>(2)</sup> Common shares of Trade Marks held by Food Services may be exchanged for Trust Units on the basis of two common shares for one Trust Unit.

## Q1 2022 Operating Results

### Revenue

Food Services' franchising and corporate restaurants revenue for the first quarter of 2022 was \$54,997,000 compared to \$42,301,000 for the first quarter of 2021, an increase of \$12,696,000. The increase in franchising revenue is attributable to higher service fees, contributions to the National Advertising Fund and revenue related to the distribution of food and supplies as a result of the increase in Same Store Sales Growth – Franchised Restaurants as well as an increase in revenue for equipment sales to existing restaurants. The increase in revenue related to equipment sales is largely attributable to the ongoing roll out of the A&W Brew Bar<sup>TM</sup>. See "Overview". There was a slight decrease in turnkey fees and revenue related to the sale of equipment for new restaurants due to Food Services opening two fewer restaurants during the first quarter of 2022 as compared to the first quarter of 2021.

<sup>TM</sup> trademark of the Partnership, used under license.

Corporate restaurant System Sales were \$3,966,000 for the first quarter of 2022 compared to \$3,500,000 for the first quarter of 2021. The \$466,000 increase was primarily due to there being fewer COVID-19 related restrictions in Ontario during the first quarter of 2022 as compared to 2021 as well as there being additional sales in Q1 2022 from a corporate restaurant that opened mid-way through Q1 2021. These increases were partially offset by a reduction in sales as a result of the "Freedom Convoy" protests that took place in Ottawa during the first quarter of 2022 and disrupted the operations of some of A&W's corporate restaurants.

### **Operating costs and general and administrative expenses**

Operating costs for the first quarter of 2022 were \$27,589,000 compared to \$20,639,000 for the first quarter of 2021, an increase of \$6,950,000. The increase is primarily attributable to increases in the costs of sales of food, supplies and equipment that was sold to existing restaurants and an increase in advertising expenses incurred by the National Advertising Fund, all of which are in line with the increase in revenue noted above.

General and administrative expenses represent costs of providing services to franchised restaurants and establishing new restaurants, and were \$9,620,000 for the first quarter of 2022 compared to \$8,110,000 for the first quarter of 2021, an increase of \$1,510,000. General and administrative expenses for the first quarter of 2021 are net of wage subsidies totaling \$860,000 that were received under federal government subsidy programs in connection with COVID-19. No subsidies were received or are receivable in 2022. The remaining increase is largely attributable to increased travel and other business activities that did not occur in 2021 due to COVID-19.

### **Operating Earnings**

(dollars in thousands)	12-week period ended Mar 27, 2022	12-week period ended Mar 28, 2021
Operating Earnings <sup>(i)</sup>	\$18,773	\$14,510

Operating Earnings<sup>(i)</sup> increased by \$4,263,000 to \$18,773,000 in Q1 2022. The increase in Operating Earnings is due to the increase in revenues, partially offset by the increase in operating costs and general and administrative expenses, both of which are discussed above.

<sup>(i)</sup> "Operating Earnings" is a non-IFRS financial measure. Refer to the tables in the "Selected Information" section for a reconciliation of this measure to the most comparable IFRS measure and the "Non-IFRS Measures" section of this report for further details on how this measure is used to assess Food Services' performance

### **Royalty expense**

Royalty expense for the first quarter of 2022 was \$10,397,000 compared to \$9,081,000 for the first quarter of 2021. The increase in royalty expense is attributable to the increase in Gross sales reported by A&W restaurants in the Royalty Pool which was driven by the increase in Royalty Pool Same Store Sales Growth and the gross sales from the additional net 21 new restaurants added to the Royalty Pool on January 5, 2022. See "Annual Adjustment to the Royalty Pool". It is important to note that the royalty expense for Q1 of 2022 and 2021 reported by Food Services differs in amount from the royalty income reported by the Fund as the Fund's royalty income is based on Gross sales reported by A&W restaurants in the Royalty Pool from January 1, 2022 to March 27, 2022 (2021 – 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 from January 3, 2022 to March 27, 2022 (2021 – January 4, 2021 to March 28, 2021).

### **Impairment of lease receivables**

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. Lease receivables 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 lease receivables. Food Services has developed a risk matrix used to assess the credit risk of all head leases. Food Services recorded an expected credit loss provision on leases receivable of \$2,257,000 as at March 27, 2022 (January 2, 2022 – \$2,257,000). Food Services did not recognize an impairment loss or recovery of impairment in the first quarter of 2022 or 2021.

### ***Finance expense - net***

(dollars in thousands)	12-week period ended Mar 27, 2022	12-week period ended Mar 28, 2021
Net interest income	(\$4)	\$-
Standby fees	15	15
Interest cost on supplementary retirement benefit plan	113	113
Interest on leases receivable	(5,237)	(4,992)
Interest on lease liabilities	5,400	5,159
Amortization of deferred financing fees	13	9
	<b>\$300</b>	<b>\$304</b>

Net interest expense for the first quarter of 2022 was consistent with the first quarter of 2021. The increase in interest income on leases receivable and in interest expense on lease liabilities is driven by a year over year increase in the corresponding leases receivable and lease liabilities balances.

### ***Food Services' share of income from associates***

As a result of the annual adjustment to the Royalty Pool and the exchange rights granted under the Amended and Restated Declaration of Trust and the Amended and Restated Exchange Agreement, Food Services owns common shares of Trade Marks and as a result of Food Services exchanging common shares of Trade Marks for Limited Voting Units, Food Services also has direct ownership in the Fund. These investments are accounted for as investments in associates and are recorded using the equity method. As at March 27, 2022 Food Services had a 18.3% investment in Trade Marks (January 2, 2022 – 16.5%) and a 9.4% investment in the Fund (January 2, 2022 – 9.4%). Taken together, Food Services' ownership of exchangeable common shares of Trade Marks and Limited Voting Units equated to Food Services owning 26.0% of the total equivalent units of the Fund on a fully diluted basis as at March 27, 2022 (24.3% as at January 2, 2022).

Food Services' share of income from associates for the first quarter of 2022 totaled \$2,508,000 compared to \$1,428,000 for the first quarter of 2021. The increase is attributable to an increase in the earnings of Trade Marks and the Fund which was largely driven by higher royalty income due to the increase in Gross sales reported by A&W restaurants in the Royalty Pool.

## **Net income**

(dollars in thousands)	12-week period ended Mar 27, 2022	12-week period ended Mar 28, 2021
Operating Earnings <sup>(i)</sup>	\$18,773	\$14,510
Royalty expense	(10,397)	(9,081)
Finance expense – net	(300)	(304)
Depreciation of plant, equipment and right-of-use assets	(985)	(958)
Amortization of deferred gain	796	724
Share of income from associates	2,508	1,428
Income before income taxes	10,395	6,319
Provision for income taxes	(1,336)	(938)
Net income for the period	\$9,059	\$5,381

The \$4,076,000 increase in income before income taxes is primarily attributable to the \$4,263,000 increase in Operating Earnings<sup>(i)</sup> and the \$1,080,000 increase in income from associates, partially offset by the \$1,316,000 increase in royalty expense. The \$398,000 increase in the provision for income taxes is attributable to the increase in income before income taxes which increased for the reasons discussed.

<sup>(i)</sup> “Operating Earnings” is a non-IFRS financial measure. Refer to the tables in the “Selected Information” section for a reconciliation of this measure to the most comparable IFRS measure and the “Non-IFRS Measures” section of this report for further details on how this measure is used to assess Food Services’ performance

## **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 income**

Other comprehensive income 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. There was an actuarial gain, net of tax, of \$1,390,000 recognized in the first quarter of 2022 (2021 – gain, net of tax, of \$984,000).

## **Liquidity and Capital Resources**

Food Services is primarily a franchise business with 1,021 of its 1,031 restaurants franchised. Food Services’ capital requirements are related to its corporate restaurants and head office and investments in technology and information systems. 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.

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.

As at March 27, 2022 and January 2, 2022, Food Services had not drawn on the credit facility and had the full \$40,000,000 facility available. Food Services was in compliance with all of its financial covenants as at May 3, 2022, March 27, 2022 and January 2, 2022.

### **Off-Balance Sheet Arrangements**

Food Services has no off-balance sheet arrangements.

### **Related Party Transactions and Balances**

During the first quarter of 2022, Trade Marks declared two dividends payable to Food Services totaling \$1,119,000 (2021 - \$1,164,000) as a result of Food Services' ownership of Trade Marks' common shares. The second dividend amounted to \$560,000 and was declared on March 7, 2022 but paid to Food Services subsequent to the end of the quarter on March 31, 2022 and is therefore reported as a current asset as at March 27, 2022 (January 2, 2022 – \$nil).

During the first quarter of 2022, the Fund declared two distributions payable to Food Services totaling \$467,000 (2021 – n/a) as a result of Food Services' ownership of Limited Voting Units. The second distribution amounted to \$234,000 and was declared on March 7, 2022 but paid to Food Services subsequent to the end of the quarter on March 31, 2022 and is therefore reported as a current asset as at March 27, 2022 (January 2, 2022 – \$234,000).

During the first quarter of 2022, Food Services declared two dividends totaling \$1,586,000 (2021 - \$1,164,000) from working capital to its shareholder. The second dividend amounted to \$793,000 and was declared on March 7, 2022 but paid subsequent to the end of the quarter on March 31, 2022 and is therefore reported as a current liability as a March 27, 2022 (January 2, 2022 – \$nil).

During the first quarter of 2022, Food Services recognized \$44,000 (2021 - \$nil) as an offset to general and administrative expenses related to administrative services provided to Trade Marks, all of which is reported in accounts receivable as at March 27, 2022 (January 2, 2022 - \$40,000).

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 investments in associates, 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**

### ***International Conflict***

International conflict and other geopolitical tensions and events, including war, military action, terrorism, trade disputes, and international responses thereto have historically led to, and may in the future lead to, uncertainty or volatility in the global supply chain and financial markets. On February 24, 2022, Russia commenced a military invasion of Ukraine. In response, many jurisdictions have imposed strict economic sanctions against Russia and its interests, including Canada, the United States, the European Union, the United Kingdom, and others, which may have a destabilizing effect on commodity prices, supply chain and global economies more broadly. Supply chain disruptions may adversely affect the business, financial condition, and results of operations for Food Services, its franchisees and the Fund. The extent and duration of the current Russian-Ukrainian conflict and related international action cannot be accurately predicted at this time and the effects of such conflict may magnify the impact of the other risks identified herein and in the Fund’s most recent Annual Information Form.

### ***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 vaccine passport mandates, continued to impact system sales at A&W restaurants in the first quarter of 2022. 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 for restaurants in the Royalty Pool may not continue and may slow or regress. A&W restaurant 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. Most of the government programs that have been helpful to A&W franchisees are winding down or have ceased. 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, which could continue to adversely affect Food Services' and A&W franchisees' business. Food Services and A&W franchisees could also be adversely impacted by the worsening or increased volatility of economic conditions.

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, inflation, interest rates, commodity costs and labor availability and cost. See "Impact of COVID-19".

Information regarding the other risks and uncertainties applicable to the business operations of Food Services and 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 Directors of Food Services and the Trustees, or that are currently not considered to be material may also impair the Food Service's and the Fund's business operations. If any of the risks actually occur, Food Services' and the Fund's 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 A&W's 1,031 restaurants (as at March 27, 2022) are able to safely operate (as permitted by health authorities and government regulations mandated from time to time) and have the ability to emerge from this period of uncertainty in a 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 continue 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 launched an initiative to focus on natural ingredients and became the first and only national burger chain in Canada to serve beef raised without artificial hormones or steroids. This was then followed by the introduction of countless other

natural ingredient firsts; including chicken raised without the use of antibiotics, organic Fairtrade coffee, 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<sup>(1)</sup> 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.

<sup>(1)</sup> trademark of Beyond Meat, Inc., used under license.

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

In 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. The A&W Brew Bar is now available in over 160 A&W restaurants across the country.

A&W is 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. In October 2021, A&W launched the “A&W Cup Crew”, an exchangeable cup pilot at A&W restaurants in Vancouver and in March 2022, A&W launched a pilot program in Toronto for its “Zero Cup” which is a fully compostable, plastic-free cup that requires no lid or straw.

A&W also continues to innovate to serve the increasing number of guests that are mobile app users.

Food Services has continued to grow new A&W restaurants, particularly in the key Ontario and Quebec markets. Four new A&W restaurants opened in the first quarter of 2022, and an additional twenty-six restaurants were under construction as at March 27, 2022.

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.

On October 25, 2021 Food Services announced that it had entered into a non-binding term sheet reflecting an agreement in principle (the "Agreement") with UK-based Pret A Manger (Europe) Limited ("Pret"), which sets forth the general terms and conditions of a proposed Country Agreement with Pret that would grant Food Services master franchisor rights to Canada (the "Country Agreement").

Pursuant to the Agreement, Food Services will be granted the exclusive right to use the Pret brand in Canada for a two-year pilot (the “Trial Phase”) during which Food Services will introduce the Pret brand within A&W restaurants in select markets in Canada. If the Trial Phase is successful, Food Services will have the exclusive right to expand the Pret brand across Canada (the "Expansion Phase") pursuant to an

agreed development plan. The proposed exclusive Canadian rights to be granted to Food Services during both the Trial Phase and Expansion Phase remains subject to the negotiation and completion of the definitive Country Agreement, which is subject to board approval.

The royalty payable to the Fund will apply to Pret products sold within A&W restaurants during the Trial Phase to the extent that such restaurants are in the Royalty Pool. Should the Trial Phase prove successful, the royalty will also be earned by the Fund on the sales of any Pret products made within A&W restaurants thereafter.

## **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 the 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 regarding Canada being on the road to recovery from COVID-19; 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; statements regarding future adjustments to the Royalty Pool; statements regarding the potential impact of international conflicts; 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; 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 continue 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; the expectation that Food Services will open Pret locations and that the Fund will earn royalty income from the sale of Pret products;

the expectation that the Trial Phase will be successful and that Food Services will expand the Pret brand across Canada; 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; 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;
- risks related to international conflicts;
- 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";
- risks related to international conflicts set forth in this report under the heading "Risks and Uncertainties – International Conflicts"; 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 Financial Statements (Unaudited)**

**For the First Quarter ended March 27, 2022**

with comparative figures

for the First Quarter ended March 28, 2021

(in thousands of dollars)

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.

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

(in thousands of dollars)

	Note	March 27, 2022	January 2, 2022
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 12,429	\$ 9,629
Accounts receivable		27,973	31,993
Dividends and distributions receivable	12	793	234
Leases receivable	4	29,873	28,599
Inventories		15,517	14,686
Prepaid expenses		3,460	3,722
Other assets	5	4,294	-
		94,339	88,863
<b>Non-current assets</b>			
Investments in associates	5	145,673	127,573
Deferred income taxes		30,275	30,295
Right-of-use asset	4	19,348	19,580
Leases receivable	4	581,278	579,906
Plant and equipment		11,999	11,603
<b>Total assets</b>		<b>\$ 882,912</b>	<b>\$ 857,820</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 41,374	\$ 43,485
Royalties payable	12	3,703	3,513
Dividends payable	12	793	-
Lease liabilities	4	31,959	30,907
Deposits on franchise and equipment sales		26,493	23,317
Deferred revenue		2,472	2,475
Income taxes payable		646	7,506
		107,440	111,203
<b>Non-current liabilities</b>			
Deferred gain	5	272,150	251,474
Deferred revenue		28,160	28,461
Lease liabilities	4	601,305	599,710
Supplementary retirement benefit plan		11,596	13,574
Other long-term liabilities		28	28
		1,020,679	1,004,450
<b>Shareholders' Deficiency</b>			
Share capital	14	20,129	20,129
Accumulated deficit		(158,373)	(166,939)
		(138,244)	(146,810)
<b>Non-controlling interest</b>			
		477	180
<b>Total deficiency</b>		<b>(137,767)</b>	<b>(146,630)</b>
<b>Total liabilities and deficiency</b>		<b>\$ 882,912</b>	<b>\$ 857,820</b>
<b>Subsequent events</b>	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.



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

(in thousands of dollars)

	Note	12 week period ended Mar 27, 2022	12 week period ended Mar 28, 2021
<b>Revenue</b>			
Franchising	8	\$ 51,031	\$ 38,801
Corporate restaurants		3,966	3,500
		<b>54,997</b>	<b>42,301</b>
<b>Expenses (income)</b>			
Operating costs		27,589	20,639
General and administrative expenses		9,620	8,110
Royalty expense	12	10,397	9,081
Finance expense - net	10	300	304
Amortization of deferred gain	5	(796)	(724)
Share of income from associates	5	(2,508)	(1,428)
		<b>44,602</b>	<b>35,982</b>
<b>Income before income taxes</b>		<b>10,395</b>	<b>6,319</b>
<b>Provision for (recovery of) income taxes</b>			
Current		1,826	1,404
Deferred		(490)	(466)
		<b>1,336</b>	<b>938</b>
<b>Net income for the period</b>		<b>\$ 9,059</b>	<b>\$ 5,381</b>
<b>Net income attributable to:</b>			
Shareholders of A&W Food Services of Canada Inc.		\$ 8,762	\$ 5,068
Non-controlling interest		297	313
		<b>\$ 9,059</b>	<b>\$ 5,381</b>

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

(in thousands of dollars)

	12 week period ended Mar 27, 2022	12 week period ended Mar 28, 2021
<b>Net income for the period</b>	<b>\$ 9,059</b>	<b>\$ 5,381</b>
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to net income</b>		
Actuarial gain on supplementary retirement benefit plan - net of tax	1,390	984
<b>Comprehensive income</b>	<b>\$ 10,449</b>	<b>\$ 6,365</b>
<b>Comprehensive income attributable to:</b>		
Shareholders of A&W Food Services of Canada Inc.	\$ 10,152	\$ 6,052
Non-controlling interest	297	313
	<b>\$ 10,449</b>	<b>\$ 6,365</b>

**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
<b>Balance - January 3, 2021</b>	\$	<b>20,500</b>	\$ <b>(128,410)</b>	\$ <b>(107,910)</b>	\$ <b>149</b>	\$ <b>(107,761)</b>
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
<b>Balance - March 28, 2021</b>		<b>20,500</b>	<b>(123,522)</b>	<b>(103,022)</b>	<b>462</b>	<b>(102,560)</b>
Net income for the period		-	30,471	30,471	918	31,389
Dividends on common shares		-	(73,446)	(73,446)	(1,200)	(74,646)
Return of capital		(371)	-	(371)	-	(371)
Actuarial loss on supplementary retirement benefit plan - net of tax		-	(442)	(442)	-	(442)
<b>Balance - January 2, 2022</b>		<b>20,129</b>	<b>(166,939)</b>	<b>(146,810)</b>	<b>180</b>	<b>(146,630)</b>
Net income for the period		-	8,762	8,762	297	9,059
Dividends on common shares	12	-	(1,586)	(1,586)	-	(1,586)
Actuarial gain on supplementary retirement benefit plan - net of tax		-	1,390	1,390	-	1,390
<b>Balance - March 27, 2022</b>	\$	<b>20,129</b>	\$ <b>(158,373)</b>	\$ <b>(138,244)</b>	\$ <b>477</b>	\$ <b>(137,767)</b>

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

(in thousands of dollars)

	Note	12 week period ended Mar 27, 2022	12 week period ended Mar 28, 2021
<b>Cash flows generated from operating activities</b>			
Net income for the period		\$ 9,059	\$ 5,381
Adjustments for			
Depreciation of plant and equipment	9	453	450
Depreciation of right-of-use asset	9	532	508
Deferred income taxes		(490)	(466)
Increase in deposits on franchise and equipment sales		3,176	6,004
Supplementary retirement benefit plan		(1,390)	(194)
Increase in deferred revenue		(304)	(54)
Decrease in other long-term liabilities		-	(2)
Amortization of deferred gain	5	(796)	(724)
Share of income from associates	5	(2,508)	(1,428)
Current income tax expense		1,826	1,404
Income tax paid		(8,686)	(2,879)
Finance expense - net	10	300	304
Interest paid		(11)	(15)
Changes in items of non-cash working capital	11	2,716	(4,306)
<b>Net cash generated from operating activities</b>		<b>3,877</b>	<b>3,983</b>
<b>Cash flows generated from (used in) investing activities</b>			
Purchase of plant and equipment		(849)	(1,324)
Dividends and distributions received	12	1,027	496
<b>Net cash generated from (used in) investing activities</b>		<b>178</b>	<b>(828)</b>
<b>Cash flows used in financing activities</b>			
Operating lease payments		(462)	(442)
Dividends paid to shareholder	12	(793)	(496)
<b>Net cash used in financing activities</b>		<b>(1,255)</b>	<b>(938)</b>
<b>Increase in cash and cash equivalents</b>		<b>2,800</b>	<b>2,217</b>
<b>Cash and cash equivalents - beginning of period</b>		<b>9,629</b>	<b>39,569</b>
<b>Cash and cash equivalents - end of period</b>		<b>\$ 12,429</b>	<b>\$ 41,786</b>

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

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(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 27, 2022, the Company opened four locations and permanently closed two locations, bringing the total number of A&W restaurants to 1,031, of which 1,021 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 adversely affected A&W restaurant operations in Canada, including the temporary closure of A&W restaurants in 2021. The COVID-19 related public health restrictions began to ease in the second quarter of 2021 and by January 2, 2022 all of the A&W restaurants that were temporarily closed due to restrictions had reopened. During the period ended March 27, 2022 many A&W restaurants continued to operate under varying levels of COVID-19 related restrictions which included, but were not limited to, capacity limits on dine-in guests, reduced hours of operation and requirements for dine-in guests to show proof of vaccination. The future effect of COVID-19 on the Company as well as the economy and businesses, in general, remains uncertain.

In 2021, Food Services qualified for and received, both wage and rent subsidies as made available by the federal government through the Canadian Emergency Rent Subsidy Program and Canadian Emergency Wage Subsidy Program for qualifying organizations who suffered revenue drops due to the COVID-19 Pandemic (note 9). No wage or rent subsidies were received or are receivable by Food Services in 2022.

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. International Financial Reporting Standard (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 consolidated 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 taken into consideration include restaurant concept, payment performance and future expectations for the restaurant operations (note 4).

(figures in tables are expressed in thousands of dollars)

## **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 2, 2022.

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 2, 2022.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors of Food Services on May 3, 2022.

## **3 Significant accounting policies**

### **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 2021 year was 52 weeks and ended January 2, 2022 (2020 - 53 weeks ended January 3, 2021). A&W Root Beer Beverages of Canada Inc. (“Beverages”) uses a fiscal year ending December 31. The first quarter ends 12 weeks after the fiscal year end. The 2022 first quarter ended March 27, 2022 and the 2021 first quarter ended March 28, 2021.

### **Consolidation**

The financial statements include the accounts of Food Services and its 60% interest in Beverages. The non-controlling interest represents an equity interest in Beverages owned by outside parties, and is presented as a component of equity.

### **Investment in associates**

Investments over which Food Services exercises significant influence, and which are neither subsidiaries nor interests in joint ventures, are associates. Investments in associates are accounted for using the equity method, except when classified as held for sale. The equity method involves the

**A&W Food Services of Canada Inc.**

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

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(figures in tables are expressed in thousands of dollars)

recording of the initial investment at cost and the subsequent adjusting of the carrying value of the investment for the proportionate share of the income or loss and any other changes in the associate's net assets such as dividends.

Food Services' proportionate share of the associate's income or loss is based on the associate's net income/loss for the reporting period. Adjustments are made to account for any impairment losses recognized by the associate. If Food Services' share of the associate's losses equals or exceeds its investment in the associate, recognition of further losses is discontinued. After Food Services' interest is reduced to zero, additional losses will be provided for and a liability recognized, only to the extent that Food Services has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports income, Food Services resumes recognizing its share of that income only after Food Services' share of the income equals the share of losses not recognized. At each balance sheet date, Food Services assesses its investments in associates from indicators of impairment. Food Services accounts for its investment in A&W Trade Marks Inc. ("Trade Marks") and its investment in A&W Revenue Royalties Income Fund (the "Fund") as investments in associates.

#### **4 Leases**

##### **Leases receivable**

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

	<b>Mar 27, 2022</b>	<b>Jan 2, 2022</b>
	<b>\$</b>	<b>\$</b>
Current leases receivable	29,873	28,599
Non-current leases receivable	581,278	579,906
	<u>611,151</u>	<u>608,505</u>

**A&W Food Services of Canada Inc.**

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(figures in tables are expressed in thousands of dollars)

The following table outlines the annual contractual undiscounted payments for leases receivable as at March 27, 2022:

	\$
Year 1	51,248
Year 2	51,020
Year 3	50,286
Year 4	48,898
Year 5	47,739
Thereafter	<u>643,682</u>
Total undiscounted leases receivable	892,873
Unearned interest income	(279,465)
Impairment loss	<u>(2,257)</u>
	<u>611,151</u>

Interest income on leases receivable for the period ended March 27, 2022 was \$5,237,000 (2021 - \$4,992,000).

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 leases receivable of \$2,257,000 as at March 27, 2022 (January 2, 2022 - \$2,257,000). During the period ended March 27, 2022 there were no additional indicators of impairment therefore no loss or recovery on impairment of leases receivable was recognized (2021 - \$nil).

**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-

**A&W Food Services of Canada Inc.**

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(figures in tables are expressed in thousands of dollars)

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:

	<b>Real Estate</b>	<b>Automobiles</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance – January 2, 2022	18,208	1,372	19,580
Additions	-	333	333
Disposals	-	(57)	(57)
Remeasurement of lease liability	22	-	22
Depreciation	(358)	(172)	(530)
Balance – March 27, 2022	<u>17,872</u>	<u>1,476</u>	<u>19,348</u>

**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.



**A&W Food Services of Canada Inc.**

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(figures in tables are expressed in thousands of dollars)

The following table presents the lease liabilities for the Company:

	<b>Mar 27, 2022</b>	Jan 2, 2022
	\$	\$
Current lease liabilities	31,959	30,907
Non-current lease liabilities	601,305	599,710
	<u>633,264</u>	<u>630,617</u>

Interest expense on lease liabilities for the period ended March 27, 2022 was \$5,400,000 (2021 - \$5,159,000).

Costs not included in the measurement of the lease obligation for the periods ended March 27, 2022 and March 28, 2021 are as follows:

	<b>12-week period ended Mar 27, 2022</b>	12-week period ended Mar 28, 2021
	\$	\$
Low-value lease costs	9	12
Variable lease costs	217	164
	<u>226</u>	<u>176</u>

**5 Deferred gain and investment in associates****A) Deferred gain**

In 2002, Food Services sold the A&W trade-marks used in the A&W quick service restaurant business in Canada to 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 27, 2022 was \$796,000 (2021 - \$724,000).

**A&W Food Services of Canada Inc.**

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(Unaudited)

March 27, 2022

(figures in tables are expressed in thousands of dollars)

The deferred gain as at March 27, 2022 is as follows:

	<b>Number of restaurants in Royalty Pool</b>	<b>Deferred gain \$</b>	<b>Accumulated amortization \$</b>	<b>Net deferred gain \$</b>
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
January 5, 2021 adjustment to Royalty Pool	-	3,576	-	3,576
Amortization of deferred gain	-	-	(2,412)	(2,412)
Balance – January 2, 2022	994	280,487	(29,013)	251,474
January 5, 2022 adjustment to Royalty Pool	21	21,472	-	21,472
Amortization of deferred gain	-	-	(796)	(796)
Balance – March 27, 2022	1,015	301,959	(29,809)	272,150

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 Fund (“Units”), 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 or Limited Voting Units of the Fund (“Limited Voting Units” and together with the Units, “Trust Units”) on the basis of two common shares for one Trust Unit. 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.

The 2022 annual adjustment to the Royalty Pool took place on January 5, 2022. The number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants less 13 restaurants that permanently closed during 2021. The estimated annual sales of the 34 new A&W restaurants are \$50,688,000 at the time they were added to the Royalty Pool and annual sales for the 13 permanently

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(figures in tables are expressed in thousands of dollars)

closed restaurants were \$7,536,000 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 \$21,472,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the Units for the 20 trading days ending November 1, 2021. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$17,178,000, by issuance of 444,327 LP units which were subsequently exchanged for 888,654 non-voting common shares of Trade Marks. The remaining consideration payable to Food Services for the January 5, 2022 adjustment to the Royalty Pool of \$4,294,000 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 2022 based on the actual annual sales reported by the new restaurants. Food Services has recorded the \$4,294,000 receivable as a current asset as at March 27, 2022 (January 2, 2022 - \$nil). The actual amount of the consideration paid in December 2022 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

## **B) Investments in associates**

As a result of the annual adjustment to the Royalty Pool and the exchange rights granted under the Amended and Restated Declaration of Trust and the Amended and Restated Exchange Agreement, Food Services owns common shares of Trade Marks and as a result of Food Services exchanging common shares of Trade Marks for Limited Voting Units, Food Services also has direct ownership in the Fund. These investments are accounted for as investments in associates and are recorded using the equity method. As at March 27, 2022 Food Services had a 18.3% investment in Trade Marks (January 2, 2022 – 16.5%) and a 9.4% investment in the Fund (January 2, 2022 – 9.4%).

During the second quarter of 2021, 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, with a book value of \$16,234,000, for 521,000 Units, which Units were then purchased by shareholders of A&W Canada at a price of \$36.42 per Unit. The sale of Units was a non-cash transaction whereby Food Services received gross proceeds from the sale of \$18,974,000 in the form of promissory notes. Promissory notes totalling \$17,092,000 were extinguished upon Food Services' payment of dividends to its shareholder, leaving \$1,882,000 in residual promissory notes receivable which were paid in full as of January 2, 2022. Food Services recognized a \$2,670,000 gain on the sale, net of \$70,000 in transaction costs in the second quarter of 2021.

**A&W Food Services of Canada Inc.**

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(figures in tables are expressed in thousands of dollars)

In addition, Food Services exchanged 3,014,040 of its common shares of Trade Marks, with a book value of \$46,959,000, for 1,507,020 Limited Voting Units. Limited Voting Units may be converted to Units and have equal rights and privileges as Units except that holders of the Limited Voting Units, together with 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 3,014,040 common shares of Trade Marks as the Limited Voting Units continued to be held by Food Services and were therefore recognized at cost, being the book value of the common shares exchanged plus \$203,000 in transaction costs. Food Services paid cash dividends of \$49,195,000 to its shareholder as part of the Reorganization.

Prior to the Reorganization, Food Services owned 26.0% of the common shares of Trade Marks which are exchangeable into 26.0% of the total outstanding voting securities of the Fund on a fully diluted basis. Following the Reorganization, but excluding the issuance of the excess exchangeable LP units that represented the remaining 20% of the initial consideration for the January 5, 2021 Adjustment to the Royalty Pool that was paid in December 2021, Food Services owned 15.4% of the exchangeable common shares of Trade Marks and 9.4% of the Fund's Trust Units. Taken together, Food Services' ownership of exchangeable common shares of Trade Marks and Trust Units equated to Food Services owning 23.3% of the total outstanding voting securities of the Fund on a fully diluted basis, before the inclusion of the issuance of the excess exchangeable LP units.

Including the issuance of the excess exchangeable LP units that represent the remaining 20% of the initial consideration for the January 5, 2021 adjustment to the Royalty Pool that was paid in December 2021, Food Services' ownership in the outstanding voting securities of the Fund was approximately 23.8% on a fully diluted basis (26.5% prior to the Reorganization). Post Reorganization, Food Services holds both Limited Voting Units 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 did not constitute a change of control of Food Services, as the existing shareholders continue to maintain majority control of Food Services. There was no change in management or the operations of the Food Services' business in connection with the Reorganization.

As at March 27, 2022 Food Services' investments in associates totaled \$145,673,000 (January 2, 2022 - \$127,573,000). Food Services' share of income from associates totaled \$2,508,000 for the period ended March 27, 2022 (2021 - \$1,428,000).

**A&W Food Services of Canada Inc.**

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The investment in Trade Marks as at March 27, 2022 is as follows:

	<b>Common shares \$</b>	<b>Cumulative equity in earnings \$</b>	<b>Cumulative dividends \$</b>	<b>Total \$</b>
Balance– January 3, 2021	124,221	52,793	(54,973)	122,041
January 5, 2021 adjustment to Royalty Pool	20,164	-	-	20,164
Equity in earnings	-	7,486	-	7,486
Dividends	-	-	(6,258)	(6,258)
Common shares of Trade Marks exchanged for Trust Units	(63,193)	-	-	(63,193)
Balance – January 2, 2022	81,192	60,279	(61,231)	80,240
January 5, 2022 adjustment to Royalty Pool	17,178	-	-	17,178
Equity in earnings	-	1,763	-	1,763
Dividends	-	-	(1,119)	(1,119)
Balance – March 27, 2022	98,370	62,042	(62,350)	98,062

The investment in the Fund as at March 27, 2022 is as follows:

	<b>Limited Voting Units \$</b>	<b>Cumulative equity in earnings \$</b>	<b>Cumulative distributions \$</b>	<b>Total \$</b>
Balance – January 3, 2021	-	-	-	-
Common shares of Trade Marks exchanged for Limited Voting Units	47,162	-	-	47,162
Equity in earnings	-	2,236	-	2,236
Distributions	-	-	(2,065)	(2,065)
Balance – January 2, 2022	47,162	2,236	(2,065)	47,333
Equity in earnings	-	745	-	745
Distributions	-	-	(467)	(467)
Balance – March 27, 2022	47,162	2,981	(2,532)	47,611

**6 Operating loan facility**

On April 23, 2021, Food Services increased its demand operating loan facility with a Canadian chartered bank (the “Bank”) from \$25,000,000 to \$40,000,000 to fund working capital requirements and for general corporate purposes.

**A&W Food Services of Canada Inc.**

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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 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. Food Services was in compliance with all of its financial covenants as March 27, 2022 and January 2, 2022.

As at March 27, 2022 and January 2, 2022, Food Services had not drawn on the credit facility and had the full \$40,000,000 facility available.

**7 New restaurant openings**

Food Services opened four new franchised restaurants during the quarter (2021 – six). There was a decrease in turnkey fees and revenue related to the sale of equipment for new restaurants and a corresponding decrease in operating costs in the period as compared to the prior year due to the decrease in the number of new restaurants opened however the declines were more than offset by increases in revenues and expenses related to the sale of equipment to existing restaurants.

**8 Franchising revenue**

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

	<b>12-week period ended Mar 27, 2022</b>	<b>12-week period ended Mar 28, 2021</b>
	<b>\$</b>	<b>\$</b>
At a point in time:		
Advertising fund contributions	10,964	9,487
Distribution revenue and service fees	24,522	19,936
Equipment and turnkey revenue	13,167	5,986
Other revenue	1,489	2,834
Over time:		
Initial franchise fees and renewal fees	889	558
	<b>51,031</b>	<b>38,801</b>

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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:

	<b>12-week period ended Mar 27, 2022</b>	<b>12-week period ended Mar 28, 2021</b>
	<b>\$</b>	<b>\$</b>
Depreciation of plant and equipment	453	450
Depreciation of right-of-use asset	532	508
Employee benefit costs		
Wages and salaries and other termination benefits	6,939	5,831
Pension costs - defined contribution plan	293	197
	<u>7,232</u>	<u>6,028</u>

Employee wages and salaries for the prior year period ended March 28, 2021 are net of wage subsidies of \$860,000 that were received or receivable under federal government subsidy programs in connection with COVID-19. No wage subsidies were received or are receivable in 2022.

**10 Finance expense - net**

	<b>12-week period ended Mar 27, 2022</b>	<b>12-week period ended Mar 28, 2021</b>
	<b>\$</b>	<b>\$</b>
Net interest income	(4)	-
Standby fees	15	15
Interest cost on supplementary retirement benefit plan	113	113
Interest on leases receivable	(5,237)	(4,992)
Interest on lease liabilities	5,400	5,159
Amortization of deferred financing fees	13	9
	<u>300</u>	<u>304</u>

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March 27, 2022

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(figures in tables are expressed in thousands of dollars)**11 Working capital**

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

	<b>12-week period ended Mar 27, 2022</b>	<b>12-week period ended Mar 28, 2021</b>
	\$	\$
Accounts receivable	4,020	1,226
Inventories	(831)	(1,326)
Prepaid expenses	249	342
Accounts payable and accrued liabilities	(912)	(4,131)
Royalties payable	190	(417)
	<u>2,716</u>	<u>(4,306)</u>

**12 Related party transactions and balances**

Royalty expense for the period ended March 27, 2022 was \$10,397,000 (2021 - \$9,081,000), of which \$3,703,000 (January 2, 2022 - \$3,513,000) is payable to the Partnership at March 27, 2022.

During the period ended March 27, 2022, Trade Marks declared two dividends payable to Food Services totaling \$1,119,000 (2021 - \$1,164,000) as a result of Food Services' ownership of Trade Marks' common shares. The second dividend amounted to \$560,000 and was declared on March 7, 2022 but paid to Food Services subsequent to the period end on March 31, 2022 and is therefore reported as a current asset as at March 27, 2022 (January 2, 2022 – \$nil).

During the period ended March 27, 2022, the Fund declared two distributions payable to Food Services totaling \$467,000 (2021 – n/a) as a result of Food Services' ownership of Limited Voting Units. The second distribution amounted to \$234,000 and was declared on March 7, 2022 but paid to Food Services subsequent to the period end on March 31, 2022 and is therefore reported as a current asset as at March 27, 2022 (January 2, 2022 – \$234,000).

During the period ended March 27, 2022, Food Services declared two dividends totaling \$1,586,000 (2021 - \$1,164,000) from working capital to its shareholder. The second dividend amounted to \$793,000 and was declared on March 7, 2022 but paid subsequent to period end on March 31, 2022 and is therefore reported as a current liability as a March 27, 2022 (January 2, 2022 – \$nil).

During the period ended March 27, 2022, Food Services recognized \$44,000 (2021 - \$nil) as an offset to general and administrative expenses related to administrative services provided to Trade Marks, all



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of which is reported in accounts receivable as at March 27, 2022 (January 2, 2022 - \$40,000).

Other related party transactions are disclosed in note 5.

**13 Key management compensation**

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

	<b>12-week period ended Mar 27, 2022 \$</b>	<b>12-week period ended Mar 28, 2021 \$</b>
Salaries, bonuses and other short-term employee benefits	750	831
Pension costs - defined contribution plan	87	38
Pension costs - supplementary retirement benefit plan	113	113
Total	<u>950</u>	<u>982</u>

**14 Share capital**

Authorized

Unlimited number of common shares

Unlimited number of preferred shares

Issued

	<b>Mar 27, 2022 \$</b>	<b>Jan 2, 2022 \$</b>
4,781,250 common shares	<u>20,129</u>	<u>20,129</u>

(figures in tables are expressed in thousands of dollars)

## **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 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 27, 2022, \$7,421,000 (January 2, 2022 – \$6,752,000) 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 23, 2021, Food Services increased its demand operating loan facility with a Canadian chartered bank (the "Bank") from \$25,000,000 to \$40,000,000 to fund working capital requirements and for general corporate purposes (note 6).

### **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.

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## **16 Subsequent events**

On April 6, 2022 Trade Marks declared dividends of \$560,000 on the common shares held by Food Services.

On April 6, 2022, the Fund declared distributions of \$234,000 on the Limited Voting Units held by Food Services.

On April 8, 2022, Trade Marks and Food Services entered into an agreement for Food Services to provide administrative services to Trade Marks (the “Services Agreement”). Under the terms of the Services Agreement, Food Services is entitled to be paid an annual fee, on a quarterly basis, for the services provided in each fiscal year in an amount approved by the board of directors of Trade Marks that is based on a prescribed time and effort computation. The Services Agreement will remain in effect for the duration of the Administration Agreement dated February 15, 2002 between Trade Marks and the Fund, unless terminated by either party by giving 5 years advance written notice to the other party.



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