

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

## **Q3/2021**

### **Consolidated Financial Statements**

For the third quarter ended  
September 12, 2021

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



**A&W Food Services of Canada Inc.  
Report to Unitholders of A&W Revenue Royalties Income Fund  
January 4, 2021 to September 12, 2021**

This report and the interim consolidated financial statements of A&W Food Services of Canada Inc. (“A&W” or “Food Services”) for the third quarter period from June 21, 2021 to September 12, 2021 and the year to date period from January 4, 2021 to September 12, 2021 are provided as a supplement to the interim condensed consolidated financial statements and Management Discussion and Analysis of the A&W Revenue Royalties Income Fund (the “Fund”) for the quarter and year to date period ended September 12, 2021. This report is dated October 19, 2021 and should be read in conjunction with the interim consolidated financial statements of Food Services for the 12 weeks and 36 weeks ended September 12, 2021 and the audited annual consolidated financial statements of Food Services for the 53 weeks ended January 3, 2021. Such financial statements and additional information about the Fund and Food Services are available at [www.sedar.com](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 2020 year was 53 weeks and ended January 3, 2021 (2019 – 52 weeks ended December 29, 2019). Food Services’ third quarter ends 36 weeks after its fiscal year end. System Sales, System Sales Growth and Same Store Sales Growth (defined below) for the 12 weeks and 36 weeks ended September 12, 2021 are compared to the 12 weeks and 36 weeks ended September 6, 2020 so that the two years are comparable. References to year to date amounts in this report are in respect of the period from January 4, 2021 to September 12, 2021.

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

## Financial Highlights

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

<b>(dollars in thousands)</b>	<b>12-week period ended Sep 12, 2021</b>	<b>12-week period ended Sep 6, 2020</b>	<b>36-week period ended Sep 12, 2021</b>	<b>36-week period ended Sep 6, 2020</b>
System Sales <sup>(i)</sup>	<b>\$421,244</b>	\$350,979	<b>\$1,087,397</b>	\$928,346
System Sales Growth <sup>(ii)</sup>	<b>20.0%</b>	-9.1%	<b>17.1%</b>	-13.0%
Same Store Sales Growth <sup>(iii)</sup>	<b>16.8%</b>	-12.7%	<b>14.0%</b>	-16.5%
New restaurants opened	<b>5</b>	4	<b>20</b>	9
Restaurants permanently closed	<b>4</b>	2	<b>9</b>	5
Number of restaurants	<b>1,017</b>	998	<b>1,017</b>	998
Gross sales reported by A&W restaurants in the Royalty Pool <sup>(iv)</sup>	<b>\$409,452</b>	\$340,558	<b>\$1,070,819</b>	\$902,410
Royalty Pool Same Store Sales Growth <sup>(v)</sup>	<b>16.8%</b>	-12.7%	<b>14.0%</b>	-16.5%
Number of restaurants in the Royalty Pool	<b>994</b>	971	<b>994</b>	971
Franchising and corporate restaurant revenue	<b>\$58,611</b>	\$45,633	<b>\$156,505</b>	\$128,123
Operating costs and general and administrative expenses	<b>(35,670)</b>	(25,611)	<b>(100,854)</b>	(85,756)
Depreciation of plant, equipment and right-of-use assets	<b>980</b>	912	<b>2,931</b>	2,754
Earnings before royalty expense, loss on (recovery of) impairment of leases receivable, gain on sale, share of income from associates, interest, taxes, depreciation and amortization	<b>\$23,921</b>	\$20,934	<b>\$58,582</b>	\$45,121
Royalty expense	<b>(12,284)</b>	(10,216)	<b>(31,884)</b>	(27,072)
Net income	<b>\$10,508</b>	\$12,563	<b>\$26,480</b>	\$12,556

Notes:

- (i) “System Sales” is calculated in respect of all A&W restaurants in Canada as the amount of gross sales reported to Food Services by franchisees of such A&W restaurants without audit, verification or other form of independent assurance and the gross sales of A&W restaurants owned and operated by Food Services, in each case, after deducting amounts for discounts for coupons and other promotional offerings and applicable sales taxes. System Sales is a non-IFRS measure – see “Non-IFRS Measures”. Food Services believes System Sales

is a key performance indicator for Food Services as it provides investors with an indication of the sales figures on which Food Services' franchise revenues are based. See "System Sales".

- (ii) "System Sales Growth" is calculated in respect of all A&W Restaurants in Canada as the percentage change in System Sales for the 12 and 36-week periods ended September 12, 2021 compared to the 12 and 36-week periods ended September 6, 2020. System Sales Growth is a non-IFRS measure – see "Non-IFRS Measures". This important information is provided as it is a key driver of growth. See "System Sales".
- (iii) "Same Store Sales" and "Same Store Sales Growth" is calculated as the change in System Sales of A&W restaurants that operated, or were temporarily closed at any point due to COVID-19, during the entire 12 and 36-week periods ending September 12, 2021 and September 6, 2020, and is based on an equal number of days in each quarter and year. Same Store Sales Growth is a non-IFRS measure – see "Non-IFRS Measures". This important information is provided as it is a key driver of growth and provides investors with an indication of the change in year-over-year sales of A&W restaurants. See "Same Store Sales".
- (iv) "Gross sales reported by A&W restaurants in the Royalty Pool" is calculated in respect of A&W restaurants in Canada in the Royalty Pool (as defined below), as the amount of gross sales reported to Food Services by franchisees of such A&W restaurants in the Royalty Pool without audit, verification or other form of independent assurance and the gross sales of A&W restaurants owned and operated by Food Services in the Royalty Pool, in each case, after deducting amounts for discounts for coupons and other promotional offerings and applicable sales taxes. Gross sales reported by A&W restaurants in the Royalty Pool is reported for the Fund's third quarters and year to date periods ended September 12, 2021 and September 6, 2020. The Fund's fiscal year begins on January 1 and therefore the Gross sales reported by A&W restaurants in the Royalty Pool for 2021 are not directly comparable to 2020 as there were 87 days of sales in Q1 2021 compared to 82 days in Q1 2020. "Gross sales reported by A&W restaurants in the Royalty Pool" is a non-IFRS measure – see "Non-IFRS Measures".
- (v) "Royalty Pool Same Store Sales Growth" is calculated as the change in Gross sales reported by A&W restaurants in the Royalty Pool that operated, or were temporarily closed at any point due to COVID-19, during the entire 12 and 36-week periods ending September 12, 2021 and September 6, 2020, and is based on an equal number of days in each quarter and year. Royalty Pool Same Store Sales Growth is a non-IFRS measure – see "Non-IFRS Measures".

## Same Store Sales

As noted above, Same Store Sales Growth<sup>(iii)</sup> is the change in gross sales of A&W restaurants that operated, or were temporarily closed at any point due to COVID-19, during the entire 12 and 36-week periods ended September 12, 2021 and September 6, 2020.

Same Store Sales<sup>(iii)</sup> for the third quarter of 2021 increased by 16.8% as compared to the same quarter of 2020. Same Store Sales<sup>(iii)</sup> for the 36-week period ended September 12, 2021 increased by 14.0% as compared to the comparable period in 2020. The growth in Same Store Sales<sup>(iii)</sup> in the quarter was largely fueled by the lifting of public health restrictions related to COVID-19 across Canada which led to increased guest counts and a reduction in the number of A&W restaurants that were temporarily closed or were not able to offer dine-in services. As at September 12, 2021, only two restaurants remained temporarily closed. As at October 19, 2021, one of those restaurants remained temporarily closed. See "Impact of COVID-19".

The actions required in 2020 and 2021 in response to COVID-19 have 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 Same Store Sales<sup>(iii)</sup> has lessened.

## System Sales

System Sales<sup>(i)</sup> for all A&W restaurants in Canada for the third quarter were \$421,244,000, an increase of 20.0% or \$70,265,000 from the third quarter of 2020. Year to date, System Sales<sup>(i)</sup> were \$1,087,397,000, an increase of 17.1% or \$159,051,000 from the comparable period in 2020. The increase in System Sales<sup>(i)</sup> was due to the more pronounced impact of COVID-19 on

2020 sales as well as the net addition of new restaurants. See “Impact of COVID-19”, “New Restaurant Openings and Permanent Restaurant Closures”, “Financial Highlights” and “Non-IFRS Measures” for further information.

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

Food Services opened five new A&W restaurants in third quarter of 2021, compared to four openings in the same quarter of 2020. Four restaurants were permanently closed in the quarter, compared to two in the third quarter of 2020. Year to date, twenty new restaurants have been opened in 2021 compared to nine in the comparable period in 2020, and nine restaurants were permanently closed in 2021 compared to five in the comparable period of 2020. As at September 12, 2021, there were 1,017 A&W restaurants in Canada, of which 1,007 were operated by franchisees and 10 were corporately owned and operated.

### **Overview**

Food Services is the franchisor of the A&W restaurant chain in Canada. Food Services’ revenue consists of service fees from franchised restaurants, revenue from the sale of food and supplies to franchisees and distributors, revenue from the opening of new franchised restaurants, revenue from company-owned restaurants, and revenue from sales of A&W Root Beer concentrate to licensed bottlers who produce and distribute A&W Root Beer for sale in retail grocery stores.

Food Services’ operating costs include the cost of materials, supplies and equipment sold either directly to franchisees or to distributors that service the restaurants or that are sold to the licensed bottlers, and costs of sales and other expenses of the restaurants operated corporately by Food Services. General and administrative expenses are expenses associated with providing services to the franchised A&W restaurants and establishing new A&W restaurants.

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

### **Impact of COVID-19**

The effects of COVID-19 on many businesses, especially restaurants, have been unexpected, sudden and unprecedented. The future effect of COVID-19 on Canadians, in general, 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.

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. 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. With the easing of COVID-19 related public health restrictions in the second and third quarters of 2021, a number of restaurants that were temporarily closed have been able to re-open and more restaurants have been able to offer dine-in service. As at September 12, 2021 only two A&W restaurants remained temporarily closed (42 as at December 31, 2020) due to COVID-19 restrictions. As at October 19, 2021, one of those restaurants remained temporarily closed. The temporarily closed A&W restaurant is expected to reopen

when permitted to do so however it is possible that the number of temporarily closed restaurants could increase again as the situation evolves.

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 enhancing the A&W mobile app. Food Services and its franchisees also continue to take and maintain significant measures in their restaurants and broader operations to protect the health of employees and guests in compliance with physical distancing recommendations and other mandates of relevant public health authorities, such as the requirement for dine-in guests to show proof of vaccination in certain jurisdictions. 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, as at September 12, 2021 most of those programs are winding down. See “Risks and Uncertainties”.

In March 2020, and as a response to the sudden onset of COVID-19, the Fund temporarily suspended monthly distributions on the units of the Fund (“Units”); 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. The monthly distribution rate was increased to 13.5¢ per Unit beginning with the February 2021 distribution that was paid March 31, 2021 and then increased to 15.0¢ per Unit beginning with the July distribution that was paid on August 31, 2021. The monthly distribution rate will be increased again to 15.5¢ per Unit beginning with the October 2021 distribution that is payable on November 30, 2021.

Food Services is the head lessee for the majority of its franchised locations and enters into agreements whereby Food Services licences the premises to the franchisee, for which Food Services receives a premises licence fee from its franchisees. Under the licence agreement, the franchisee is responsible for the obligations under the lease. IFRS 16 requires Food Services, where it acts as the intermediate lessor, to recognize a lease liability and a corresponding lease receivable. 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 long-term leases receivable of \$4,281,000 as at September 12, 2021 (January 3, 2021 - \$4,281,000). Management updated its expected credit loss model and did not identify any impairment for the year to date period ended September 12, 2021 (loss on impairment of receivables of \$5,231,000 recognized for the year to date period ended September 6, 2020).

### **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 2021 annual adjustment to the Royalty Pool took place on January 5, 2021. The number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants less 11 restaurants that permanently closed during 2020. The estimated annual sales of the 34 new A&W restaurants are \$45,248,000 at the time they were added to the Royalty Pool and annual sales for the 11 permanently closed restaurants were \$6,199,000 based on their sales during the first year such restaurants were included in the Royalty Pool. The initial consideration for the estimated additional royalty stream was \$16,588,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the Units for the 20 trading days ending October 26, 2020. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$13,271,000, by issuance of 465,316 LP units which were subsequently exchanged for 930,632 non-voting common shares of Trade Marks. The remaining consideration payable to Food Services for the January 5, 2021 adjustment to the Royalty Pool of \$3,318,000 is to be paid by issuance of additional LP units, which issuance is held back until the number of LP units is determined in December 2021 based on the actual annual sales reported by the new restaurants. Food Services has recorded the \$3,318,000 receivable as a current asset as at September 12, 2021 (January 3, 2021 - \$nil). The actual amount of the consideration paid in December 2021 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants that were added to the Royalty Pool on January 5, 2021.

After the initial consideration was paid for the January 5, 2021 adjustment to the Royalty Pool, but excluding the issuance of the excess exchangeable LP units that represent the remaining 20% of the initial consideration that are payable in December 2021, Food Services' indirect interest in the Fund increased to 26.0% on a fully diluted basis (24.2% as of January 3, 2021).

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 Report to Unitholders of A&W Revenue Royalties Income Fund for the second quarter ended June 20, 2021, available at [www.sedar.com](http://www.sedar.com) or [www.awincomefund.ca](http://www.awincomefund.ca).

Prior to the Reorganization, Food Services owned 26.0% of the exchangeable common shares of Trade Marks which equated to Food Services owning 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 represent the remaining 20% of the initial consideration for the January 5, 2021 adjustment to the Royalty Pool that are payable in December 2021, Food Services owned 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 are payable in December 2021, Food Services' ownership in the outstanding voting securities of the Fund is approximately 23.8% on a fully diluted basis (26.5% prior to the Reorganization).

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.

### Common Shares of A&W Trade Marks Inc.

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

(dollars in thousands)	Fund			Food Services			Total	
	Number of shares	Trade Marks' book value \$	%	Number of shares	Trade Marks' book value \$	%	Number of shares	Trade Marks' book value \$
Balance as at December 29, 2019	28,129,271	164,605	79.1	7,453,763	95,339	20.9	35,583,034	259,944
January 5, 2020 adjustment to the Royalty Pool <sup>(1)</sup>	-	-	(3.3)	1,519,260	28,881	3.3	1,519,260	28,881
Balance as at January 3, 2021	28,129,271	164,605	75.8	8,973,023	124,220	24.2	37,102,294	288,825
January 5, 2021 adjustment to the Royalty Pool <sup>(2)</sup>	-	-	(1.8)	930,632	13,271	1.8	930,632	13,271
April 16, 2021 exchange of common shares of Trade Mark for Trust Units	4,056,040	63,193	10.6	(4,056,040)	(63,193)	(10.6)	-	-
Balance as at September 12, 2021	32,185,311	227,798	84.6	5,847,615	74,298	15.4	38,032,926	302,096

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

<sup>(2)</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, 2021 adjustment to the



Royalty Pool, which LP units, if any, are held back until the number of LP units is determined in December 2021 based on the actual annual sales reported by the new restaurants. See “Adjustment to the Royalty Pool”.

### Ownership of the Fund

The table below shows the ownership of the Fund as of September 12, 2021 and January 3, 2021 on a fully-diluted basis, where the ownership of the Fund as at September 12, 2021 includes 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 are payable to Food Services in December 2021.

	September 12, 2021		January 3, 2021	
	Number of units	%	Number of units	%
Units held by public unitholders	14,585,673	76.2	14,064,673	75.8
Limited Voting Units held by Food Services <sup>(1)</sup>	1,507,020	7.9	-	-
Number of Trust Units issuable upon exchange of securities of Trade Marks held by Food Services <sup>(2)</sup>	3,040,137	15.9	4,486,512	24.2
Total equivalent units	19,132,830	100.0	18,551,185	100.0

<sup>(1)</sup> Limited Voting Units 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.

### Q3 2021 Operating Results

#### Revenue

Food Services’ franchising and corporate restaurants revenue for the third quarter of 2021 was \$58,611,000 compared to \$45,633,000 for the third quarter of 2020. Year to date total revenue was \$156,505,000 compared to \$128,123,000.

Franchising revenue for the quarter was \$53,857,000 compared to \$41,802,000 for the third quarter of 2020, an increase of \$12,055,000. Year to date franchising revenue was \$144,485,000 compared to \$117,700,000 in the comparable period of 2020, an increase of \$26,785,000. The increase in franchising revenue in the quarter and year to date period is attributable to higher service fees, advertising fund contributions and revenue related to the distribution of food and supplies as a result of the increase in System Sales<sup>(i)</sup> as well as an increase in revenue for equipment sales and initial fees for new restaurants due to the increase in the number of restaurants opened in 2021, as compared to the comparable periods in 2020.

Corporate restaurant System Sales<sup>(i)</sup> were \$4,754,000 in the third quarter of 2021 compared to \$3,831,000 in the third quarter of 2020 and \$12,020,000 in 2021 year to date compared to \$10,423,000 in 2020 year to date. The \$923,000 increase in the quarter and \$1,597,000 increase in the year to date period over the comparable periods in 2020 was due to the opening of a new corporate restaurant in the first quarter of 2021 and higher sales in freestanding corporate restaurants, partially offset by lost sales due to one corporate restaurant being closed for several months in 2021 while it was being relocated as well as a reduction in sales from corporate restaurants located in shopping centres.

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

Operating costs for the third quarter of 2021 were \$27,463,000 compared to \$19,334,000 for the third quarter of 2020, an increase of \$8,129,000. Year to date operating costs were \$75,800,000 compared to \$63,178,000 for 2020 year to date, an increase of \$12,622,000. The increase in the quarter and year to date period over the comparable periods in 2020 is primarily attributable to increases in advertising expenses incurred by the National Advertising Fund, turnkey construction costs and costs of sales of equipment, all of which are in line with the increase in revenue noted above. Corporate restaurant operating expenses have also increased due to the new restaurant opened in the first quarter of 2021.

General and administrative expenses represent costs of providing services to franchised restaurants and establishing new restaurants, and were \$8,207,000 for the third quarter of 2021 compared to \$6,277,000 for the third quarter of 2020, an increase of \$1,930,000. Year to date general and administrative expenses were \$25,054,000 for 2021 compared to \$22,578,000 for 2020, an increase of \$2,476,000. Operating costs and general and administrative expenses in the third quarter of 2021 are net of wage subsidies totaling \$239,000 (2020 - \$1,635,000) and rent subsidies totaling \$267,000 (2020 - \$nil) which were received or are receivable under federal government subsidy programs in connection with COVID-19. Year to date operating costs and general and administrative expenses for 2021 are net of wage subsidies totaling \$1,314,000 (2020 - \$4,139,000) and rent subsidies totaling \$470,000 (2020 - \$nil).

### **Operating earnings**

(dollars in thousands)	12-week period ended Sep 12, 2021	12-week period ended Sep 6, 2020	36-week period ended Sep 12, 2021	36-week period ended Sep 6, 2020
Franchising and corporate restaurant revenue	\$58,611	\$45,633	\$156,505	\$128,123
Operating costs and general and administrative expenses	(35,670)	(25,611)	(100,854)	(85,756)
Depreciation of plant, equipment and right-of-use assets	980	912	2,931	2,754
Earnings before royalty expense, loss on (recovery of) impairment of lease receivables, gain on sale, share of income from associates, interest, taxes, depreciation and amortization	\$23,921	\$20,934	\$58,582	\$45,121

Operating earnings for the third quarter of 2021 increased by \$2,987,000 to \$23,921,000 as compared to \$20,934,000 for the third quarter of 2020. Year to date operating earnings increased by \$13,461,000 to \$58,582,000 as compared to \$45,121,000 in the 2020 year to date period. The operating margin for 2021 year to date was 37.4% compared to 35.2% for 2020 year to date due to the increase in revenues, partially offset by the increase in operating costs and general and administrative expenses and the reduction in government subsidies received.

### **Royalty expense**

Royalty expense for the third quarter of 2021 was \$12,284,000 compared to royalty expense of \$10,216,000 for the third quarter of 2020. Year to date, royalty expense for 2021 was \$31,884,000 compared to \$27,072,000 for 2020. The increase in royalty expense in the quarter

and year to date period is attributable to the increase in Gross sales reported by A&W restaurants in the Royalty Pool<sup>(iv)</sup> which was driven by the increase in Royalty Pool Same Store Sales Growth<sup>(v)</sup> and the gross sales from the additional net 23 new restaurants added to the Royalty Pool on January 5, 2021. See “Impact of COVID-19”. It is important to note that the royalty expense for the 2021 year to date period 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<sup>(iv)</sup> from January 1, 2021 to September 12, 2021 whereas the royalty expense is based on Gross sales reported by A&W restaurants in the Royalty Pool<sup>(iv)</sup> from January 4, 2021 to September 12, 2021.

### **Earnings after royalty expense**

(dollars in thousands)	12-week period ended Sep 12, 2021	12-week period ended Sep 6, 2020	36-week period ended Sep 12, 2021	36-week period ended Sep 6, 2020
Earnings before royalty expense, loss on (recovery of) impairment of lease receivables, gain on sale, share of income from associates, interest, taxes, depreciation and amortization	\$23,921	\$20,934	\$58,582	\$45,121
Royalty expense	(12,284)	(10,216)	(31,884)	(27,072)
Earnings after royalty expense (before loss on (recovery of) impairment of lease receivables, gain on sale, share of income from associates, interest, taxes, depreciation and amortization)	\$11,637	\$10,718	\$26,698	\$18,049

Earnings after royalty expense increased by \$919,000 to \$11,637,000 for the third quarter of 2021 compared to \$10,718,000 for the third quarter of 2020. Year to date, earnings after royalty expense increased by \$8,649,000 to \$26,698,000 from \$18,049,000 in 2020. The year to date increase was attributable to the \$13,461,000 increase in operating earnings, partially offset by the \$4,812,000 increase in royalty expense. See “Financial Highlights” and “Non-IFRS Measures” for further information.

### **Loss on (recovery of) 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. As a result of the unprecedented impact of COVID-19, Food Services has developed a risk matrix used to assess the credit risk of all head leases. Food Services recorded an expected credit loss provision on long-term leases receivable of \$4,281,000 as at September 12, 2021 (January 3, 2021 - \$4,281,000). Management updated its expected credit loss model and did not identify any impairment in the third quarter or year to date period ended September 12, 2021. A loss on impairment of receivables of \$5,231,000 was recognized in the year to date period ended September 6, 2020. The recovery of \$2,664,000 recorded in the

third quarter of 2020 reflects a partial reversal of the credit loss provision of \$11,765,000 recorded in the first quarter of 2020.

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

(dollars in thousands)	12-week period ended Sep 12, 2021	12-week period ended Sep 6, 2020	36-week period ended Sep 12, 2021	36-week period ended Sep 6, 2020
Net interest expense (income)	\$3	(\$6)	\$23	(\$39)
Standby fees	24	13	53	23
Interest on deferred royalties	-	105	-	105
Interest cost on supplementary retirement benefit plan	113	113	339	339
Interest on leases receivable	(4,996)	(4,847)	(15,005)	(14,370)
Interest on lease liabilities	5,167	4,911	15,515	14,856
Amortization of deferred financing fees	12	12	31	12
	<b>\$323</b>	<b>\$301</b>	<b>\$956</b>	<b>\$926</b>

Net interest expense increased by \$22,000 for the third quarter of 2021 as compared to the third quarter of 2020 and increased by \$30,000 year over year. The quarter and year to date increase is primarily attributable to the interest income and expense related to leases receivable and lease liabilities and higher standby fees and amortization of deferred financing fees related to the increase to Food Services credit facility in April 2021. See “Liquidity and Capital Resources”.

In response to the onset of COVID-19, Food Services deferred royalty payments totaling \$7,448,000 payable to the Fund for gross sales reported by restaurants in the royalty pool for the period from February 24, 2020 to May 17, 2020. As contemplated in the Amended and Restated Licence and Royalty Agreement, late payments of royalties accrue interest at the rate of 2% per annum over the prime rate. During the quarter and year to date period ended September 6, 2020, Food Services recorded \$105,000 in interest expense related to the deferred royalty payments. On December 3, 2020, Food Services paid the previously deferred royalty payments totaling \$7,448,000 plus accrued interest of \$184,000.

### ***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 September 12, 2021 Food Services had a 15.4% investment in Trade Marks (January 3, 2021 – 24.2%) and a 9.4% investment in the Fund (January 3, 2021 – n/a).

Food Services’ share of income from associates for the third quarter of 2021 totaled \$2,078,000 compared to \$1,764,000 for the third quarter of 2020. The share of income from associates for the year to date period in 2021 totaled \$5,446,000 compared to \$4,054,000 for the year to date period in 2020. The increase is primarily attributable to an increase in the earnings of Trade Marks and the Fund due to higher royalty income due to the increase in Gross sales reported by A&W restaurants in the Royalty Pool<sup>(iv)</sup>.

## Net income

(dollars in thousands)	12-week period ended Sep 12, 2021	12-week period ended Sep 6, 2020	36-week period ended Sep 12, 2021	36-week period ended Sep 6, 2020
Earnings after royalty expense (before recovery of (loss on) impairment of lease receivables, gain on sale, share of income from associates, interest, taxes, depreciation and amortization)	\$11,637	\$10,718	\$26,698	\$18,049
Recovery of (loss on) impairment of lease receivables	-	2,664	-	(5,231)
Finance expense - net	(323)	(301)	(956)	(926)
Depreciation of plant, equipment and right-of-use assets	(980)	(912)	(2,931)	(2,754)
Amortization of deferred gain	723	676	2,170	2,028
Gain on sale	-	-	2,670	-
Share of income from associates	2,078	1,764	5,446	4,054
Income before income taxes	13,135	14,609	33,097	15,220
Provision for income taxes	2,627	2,046	6,617	2,664
Net income for the period	\$10,508	\$12,563	\$26,480	\$12,556

The \$17,877,000 increase in income before income taxes and in net income for the year to date period ended September 12, 2021, as compared to the comparable period in 2020, is primarily attributable to the \$8,649,000 increase in earnings after royalty expense, the \$2,670,000 gain on sale, the \$5,231,000 decrease in the loss on impairment of lease receivables and the \$1,392,000 increase in income from associates.

## Net income attributable to non-controlling interests

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

## Other comprehensive loss

Other comprehensive loss consists of actuarial gains and losses, net of tax, on the supplementary retirement benefit plan. Actuarial gains result from an increase in the discount rate used to determine the accrued benefit obligation and actuarial losses result from a decrease in the discount rate. There was an actuarial loss, net of tax, of \$227,000 recognized in the third quarter of 2021 (2020 – loss, net of tax, of \$715,000). Year to date there was an actuarial gain, net of tax, of \$757,000 (2020 – loss, net of tax, of \$715,000).

## Liquidity and Capital Resources

Food Services is primarily a franchise business with 1,007 of its 1,017 restaurants franchised. Food Services' capital requirements are related to its corporate restaurants and head office and investments in technology and information. Future restaurant growth is expected to continue to be funded by franchisees although from time to time, Food Services expects to incur capital expenditures to open new corporate restaurants in the Ottawa market. Food Services expects to

have sufficient capital resources to fund these capital requirements and has sufficient cash on hand to meet its obligations.

On April 23, 2021, Food Services increased its credit facility from \$25,000,000 to \$40,000,000 (January 3, 2021 - \$25,000,000) 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 September 12, 2021, Food Services had not drawn on the credit facility and had letters of credit totaling \$36,000 (January 3, 2021 - \$36,000) that had been issued by the Bank to cities for development of new restaurants, leaving \$39,964,000 of the facility available (January 3, 2021 - \$24,964,000). Food Services was in compliance with all of its financial covenants as at October 19, 2021, September 12, 2021 and January 3, 2021.

In the second quarter of 2020, and shortly after the onset of COVID-19 in Canada, Food Services' shareholder invested \$10 million of common equity in the company to ensure sufficient liquidity during the period of uncertainty caused by COVID-19. In the second quarter of 2021, Food Services returned \$371,000 in capital to its shareholder.

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

Food Services has no off-balance sheet arrangements.

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

Royalty expense for the year to date period ended September 12, 2021 was \$31,884,000 (2020 - \$27,072,000), of which \$4,131,000 (January 3, 2021- \$3,692,000) is payable to the Partnership at September 12, 2021. Royalty expense for the quarter was \$12,284,000 (2020 - \$10,216,000).

In response to the onset of COVID-19, during the comparative year to date period ended September 6, 2020, Food Services deferred royalty payments totaling \$7,448,000 payable to the Fund for gross sales reported by restaurants in the royalty pool for the period from February 24, 2020 to May 17, 2020. As contemplated in the Amended and Restated Licence and Royalty Agreement, late payments of royalties accrue interest at the rate of 2% per annum over the prime rate. During the quarter and year to date period ended September 6, 2020, Food Services recorded \$105,000 in interest expense related to the deferred royalty payments. On December 3, 2020, Food Services paid the previously deferred royalty payments totaling \$7,448,000 plus accrued interest of \$184,000. Food Services did not defer any royalty payments during the year to date period ended September 12, 2021.

During the year to date period ended September 12, 2021, Trade Marks declared common share dividends payable to Food Services of \$3,893,000 (2020 - \$2,682,000). Dividends declared payable by Trade Marks to Food Services during the quarter were \$1,272,000 (2020 - \$1,302,000). The \$439,000 dividend declared on September 3, 2021 was paid to Food Services subsequent to the period end on September 30, 2021 is reported as a current asset as at September 12, 2021 (December 31, 2020 – \$nil). In 2020, Food Services agreed with the Fund

and Trade Marks that dividends declared on the common shares of Trade Marks held by Food Services would not be paid to Food Services until Food Services had paid all deferred royalties together with interest. Therefore, the dividends declared payable to Food Services during the quarter ended September 6, 2020 of \$1,302,000 were paid in the fourth quarter of 2020.

During the year to date period ended September 12, 2021, the Fund declared distributions payable to Food Services of \$1,062,000 (2020 – n/a) as a result of Food Services' ownership of Limited Voting Units. Distributions declared payable by the Fund to Food Services during the quarter were \$656,000 (2020 – n/a). The \$226,000 distribution declared on September 3, 2021 was paid to Food Services subsequent to the period end on September 30, 2021 is reported as a current asset as at September 12, 2021 (December 31, 2020 – n/a).

During the year to date period ended September 12, 2021, Food Services declared and paid cash dividends of \$51,027,000 and non-cash dividends of \$17,092,000 to its shareholder. Of the \$68,119,000 of total dividends declared in the year to date period ended September 12, 2021, \$66,287,000 related to the Reorganization transaction that occurred on April 16, 2021 (note 5). Cash dividends totaling \$1,380,000 were declared and paid in the year to date period ended September 6, 2020. No dividends were declared in the quarter (2020 - \$nil).

During the 2020 year to date period, Food Service paid \$125,000 to a professional baseball club, of which a shareholder and director of Food Services is a part owner, in exchange for advertising the A&W brand at the ballpark. The amount paid during the 2021 period was \$nil. At September 12, 2021, \$nil (January 3, 2021 - \$nil) is payable to the baseball club by Food Services.

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

### **Critical Accounting Estimates**

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

### **Risks and Uncertainties**

#### ***COVID-19***

Since March 2020, the COVID-19 pandemic has had significant impacts on the Canadian economy, the QSR industry, and the willingness of the general public to dine outside their homes and travel. These have negatively impacted Food Services, its franchisees and the Fund (including Trade Marks and the Partnership), and have adversely affected each of their respective

investments, results of operations and financial condition. Restrictions on the operations of A&W restaurants in response to COVID-19, as well as temporary restaurant closures and vaccine passport mandates, continue to impact system sales at A&W restaurants in 2021. System sales drive the fees payable to Food Services by its franchisees and the amount of royalties payable to the Fund (through the Partnership), and correspondingly, the funds available to be paid as dividends by Trade Marks to Food Services and the Fund and available to distribute to unitholders of the Fund. Food Services may become liable for the lease obligations of certain of its franchisees, if such franchisees default on their leases as a result of the impacts of COVID-19 or otherwise, and such obligations may be significant and Food Services may be unsuccessful in seeking recovery from such franchisees, all of which may adversely affect Food Services' investments, results of operations and financial condition. Food Services' projections may be inaccurate, and do not represent a financial forecast and actual results may differ materially from those anticipated by the projections. Monthly distributions on Units are not guaranteed and may be reduced, suspended or terminated at any time. Recent sales improvements A&W restaurants may not continue and may slow or regress. The A&W restaurant that is currently temporarily closed may not reopen, and further locations may close temporarily or permanently due to the impacts of COVID-19. Government restrictions related to COVID-19 may have their durations extended, or may be reinstated in the case of those that have recently been lifted, which measures may restrict the ability of A&W restaurants to operate, or result in forced closures, further reduced guest traffic, supply interruptions or staff shortages. Government programs expected to be helpful to A&W franchisees may not be available to some franchisees, and may not be available in amounts expected for those franchisees for which such programs are available and may be terminated at any time.

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



## Outlook

Food Services believes that the food service industry, and more particularly the quick service restaurant (QSR) segment of the industry, will recover from the impact of COVID-19. However, the timing and strength of the recovery cannot yet be predicted with any degree of certainty. Against this backdrop, the success of the A&W brand and individual franchised A&W restaurants is paramount to the long-term success of the overall A&W system and, in turn, to the Fund. Both Food Services and its franchisees have worked diligently to develop and implement plans and programs to mitigate the effects of the COVID-19 pandemic. Food Services' objective is to ensure that as many as possible of A&W's 1,017 restaurants are able to safely operate (as permitted by health authorities and government regulations mandated from time to time) with the objective of emerging from this period of uncertainty in financial condition that enables them to compete effectively and grow their businesses.

Food Services believes that its mission "To become #1 with millennial burger lovers, chosen and trusted for truly good food and the convenience they crave" will help it to 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 became the first and only national burger chain in Canada to serve beef raised without artificial hormones or steroids, and since then Food Services has introduced countless other natural ingredient firsts; including chicken raised without the use of antibiotics, Organic Fairtrade coffee, 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, including a limited time offer of Beyond Meat<sup>(1)</sup> Nuggets in 2021.

<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.

A&W continues to innovate to serve the increasing number of guests that are mobile app users and offered its mobile app users unlimited free coffee for the month of March 2021 through a trial of the A&W 'Sipscription', a coffee subscription program. On April 1, 2021 Food Services announced that it is expanding the beverage offerings at A&W restaurants with the phased rollout of the A&W Brew Bar<sup>TM</sup>. 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 60 A&W restaurants across the country.

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

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

Food Services has continued to grow new A&W restaurants, particularly in the key Ontario and Quebec markets. As at September 12, 2021, twenty new restaurants had been opened across the country in 2021, five of which opened in the third quarter, and an additional 20 restaurants were under construction.

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

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

### **Non-IFRS Measures**

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

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

### **FORWARD LOOKING INFORMATION**

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

The forward-looking information in this report includes, but is not limited to: the expectation that currently closed A&W restaurants will reopen when they are able to do so; the expectation that the 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 expectation that the monthly distributions will be increased from 15.0¢ per Unit to 15.5¢ per Unit

beginning with the October 2021 distribution that is payable November 30, 2021; expectations with respect to timing for the payment of the remaining \$3,318,000 by the Partnership to Food Services and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants; the impact of COVID-19, including its impact on the global economy in general and on the businesses of Food Services and A&W franchisees in particular; statements with respect to government restrictions on business operations, and in particular restaurants; statements regarding the extent to which the COVID-19 pandemic will alter consumer behaviour and demand for QSR services; expectations regarding improvements in sales trends at A&W restaurants; statements regarding the duration of various government support programs; Food Services' expectation that the food service industry, and more particularly the QSR segment, will recover; the success of the A&W brand and individual franchised restaurants being paramount to the long-term success of the overall A&W system and, in turn, to the unitholders of the Fund; Food Services' objectives with respect to the A&W restaurants and its planned strategies to achieve those objectives; statements regarding future restrictions on the operations of A&W restaurants as well as temporary restaurant closures and the corresponding reductions to the amounts of royalties payable to and earned by the Fund, as well as funds available to distribute to unitholders of the Fund; the expectation that Trade Marks will remain in compliance with all covenants related to its term debt based on current projections; the expectation that Food Services will remain in compliance with all covenants related to its operating loan facility based on current projections; the expectation that the remaining 20% of the initial consideration payable to Food Services in respect of the January 5, 2021 adjustment to the Royalty Pool will be paid in December 2021, and that the amount thereof may vary depending on the actual annual sales report by the new A&W restaurants; Food Services' expectation that future restaurant growth will be funded by franchisees; Food Services' expectation that it will incur capital expenditures to open new corporate restaurants in the Ottawa market and that it will have sufficient capital resources to fund these capital requirements; Food Services' belief that its mission "to become #1 with millennial burger lovers, chosen and trusted for truly good food and the convenience they crave" will help it to 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; and Food Services remaining committed to the long-term health and success of its franchise network and the Fund.

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

- the general risks that affect the restaurant industry will not arise, other than those related to COVID-19;
- there are no changes in availability of experienced management and hourly employees;
- there are no material changes in government regulations concerning menu labelling and disclosure and drive-thru restrictions;
- no publicity from any food borne illness;
- no material changes in competition;
- no material increases in food and labour costs;
- the continued availability of quality raw materials;
- continued additional franchise sales and maintenance of franchise operations;
- Food Services is able to maintain and grow the current system of franchises;
- Food Services is able to locate new retail sites in desirable locations;
- Food Services is able to obtain qualified operators to become A&W franchisees;
- no material impact from new or increased sales taxes upon gross sales;
- continued availability of key personnel;
- continued ability to preserve intellectual property;
- no material litigation from guests at A&W restaurants;
- Food Services continues to pay the royalty;
- Food Services can continue to comply with its obligations under its credit arrangements;

- Trade Marks can continue to comply with its obligations and covenants under its credit arrangements;
- current store closures will be temporary and restaurant performance will continue to improve;
- the Fund will receive sufficient revenue in the future (in the form of royalty payments from Food Services) to maintain the payment of monthly distributions;
- the projections for the A&W business provided by Food Services are accurate;
- the impacts of the COVID-19 pandemic on the A&W system will not significantly worsen;
- the remaining 20% of the initial consideration payable to Food Services in respect of the January 5, 2021 adjustment to the Royalty Pool will be paid in December 2021; and
- Food Services will be successful in executing on its business strategies and such strategies will achieve their intended results.

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

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

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

- dependence of the Fund on Trade Marks, Partnership and Food Services;
- dependence of the Partnership on Food Services;
- risks related to leverage and restrictive covenants;
- the risk that cash distributions are not guaranteed and will fluctuate with the Partnership's performance and could be reduced or suspended at any time;

- risks related to the unpredictability and volatility of Unit prices;
- risks related to the nature of Units;
- risks related to the distribution of securities on redemption or termination of the Fund;
- risks related to the Fund issuing additional Units diluting existing unitholders' interests;
- risks related to income tax matters and investment eligibility;
- risks related to the limitations of internal controls over financial reporting;
- risks related to COVID-19 set forth in this report, including under the headings "Risks and Uncertainties – COVID-19" and "Impact of COVID-19"; and
- risks related to Food Services not meeting its objectives, and the possibility that its strategies to meet its objectives may not be successful.

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

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

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

(in thousands of dollars)

	Note	September 12, 2021	January 3, 2021
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 14,807	\$ 39,569
Accounts receivable		29,512	22,485
Promissory notes	5	1,882	-
Dividends and distributions receivable	12	665	-
Leases receivable	4	27,466	27,657
Inventories		10,182	5,852
Prepaid expenses		3,281	1,377
Other assets	5	3,318	-
		91,113	96,940
<b>Non-current assets</b>			
Investments in associates	5	119,772	122,041
Deferred income taxes		31,514	24,240
Right-of-use asset	4	20,079	19,980
Leases receivable	4	550,569	548,104
Plant and equipment		12,263	11,087
<b>Total assets</b>		<b>\$ 825,310</b>	<b>\$ 822,392</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 42,034	\$ 36,361
Royalties payable	12	4,131	3,692
Lease liabilities	4	29,611	30,328
Deposits on franchise and equipment sales		23,290	10,088
Deferred revenue		2,445	3,549
Income taxes payable		9,684	1,184
		111,195	85,202
<b>Non-current liabilities</b>			
Deferred gain	5	248,864	234,446
Deferred revenue		27,724	26,019
Lease liabilities	4	573,001	569,673
Supplementary retirement benefit plan		13,509	14,775
Other long-term liabilities		31	38
		974,324	930,153
<b>Shareholders' Deficiency</b>			
Share capital	14	20,129	20,500
Accumulated deficit		(170,145)	(128,410)
		(150,016)	(107,910)
<b>Non-controlling interest</b>			
		1,002	149
<b>Total deficiency</b>		<b>(149,014)</b>	<b>(107,761)</b>
<b>Total liabilities and deficiency</b>		<b>\$ 825,310</b>	<b>\$ 822,392</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.

The accompanying notes form an integral part of these interim condensed consolidated 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 Sep 12, 2021	12 week period ended Sep 6, 2020	36 week period ended Sep 12, 2021	36 week period ended Sep 6, 2020
<b>Revenue</b>					
Franchising	8	\$ 53,857	\$ 41,802	\$ 144,485	\$ 117,700
Corporate restaurants		4,754	3,831	12,020	10,423
		58,611	45,633	156,505	128,123
<b>Expenses (income)</b>					
Operating costs	9	27,463	19,334	75,800	63,178
General and administrative expenses	9	8,207	6,277	25,054	22,578
Royalty expense	12	12,284	10,216	31,884	27,072
Loss on (recovery of) impairment of leases receivable	4	-	(2,664)	-	5,231
Finance expense - net	10	323	301	956	926
Amortization of deferred gain	5	(723)	(676)	(2,170)	(2,028)
Gain on sale	5	-	-	(2,670)	-
Share of income from associates	5	(2,078)	(1,764)	(5,446)	(4,054)
		45,476	31,024	123,408	112,903
<b>Income before income taxes</b>		13,135	14,609	33,097	15,220
<b>Provision for (recovery of) income taxes</b>					
Current		3,241	1,837	14,183	4,056
Deferred		(614)	209	(7,566)	(1,392)
		2,627	2,046	6,617	2,664
<b>Net income for the period</b>		\$ 10,508	\$ 12,563	\$ 26,480	\$ 12,556
<b>Net income attributable to:</b>					
Shareholders of A&W Food Services of Canada Inc.		\$ 10,030	\$ 12,373	\$ 25,627	\$ 11,986
Non-controlling interest		478	190	853	570
		\$ 10,508	\$ 12,563	\$ 26,480	\$ 12,556

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

(in thousands of dollars)

	12 week period ended Sep 12, 2021	12 week period ended Sep 6, 2020	36 week period ended Sep 12, 2021	36 week period ended Sep 6, 2020
<b>Net income for the period</b>	\$ 10,508	\$ 12,563	\$ 26,480	\$ 12,556
<b>Other comprehensive income</b>				
<b>Items that will not be reclassified to net income</b>				
Actuarial gain (loss) on supplementary retirement benefit plan - net of tax	(227)	(715)	757	(715)
<b>Comprehensive income</b>	\$ 10,281	\$ 11,848	\$ 27,237	\$ 11,841
<b>Comprehensive income attributable to:</b>				
Shareholders of A&W Food Services of Canada Inc.	\$ 9,803	\$ 11,658	\$ 26,384	\$ 11,271
Non-controlling interest	478	190	853	570
	\$ 10,281	\$ 11,848	\$ 27,237	\$ 11,841

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

**A&W Food Services of Canada Inc.**
**Interim Condensed Consolidated Statement of Changes in Shareholders' Deficiency**
**Unaudited**

(in thousands of dollars)

		Share capital	Accumulated deficit	Total	Non- controlling interest	Total deficiency
<b>Balance - December 29, 2019</b>		10,500	(141,736)	(131,236)	207	(131,029)
Change in accounting policy		-	158	158	-	158
Net income for the period		-	11,986	11,986	570	12,556
Dividends on common shares	<b>12</b>	-	(1,380)	(1,380)	-	(1,380)
Capital contribution		10,000	-	10,000	-	10,000
Actuarial loss on supplementary retirement benefit plan - net of tax		-	(715)	(715)	-	(715)
<b>Balance - September 6, 2020</b>		20,500	(131,687)	(111,187)	777	(110,410)
Net income for the period		-	8,885	8,885	212	9,097
Dividends on common shares	<b>12</b>	-	(5,431)	(5,431)	(840)	(6,271)
Actuarial loss on supplementary retirement benefit plan - net of tax		-	(177)	(177)	-	(177)
<b>Balance - January 3, 2021</b>	<b>\$</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		-	25,627	25,627	853	26,480
Dividends on common shares	<b>12</b>	-	(68,119)	(68,119)	-	(68,119)
Actuarial gain on supplementary retirement benefit plan - net of tax		-	757	757	-	757
Return of capital	<b>14</b>	(371)	-	(371)	-	(371)
<b>Balance - September 12, 2021</b>		<b>20,129</b>	<b>(170,145)</b>	<b>(150,016)</b>	<b>1,002</b>	<b>(149,014)</b>

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



# A&W Food Services of Canada Inc.

## Interim Condensed Consolidated Statement of Cash Flows

### Unaudited

(in thousands of dollars)

		12 week period ended Sep 12, 2021	12 week period ended Sep 6, 2020	36 week period ended Sep 12, 2021	36 week period ended Sep 6, 2020
	Note				
<b>Cash flows generated from (used in) operating activities</b>					
Net income for the period		\$ 10,508	\$ 12,563	\$ 26,480	\$ 12,556
Adjustments for					
Depreciation of plant and equipment	9	456	424	1,370	1,302
Depreciation of right-of-use asset	9	524	488	1,561	1,452
Deferred income taxes		(614)	209	(7,566)	(1,392)
Gain on sale	5	-	-	(2,670)	-
Increase in deposits on franchise and equipment sales		2,832	2,004	13,202	4,809
Supplementary retirement benefit plan		(188)	(192)	(571)	(578)
Decrease (increase) in deferred revenue		78	183	601	(389)
Decrease in other long-term liabilities		(4)	(1)	(7)	(6)
Amortization of deferred gain	5	(723)	(676)	(2,170)	(2,028)
Loss on (recovery of) impairment of leases receivable	4	-	(2,664)	-	5,231
Share of income from associates	5	(2,078)	(1,764)	(5,446)	(4,054)
Current income tax expense		3,241	1,837	14,183	4,056
Income tax paid		(1,668)	-	(5,669)	(5,114)
Finance expense - net	10	323	301	956	926
Interest paid		(39)	(18)	(76)	(89)
Changes in items of non-cash working capital	11	(890)	7,966	(7,144)	7,880
<b>Net cash generated from operating activities</b>		<b>11,758</b>	<b>20,660</b>	<b>27,034</b>	<b>24,562</b>
<b>Cash flows generated from (used in) investing activities</b>					
Purchase of plant and equipment		(696)	(251)	(2,546)	(625)
Redemption of short-term investment		-	-	-	5,525
Dividends and distributions received	12	1,860	-	4,290	1,380
Transaction costs	5	-	-	(273)	-
<b>Net cash generated from (used in) investing activities</b>		<b>1,164</b>	<b>(251)</b>	<b>1,471</b>	<b>6,280</b>
<b>Cash flows generated from (used in) financing activities</b>					
Capital contribution from shareholder		-	-	-	10,000
Return of capital to shareholder	14	-	-	(371)	-
Repayment of operating loan facility - net		(1,320)	-	-	-
Financing fees paid		-	(115)	(36)	(115)
Operating lease payments		(690)	(667)	(1,833)	(1,971)
Dividends paid to shareholder	12	-	-	(51,027)	(1,380)
<b>Net cash generate from (used in) financing activities</b>		<b>(2,010)</b>	<b>(782)</b>	<b>(53,267)</b>	<b>6,534</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>10,912</b>	<b>19,627</b>	<b>(24,762)</b>	<b>37,376</b>
<b>Cash and cash equivalents - beginning of period</b>		<b>3,895</b>	<b>25,568</b>	<b>39,569</b>	<b>7,819</b>
<b>Cash and cash equivalents - end of period</b>		<b>\$ 14,807</b>	<b>\$ 45,195</b>	<b>\$ 14,807</b>	<b>\$ 45,195</b>

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

(figures in tables are expressed in thousands of dollars)

## **1 General information**

A&W Food Services of Canada Inc. (the Company or Food Services) is in the business of developing and franchising quick-service restaurants in Canada. During the year to date period ended September 12, 2021, the Company opened twenty locations and permanently closed nine locations, bringing the total number of A&W restaurants to 1,017, of which 1,007 are franchised and 10 are owned and operated corporately. Food Services' registered offices are located at Suite 300 - 171 West Esplanade, North Vancouver, British Columbia, Canada.

### **Impact of COVID-19**

Actions required in response to the COVID-19 pandemic have affected A&W restaurant operations in Canada, including the temporary closure of a number of restaurants. As at September 12, 2021, two A&W restaurants were temporarily closed due to increased provincial health restrictions (January 3, 2021 – 43). As at October 19, 2021, one of those restaurants remained temporarily closed. The temporarily closed A&W restaurant is expected to reopen when permitted to do so. The future effect of COVID-19 on the Company as well as the economy and businesses, in general, remains uncertain.

In 2020 Food Services took steps to improve its liquidity to ensure it was well positioned to support the A&W system through this challenging period. These steps included an equity investment made in April 2020 of \$10 million by Food Services' shareholder, as well as an increase in Food Services' credit facility from \$6,000,000 to \$25,000,000 in May 2020. For reasons unrelated to COVID-19, Food Services increased its credit facility to \$40,000,000 in April 2021 (note 6). Food Services has also qualified for, and received, both wage and rent subsidies in 2020 and 2021 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).

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

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(figures in tables are expressed in thousands of dollars)

taken into consideration include restaurant concept, payment performance and future expectations for the restaurant operations (note 4). Food Services has recorded an expected credit loss provision on long-term leases receivable of \$4,281,000 as at September 12, 2021 (January 3, 2021 - \$4,281,000). Management updated its expected credit loss model and did not identify any impairment for the year to date period ended September 12, 2021 (loss on impairment of receivables of \$5,231,000 recognized for the year to date period ended September 6, 2020).

## **2 Basis of preparation**

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

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

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors of Food Services on October 19, 2021.

## **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 2020 year was 53 weeks and ended January 3, 2021 (2019 - 52 weeks ended December 29, 2019). A&W Root Beer Beverages of Canada Inc. (“Beverages”) uses a fiscal year ending December 31. The third quarter ends 36 weeks after the fiscal year end. The 2021 third quarter ended September 12, 2021 and the 2020 third quarter ended September 6, 2020.

(figures in tables are expressed in thousands of dollars)

## **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 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.

## **Wage and rent subsidies**

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

(figures in tables are expressed in thousands of dollars)

## 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>Sep 12, 2021</b>	<b>Jan 3, 2021</b>
	<b>\$</b>	<b>\$</b>
Current leases receivable	27,466	27,657
Non-current leases receivable	550,569	548,104
	<u>578,035</u>	<u>575,761</u>

The following table outlines the annual contractual undiscounted payments for leases receivable as at September 12, 2021:

	<b>Sep 12, 2021</b>
	<b>\$</b>
Year 1	49,472
Year 2	48,997
Year 3	48,581
Year 4	47,359
Year 5	46,011
Thereafter	<u>600,901</u>
Total undiscounted leases receivable	841,321
Unearned interest income	(259,005)
Impairment loss	<u>(4,281)</u>
	<u>578,035</u>

Interest income on leases receivable for the year to date period ended September 12, 2021 was \$15,005,000 (2020 - \$14,370,000). Interest income on leases receivable for the quarter was \$4,996,000 (2020 - \$4,847,000).

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

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

Notes to Interim Condensed Consolidated Financial Statements

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(figures in tables are expressed in thousands of dollars)

restaurant operations. Food Services recorded an expected credit loss provision on long-term leases receivable of \$4,281,000 as at September 12, 2021 (January 3, 2021 - \$4,281,000). During the quarter and year to date period ended September 12, 2021 there were no additional indicators of impairment therefore no further loss on impairment of leases receivable was recognized (loss of \$5,231,000 recognized for year to date period ended September 6, 2020). A recovery of impairment of leases receivable of \$2,664,000 was recognized in the quarter ended September 6, 2020.

**Right-of-use assets**

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

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

	<b>Real Estate</b>	<b>Automobiles</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance – January 3, 2021	18,573	1,407	19,980
Additions	1,929	628	2,557
Disposals	(575)	(56)	(631)
Remeasurement of lease liability	(265)	(1)	(266)
Depreciation	(997)	(564)	(1,561)
Balance – September 12, 2021	18,665	1,414	20,079

**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

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

Notes to Interim Condensed Consolidated Financial Statements

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(figures in tables are expressed in thousands of dollars)

options. The lease payments are discounted using the interest rate implicit in the leases; if that cannot be readily determined, the Company uses its incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

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

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

The following table presents the lease liabilities for the Company:

	<b>Sep 12, 2021</b>	<b>Jan 3, 2021</b>
	<b>\$</b>	<b>\$</b>
Current lease liabilities	29,611	30,328
Non-current lease liabilities	573,001	569,673
	<u>602,612</u>	<u>600,001</u>

Interest expense on lease liabilities for the year to date period ended September 12, 2021 was \$15,515,000 (2020 -\$14,856,000). Interest expense on lease liabilities for the quarter was \$5,167,000 (2020 -\$4,911,000).

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

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

September 12, 2021

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(figures in tables are expressed in thousands of dollars)

Costs not included in the measurement of the lease obligation for the periods ended September 12, 2021 and September 6, 2020 are as follows:

	<b>12-week period ended Sep 12, 2021</b>	<b>12-week period ended Sep 6, 2020</b>	<b>36-week period ended Sep 12, 2021</b>	<b>36-week period ended Sep 6, 2020</b>
	\$	\$	\$	\$
Low-value lease costs	12	13	36	39
Short-term lease costs	-	27	-	90
Variable lease costs	200	190	555	612
	<u>212</u>	<u>230</u>	<u>591</u>	<u>741</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 year to date period ended September 12, 2021 was \$2,170,000 (2020 - \$2,028,000). Amortization for the quarter was \$723,000 (2020 - \$676,000).



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

Notes to Interim Condensed Consolidated Financial Statements

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September 12, 2021

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The deferred gain as at September 12, 2021 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 – December 29, 2019	934	231,442	(22,950)	208,492
January 5, 2020 adjustment to Royalty Pool	37	29,079	-	29,079
Amortization of deferred gain	-	-	(2,028)	(2,028)
Balance – September 6, 2020	971	260,521	(24,978)	235,543
January 5, 2020 adjustment to Royalty Pool	-	(198)	-	(198)
Amortization of deferred gain	-	-	(899)	(899)
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	-	-	(2,170)	(2,170)
Balance – September 12, 2021	994	276,911	(28,047)	248,864

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

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(figures in tables are expressed in thousands of dollars)

the remaining term of the Amended and Restated Licence and Royalty Agreement from the date of addition.

The 2021 annual adjustment to the Royalty Pool took place on January 5, 2021. The number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants less 11 restaurants that permanently closed during 2020. The estimated annual sales of the 34 new A&W restaurants are \$45,248,000 at the time they were added to the Royalty Pool and annual sales for the 11 permanently closed restaurants were \$6,199,000 based on their sales during the first year such restaurants were included in the Royalty Pool. The initial consideration for the estimated additional royalty stream was \$16,588,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the Units for the 20 trading days ending October 26, 2020. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$13,271,000, by issuance of 465,316 LP units which were subsequently exchanged for 930,632 non-voting common shares of Trade Marks. The remaining consideration payable to Food Services for the January 5, 2021 adjustment to the Royalty Pool of \$3,318,000 is to be paid by issuance of additional LP units, which issuance is held back until the number of LP units is determined in December 2021 based on the actual annual sales reported by the new restaurants. Food Services has recorded the \$3,318,000 receivable as a current asset as at September 12, 2021 (January 3, 2021 - \$nil). The actual amount of the consideration paid in December 2021 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

## **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 September 12, 2021 Food Services had a 15.4% investment in Trade Marks (January 3, 2021 – 24.2%) and a 9.4% investment in the Fund (January 3, 2021 – n/a).

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

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

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

September 12, 2021

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(figures in tables are expressed in thousands of dollars)

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 as at September 12, 2021. The promissory notes are due on December 21, 2021, non-interest bearing and are classified as a current asset. Food Services recognized a \$2,670,000 gain on the sale, net of \$70,000 in transaction costs.

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 represent the remaining 20% of the initial consideration for the January 5, 2021 Adjustment to the Royalty Pool that are payable in December 2021, Food Services owned 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 are payable in December 2021, Food Services' ownership in the outstanding voting securities of the Fund is approximately 23.8% on a fully diluted basis (26.5% prior to the Reorganization). Post Reorganization, Food Services holds both Limited Voting Units and exchangeable common shares of Trade Marks, whereas prior to the Reorganization, Food Services only held exchangeable common shares of Trade Marks.

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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 September 12, 2021 Food Services' investments in associates totaled \$119,772,000 (January 3, 2021 - \$122,041,000). Food Services' share of income from associates totaled \$5,446,000 for the year to date period ended September 12, 2021 (2020 - \$4,054,000). The share of income from associates for the quarter totaled \$2,078,000 (2020 - \$1,764,000).

The investment in Trade Marks as at September 12, 2021 is as follows:

	<b>Common shares \$</b>	<b>Cumulative equity in earnings \$</b>	<b>Cumulative dividend \$</b>	<b>Total \$</b>
Balance– December 29, 2019	95,340	45,610	(48,162)	92,788
January 5, 2020 adjustment to Royalty Pool	23,263	-	-	23,263
Equity in earnings	-	4,054	-	4,054
Dividends	-	-	(2,682)	(2,682)
Balance – September 6, 2020	118,603	49,664	(50,844)	117,423
January 5, 2020 adjustment to Royalty Pool	5,618	-	-	5,618
Equity in earnings	-	3,129	-	3,129
Dividends	-	-	(4,129)	(4,129)
Balance – January 3, 2021	124,221	52,793	(54,973)	122,041
January 5, 2021 adjustment to Royalty Pool	13,271	-	-	13,271
Equity in earnings	-	4,232	-	4,232
Dividends	-	-	(3,893)	(3,893)
Common shares of Trade Marks exchanged for Trust Units	(63,193)	-	-	(63,193)
Balance – September 12, 2021	74,299	57,025	(58,866)	72,458

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The investment in the Fund as at September 12, 2021 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	-	1,214	-	1,214
Distributions	-	-	(1,062)	(1,062)
Balance – September 12, 2021	47,162	1,214	(1,062)	47,314

**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.

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 at October 19, 2021, September 12, 2021 and January 3, 2021.

As at September 12, 2021, Food Services had not drawn on the credit facility and had letters of credit totaling \$36,000 (January 3, 2021 - \$36,000) that had been issued by the Bank to cities for development of new restaurants, leaving \$39,964,000 of the facility available (January 3, 2021 - \$24,964,000).

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 (figures in tables are expressed in thousands of dollars)
**7 New restaurant openings**

Food Services opened five new franchised restaurants during the quarter (2020 – four). Year to date, twenty new franchised restaurants were opened (2020 – nine). There was an increase in turnkey fees and revenue related to the sale of equipment for new restaurants and a corresponding increase in operating costs in the period as compared to the prior year related to the increase in the number of new restaurants opened.

**8 Franchising revenue**

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

	<b>12-week period ended Sep 12, 2021 \$</b>	<b>12-week period ended Sep 6, 2020 \$</b>	<b>36-week period ended Sep 12, 2021 \$</b>	<b>36-week period ended Sep 6, 2020 \$</b>
At a point in time:				
Advertising fund contributions	12,443	9,832	32,404	28,628
Distribution revenue and service fees	27,618	22,157	71,193	62,309
Equipment and turnkey revenue	10,173	7,696	29,535	20,860
Other revenue	3,033	1,484	9,474	4,091
Over time:				
Initial franchise fees and renewal fees	590	633	1,879	1,812
	<u>53,857</u>	<u>41,802</u>	<u>144,485</u>	<u>117,700</u>

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

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**9 Expenses by nature**

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

	<b>12-week period ended Sep 12, 2021 \$</b>	<b>12-week period ended Sep 6, 2020 \$</b>	<b>36-week period ended Sep 12, 2021 \$</b>	<b>36-week period ended Sep 6, 2020 \$</b>
Depreciation of plant and equipment	456	424	1,370	1,302
Depreciation of right-of-use asset	524	488	1,561	1,452
Employee benefit costs				
Wages and salaries and other termination benefits	6,541	4,747	18,763	14,740
Pension costs - defined contribution plan	191	172	582	615
	<b>6,732</b>	<b>4,919</b>	<b>19,345</b>	<b>15,355</b>

Employee wages and salaries for the year to date period ended September 12, 2021 are net of wage subsidies of \$1,314,000 (2020 - \$4,139,000) received or receivable under federal government subsidy programs in connection with COVID-19, the majority of which was received in respect of January to March 2021 when the impacts of COVID-19 were still the most pronounced. Wage subsidies for the quarter were \$239,000 (2020 - \$1,635,000).

Rent subsidies for the year to date period ended September 12, 2021 were \$470,000 (2020 - \$nil) and are in respect of qualifying periods in fiscal 2020 and 2021 and are recognized as an offset to depreciation of right-of-use assets within operating costs and general and administrative expenses. Rent subsidies for the quarter were \$267,000 (2020 - \$nil).

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**10 Finance expense - net**

	<b>12-week period ended Sep 12, 2021</b>	<b>12-week period ended Sep 6, 2020</b>	<b>36-week period ended Sep 12, 2021</b>	<b>36-week period ended Sep 6, 2020</b>
	\$	\$	\$	\$
Net interest expense (income)	3	(6)	23	(39)
Standby fees	24	13	53	23
Interest on deferred royalties (note 12)	-	105	-	105
Interest cost on supplementary retirement benefit plan	113	113	339	339
Interest on leases receivable	(4,996)	(4,847)	(15,005)	(14,370)
Interest on lease liabilities	5,167	4,911	15,515	14,856
Amortization of deferred financing fees	12	12	31	12
	<b>323</b>	<b>301</b>	<b>956</b>	<b>926</b>

**11 Working capital**

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

	<b>12-week period ended Sep 12, 2021</b>	<b>12-week period ended Sep 6, 2020</b>	<b>36-week period ended Sep 12, 2021</b>	<b>36-week period ended Sep 6, 2020</b>
	\$	\$	\$	\$
Accounts receivable	(3,668)	734	(7,027)	7,347
Inventories	(2,469)	2,805	(4,330)	2,311
Prepaid expenses	(757)	(38)	(1,899)	436
Accounts payable and accrued liabilities	5,470	3,876	5,673	(9,963)
Royalties payable	534	589	439	7,749
	<b>(890)</b>	<b>7,966</b>	<b>(7,144)</b>	<b>7,880</b>

**12 Related party transactions and balances**

Royalty expense for the year to date period ended September 12, 2021 was \$31,884,000 (2020 - \$27,072,000), of which \$4,131,000 (January 3, 2021 - \$3,692,000) is payable to the Partnership at September 12, 2021. Royalty expense for the quarter was \$12,284,000 (2020 - \$10,216,000).

In response to the onset of COVID-19, during the comparative year to date period ended September 6, 2020, Food Services deferred royalty payments totaling \$7,448,000 payable to the Fund for gross sales reported by restaurants in the royalty pool for the period from February 24, 2020 to May 17, 2020. As contemplated in the Amended and Restated Licence and Royalty Agreement, late payments



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of royalties accrue interest at the rate of 2% per annum over the prime rate. During the quarter and year to date period ended September 6, 2020, Food Services recorded \$105,000 in interest expense related to the deferred royalty payments. On December 3, 2020, Food Services paid the previously deferred royalty payments totaling \$7,448,000 plus accrued interest of \$184,000. Food Services did not defer any royalty payments during the year to date period ended September 12, 2021.

During the year to date period ended September 12, 2021, Trade Marks declared common share dividends payable to Food Services of \$3,893,000 (2020 - \$2,682,000). Dividends declared payable by Trade Marks to Food Services during the quarter were \$1,272,000 (2020 - \$1,302,000). The \$439,000 dividend declared on September 3, 2021 was paid to Food Services subsequent to the period end on September 30, 2021 is reported as a current asset as at September 12, 2021 (December 31, 2020 – \$nil). In 2020, Food Services agreed with the Fund and Trade Marks that dividends declared on the common shares of Trade Marks held by Food Services would not be paid to Food Services until Food Services had paid all deferred royalties together with interest. Therefore, the dividends declared payable to Food Services during the quarter ended September 6, 2020 of \$1,302,000 were paid in the fourth quarter of 2020.

During the year to date period ended September 12, 2021, the Fund declared distributions payable to Food Services of \$1,062,000 (2020 – n/a) as a result of Food Services' ownership of Limited Voting Units. Distributions declared payable by the Fund to Food Services during the quarter were \$656,000 (2020 – n/a). The \$226,000 distribution declared on September 3, 2021 was paid to Food Services subsequent to the period end on September 30, 2021 is reported as a current asset as at September 12, 2021 (December 31, 2020 – n/a).

During the year to date period ended September 12, 2021, Food Services declared and paid cash dividends of \$51,027,000 and non-cash dividends of \$17,092,000 to its shareholder. Of the \$68,119,000 of total dividends declared in the year to date period ended September 12, 2021, \$66,287,000 related to the Reorganization transaction that occurred on April 16, 2021 (note 5). Cash dividends totaling \$1,380,000 were declared and paid in the year to date period ended September 6, 2020. No dividends were declared in the quarter (2020 - \$nil).

During the 2020 year to date period, Food Service paid \$125,000 to a professional baseball club, of which a shareholder and director of Food Services is a part owner, in exchange for advertising the A&W brand at the ballpark. The amount paid during the 2021 period was \$nil. At September 12, 2021, \$nil (January 3, 2021 - \$nil) is payable to the baseball club by Food Services.

Other related party transactions are disclosed in note 5.

(figures in tables are expressed in thousands of dollars)

### 13 Key management compensation

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

	<b>12-week period ended Sep 12, 2021 \$</b>	<b>12-week period ended Sep 6, 2020 \$</b>	<b>36-week period ended Sep 12, 2021 \$</b>	<b>36-week period ended Sep 6, 2020 \$</b>
Salaries, bonuses and other short-term employee benefits	733	722	2,272	2,219
Pension costs - defined contribution plan	33	32	107	151
Pension costs - supplementary retirement benefit plan	113	113	339	339
<b>Total</b>	<b>879</b>	<b>867</b>	<b>2,718</b>	<b>2,709</b>

### 14 Share capital

#### Authorized

Unlimited number of common shares

Unlimited number of preferred shares

#### Issued

	<b>Sep 12, 2021 \$</b>	<b>Jan 3, 2021 \$</b>
4,781,250 common shares	20,129	20,500

During the year to date period ended September 12, 2021, Food Services returned \$371,000 of capital to its shareholder.

### 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.

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(figures in tables are expressed in thousands of dollars)

### **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 September 12, 2021, \$8,256,000 (January 3, 2021 – \$4,272,000) is receivable from one distributor.

### **Liquidity risk**

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

## **16 Subsequent events**

On October 5, 2021, Trade Marks declared dividends of \$439,000 on the common shares held by Food Services.

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On October 5, 2021, the Fund declared distributions of \$226,000 on the Limited Voting Units held by Food Services.



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