A&W Food Services of Canada Inc.

Consolidated Financial Statements
December 31, 2017 and January 1, 2017
(in thousands of dollars)

February 13, 2018

Independent Auditor's Report

To the Shareholders of
A&W Food Services of Canada Inc.

We have audited the accompanying consolidated financial statements of A&W Food Services of Canada Inc. and its subsidiary, which comprise the consolidated balance sheets as at December 31, 2017 and January 1, 2017 and the consolidated statements of income, comprehensive income, changes in shareholders' deficiency and cash flows for the 52-week periods ended December 31, 2017 and January 1, 2017, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of A&W Food Services of Canada Inc. and its subsidiary as at December 31, 2017 and January 1, 2017 and their financial performance and their cash flows for the 52-weeks period ended December 31, 2017 and January 1, 2017 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

A&W Food Services of Canada Inc.

Consolidated Balance Sheets

(in thousands of dollars)

	Note	December 31, 2017 $	January 1, 2017 $
Assets			
Current assets			
Cash and cash equivalents		17,551	17,920
Accounts receivable	4	16,589	15,403
Inventories		4,901	5,999
Prepaid expenses		757	357
		39,798	39,679
Non-current assets			
Investment in A&W Trade Marks Inc.	5	72,322	62,289
Deferred income taxes	6	12,995	12,087
Plant and equipment	7	9,548	8,762
Total assets		134,663	122,817
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	29,849	27,469
Royalties payable	20	2,742	2,516
Deposits on franchise and equipment sales		8,112	8,216
Income taxes payable		1,830	232
		42,533	38,433
Non-current liabilities			
Deferred gain	9	151,351	135,898
Supplementary retirement benefit plan	10	14,114	14,218
Term loan	12	6,941	-
Other long-term liabilities	11	43	78
Obligations under finance leases	11	1,037	970
		216,019	189,597
Shareholders' Deficiency			
Share capital	13	10,500	10,500
Accumulated deficit		(92,030)	(77,463)
		(81,530)	(66,963)
Non-controlling interest		174	183
Total deficiency		(81,356)	(66,780)
Total liabilities and deficiency		134,663	122,817
Commitments and contingencies	17		
Subsequent event	21		

On behalf of the Board of Directors

(signed) Paul F.B. Hollands Director (signed) Axel F. Rehkatsch Director

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

A&W Food Services of Canada Inc.

Consolidated Statements of Income

(in thousands of dollars)

	Note	52 -week period ended December 31, 2017 $	52-week period ended January 1, 2017 $
Revenue			
Franchising		135,015	119,480
Corporate restaurants		14,198	13,688
		149,213	133,168
Expenses (income)			
Operating costs		64,629	53,089
General and administrative expenses		36,068	34,495
Royalty expense	20	35,616	33,993
Finance expense - net	15	824	630
Amortization of deferred finance fees		17	-
Amortization of deferred gain	9	(1,821)	(1,616)
Share of income of A&W Trade Marks Inc.	5	(6,257)	(5,214)
Gain on sale of Units of A&W Revenue Royalties Income Fund	20	(6,314)	-
		122,762	115,377
Income before income taxes		26,451	17,791
Provision for (recovery of) income taxes	6		
Current		4,603	2,936
Deferred		(855)	239
		3,748	3,175
Net income for the year		22,703	14,616
Net income attributable to			
Shareholders of A&W Food Services of Canada Inc.		21,912	13,809
Non-controlling interest		791	807
		22,703	14,616

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

A&W Food Services of Canada Inc.
Consolidated Statements of Comprehensive Income

(in thousands of dollars)

	Note	52-week period ended December 31, 2017 $	52-week period ended January 1, 2017 $
Net income for the year		22,703	14,616
Other comprehensive loss			
Actuarial loss on supplementary retirement benefit plan - net of tax	10	(28)	(301)
Comprehensive income		22,675	14,315
Comprehensive income attributable to			
Shareholders of A&W Food Services of Canada Inc.		21,884	13,508
Non-controlling interest		791	807
		22,675	14,315

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

A&W Food Services of Canada Inc.

Consolidated Statements of Changes in Shareholders' Deficiency

For the 52-week periods ended December 31, 2017 and January 1, 2017

(in thousands of dollars)

	Note	Share capital $	Accumulated deficit $	Total $	Non-controlling interest $	Total deficiency $
Balance - January 3, 2016		10,500	(80,971)	(70,471)	216	(70,255)
Net income for the year		-	13,809	13,809	807	14,616
Dividends on common shares	20	-	(10,000)	(10,000)	(840)	(10,840)
Actuarial loss on supplementary retirement benefit plan - net of tax	10	-	(301)	(301)	-	(301)
Balance - January 1, 2017		10,500	(77,463)	(66,963)	183	(66,780)
Net income for the year		-	21,912	21,912	791	22,703
Dividends on common shares	20	-	(36,451)	(36,451)	(800)	(37,251)
Actuarial loss on supplementary retirement benefit plan - net of tax	10	-	(28)	(28)	-	(28)
Balance - December 31, 2017		10,500	(92,030)	(81,530)	174	(81,356)

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

A&W Food Services of Canada Inc.
Consolidated Statements of Cash Flows

(in thousands of dollars)

	Note	52-week period ended December 31, 2017 $	52-week period ended January 1, 2017 $
Cash flows from operating activities			
Net income for the year		22,703	14,616
Adjustments for			
Depreciation of plant and equipment		2,073	1,883
Deferred income taxes		(855)	239
Gain on sale of Units of A&W Revenue Royalties Income Fund	20	(6,314)	-
Gain on disposal of plant and equipment		(68)	(71)
(Decrease) increase in deposits on franchise and equipment sales		(104)	5,579
Supplementary retirement benefit plan		(718)	(439)
Decrease in other long-term liabilities	11	(35)	(27)
Amortization of deferred finance fees		17	-
Amortization of deferred gain		(1,821)	(1,616)
Share of income of A&W Trade Marks Inc.	5	(6,257)	(5,214)
Current income tax expense		4,603	2,936
Income tax paid		(3,005)	(2,639)
Finance expense - net	15	824	630
Finance expense paid		(291)	(74)
Changes in items of non-cash working capital	16	2,028	(1,192)
Net cash generated from operating activities		12,780	14,611
Cash flows from investing activities			
Purchase of plant and equipment		(1,878)	(1,886)
Dividends from A&W Trade Marks Inc.	20	5,684	5,276
Proceeds from sale of Units of A&W Revenue Royalties Income Fund		14,128	-
Net cash generated from investing activities		17,934	3,390
Cash flows used in financing activities			
Decrease in obligations under finance leases		(758)	(644)
Financing fees paid		(74)	-
Proceeds from new term loan		7,000	-
Dividends paid to shareholder	20	(36,451)	(10,000)
Dividends paid to non-controlling interest		(800)	(840)
Net cash used in financing activities		(31,083)	(11,484)
(Decrease) increase in cash and cash equivalents		(369)	6,517
Cash and cash equivalents - Beginning of year		17,920	11,403
Cash and cash equivalents - End of year		17,551	17,920
Non-cash investing activities			
Non-cash acquisition of automobiles through finance leases		1,169	989

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

(figures in tables 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 ended December 31, 2017, the Company opened 45 locations and closed six locations, bringing the total number of A&W restaurants to 918, of which 910 are franchised and eight are owned and operated corporately. Food Services' registered offices are located at Suite 300 - 171 West Esplanade, North Vancouver, British Columbia, Canada.

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 2017 year was 52 weeks and ended December 31, 2017 (fiscal 2016 - 52 weeks ended January 1, 2017). A&W Root Beer Beverages of Canada Inc. (Beverages) uses a fiscal year ending December 31.

2 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRIC).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. Those areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

The Board of Directors approved these consolidated financial statements on February 13, 2018.

3 Significant accounting policies, judgments and estimation uncertainty

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the supplementary retirement benefit plan which is recorded at fair value.

Consolidation

The financial statements include the accounts of Food Services and its 60% controlling interest in Beverages.

(figures in tables expressed in thousands of dollars)

Investment in A&W Trade Marks Inc.

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 most recent financial statements. 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 investment in A&W Trade Marks Inc. (Trade Marks) for indicators of impairment.

Non-controlling interest

The non-controlling interest represents an equity interest in Beverages owned by outside parties. The share of net assets of Food Services' subsidiary attributable to non-controlling interest is presented as a component of equity.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of Food Services and its subsidiary.

Use of 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 are investment in Trade Marks, supplementary retirement benefit plan and deferred income taxes.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and short-term investments with an original maturity date of three months or less.

(figures in tables expressed in thousands of dollars)

Accounts receivable

Accounts receivable are amounts due from franchisees and distributors for the sale of goods and services performed in the ordinary course of business. These amounts are classified as current because collection is expected in one year or less. Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less a provision for impairment.

Inventories

Inventories consist of finished goods, assets available for resale to franchisees, and work-in-progress relating to new franchisee restaurant openings. They are valued at the lower of cost and estimated net realizable value. The cost of finished goods includes all direct costs relating to the purchase of these items. Net realizable value is the estimated selling price in the ordinary course of business.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss.

For financial assets carried at amortized cost, the loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are obligations to pay for goods and services that have been acquired in the normal course of business. These amounts are classified as current because payment is expected in one year or less. Accounts payable and accrued liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Deposits on franchise and equipment sales

Deposits are received from franchisees when a franchise agreement is signed for a new restaurant. The amounts are recorded as revenue when the restaurant is opened and commences operation.

(figures in tables expressed in thousands of dollars)

Provisions

A provision is recognized if, as a result of a past event, Food Services has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The rate used to discount provisions reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount, if any, is recognized as finance expense.

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statements of income except to the extent that it relates to items recognized directly in equity, in which case the income tax is recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by Food Services and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are presented as non-current.

Plant and equipment

Plant and equipment comprise mainly leasehold improvements, restaurant equipment and automobiles under finance leases. Plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statements of income during the financial period in which they are incurred.

(figures in tables expressed in thousands of dollars)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within operating costs and general and administrative expenses in the consolidated statements of income.

Depreciation is provided using the straight-line method. Machinery and equipment are amortized at rates from 7% to 50%. Depreciation of leasehold improvements is charged over the term of the lease plus the first renewal term. Vehicles are amortized at rates from 24% to 33%.

The Company reviews its plant and equipment and tests for recoverability when events or changes in circumstances indicate that their carrying value may not be recoverable. If the carrying value of an asset exceeds the undiscounted estimated future cash flows related to the asset, an impairment loss is recognized to the extent that the carrying value exceeds the fair value of the asset.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are expensed as incurred. For those premises leases where the Company has an arrangement to licence or sublease the premises to the franchisee, the leases are classified as operating leases with the licence or sublease to the franchisee having the same classification. The net amounts under these arrangements are recorded in the consolidated statements of income.

Leases of plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in obligations under finance leases. The interest element of the finance cost is charged to the consolidated statements of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Share capital

Common shares are classified as equity. Incremental costs directly relating to the issuance of new common shares are shown as a deduction net of tax from the proceeds.

(figures in tables expressed in thousands of dollars)

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of sales taxes, returns, rebates and discounts.

The Company's revenue consists of 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 the sale of A&W Root Beer concentrate. Fees from franchised restaurants include initial fees, service fees and other fees. Initial fees are recognized upon opening a restaurant, which is when the Company has performed substantially all initial services required by the franchise agreement. Service fees, in the amount of 2.5% to 3.6% of net sales of franchise operations, are recognized as reported by the franchisee. Other fees are recognized in the period earned. Revenue from the sale of food and supplies to franchisees and distributors is recognized at the time of sale. Revenue from the opening of new franchised restaurants is recognized when the restaurant commences operation. Revenue from Company-owned restaurants is recognized when goods are sold and services are rendered. Revenue from the sale of A&W Root Beer concentrate is recognized when it is shipped to bottlers.

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 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 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 statements of income. Increases to the deferred gain arise from annual adjustments to the Royalty Pool. These additions are amortized over the remaining term of the Amended and Restated Licence and Royalty Agreement from the date of addition.

Royalty expense

Royalty expense under the Amended and Restated Licence and Royalty Agreement is recognized on an accrual basis.

Finance expense

Finance expense includes interest expense associated with the supplementary retirement benefit plan and interest expense on finance leases of plant and equipment.

(figures in tables expressed in thousands of dollars)

Employee benefits

Supplementary retirement benefit plan

In 1995, the Company entered into agreements with certain senior executives to provide an unfunded supplementary retirement benefit plan. The actuarial determination of the accrued benefit obligation for the plan uses the projected benefit method pro-rated on service and management's best estimate of salary escalation and retirement ages of officers. The discount rate used to determine the accrued benefit obligation and related expense is determined by reference to market interest rates on the measurement date on high-quality debt instruments with cash flows that match the timing and amount of the expected benefit payments. Actuarial gains (losses), which can arise from changes in actuarial assumptions used to determine the accrued benefit obligation, are recognized immediately through other comprehensive income (loss) and directly to accumulated deficit and will never subsequently be reclassified to the consolidated statements of income.

Defined contribution pension plan

The cost of providing benefits through the defined contribution pension plan is charged to the consolidated statements of income as the obligation to contribute is incurred.

Financial instruments

Financial assets and liabilities are recognized when Food Services becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognized when the rights to receive or pay cash flows from the assets or liabilities have expired or have been transferred and Food Services has transferred substantially all risks and rewards of ownership.

At initial recognition, Food Services classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

a) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Food Services' loans and receivables comprise cash and cash equivalents and accounts receivable and are included in current assets due to their short-term nature. Accounts receivable are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, accounts receivable are measured at amortized cost using the effective interest method less a provision for impairment.

(figures in tables expressed in thousands of dollars)

b) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, royalties payable and obligations under finance leases. Accounts payable and accrued liabilities, royalties payable and obligations under finance leases are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities, royalties payable and obligations under finance leases are measured at amortized cost using the effective interest method.

   Financial liabilities are classified as current liabilities if payment is due within the normal operating cycle. Otherwise, they are presented as non-current liabilities.

New standards and interpretations not yet adopted

Lease accounting

IFRS 16, *Leases*, replaces the current guidance in International Accounting Standards (IAS) 17 and is effective for periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15, *Revenue from Contracts with Customers*, is also applied. The standard requires lessees to recognize a lease liability reflecting future lease payments and a “right-of-use asset” for virtually all lease contracts. For lessors, the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts). As a result of adopting this standard, Food Services will recognize a “right-of-use” asset and a corresponding lease liability for leases of property and equipment where it is the lessee, including its corporate restaurant locations. Management is evaluating the impact of the adoption of this standard for leases where it is a party in lease arrangements with franchisees. The impact of IFRS 16 is non-cash in nature, and as such, will not affect the Company’s cash flows.

Revenue recognition

IFRS 15, *Revenue from Contracts with Customers*, converges standards from the IASB and the Financial Accounting Standards Board on revenue recognition. The standard is effective for periods beginning on or after January 1, 2018. The new guidance provides a single framework in which revenue is required to be recognized to depict the transfer of goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The Company will adopt this new guidance on January 1, 2018 using the full retrospective method, which will result in restating each prior reporting period presented in the year of adoption.

The Company expects the adoption of the new guidance to change the timing of recognition of initial franchise fees and renewal fees. Currently, these fees are recognized upfront upon either opening of the respective restaurant or when a renewal agreement becomes effective. Under the new guidance, the Company will defer the fees and recognize revenues over the term of the related franchise agreement. Based on analysis performed to date, upon adoption of the standard, the cumulative adjustment to deferred revenue is expected to be approximately 12% of total liabilities. The impact to the Company’s consolidated revenues and net income is not expected to be material. No impact to the Company’s consolidated statement of cash flows is expected as the initial fees and renewal fees will continue to be collected upon the restaurant opening date or the beginning of a new franchise term.

(figures in tables expressed in thousands of dollars)

The Company anticipates that the new guidance will also change the reporting of advertising fund contributions received from franchisees and the related advertising expenditures. These advertising fund contributions and expenditures are currently reported on a net basis in the consolidated statements of income. Under the current standard, as of the balance sheet date, advertising fund contributions received may not equal advertising expenditures for the period due to the timing of promotions. To the extent that contributions received exceeded advertising expenditures, the excess contributions are treated as a deferred liability. To the extent that advertising expenditures temporarily exceeded advertising fund contributions, the difference is recorded as a receivable. Under the new standard, the Company anticipates advertising fund contributions from franchisees and advertising fund expenditures will be reported on a gross basis and the related advertising fund revenues and expenses may be reported in different periods in the consolidated statements of comprehensive income.

Based on analysis performed to date, the Company expects an increase in revenues of approximately $34.3 million and an increase in expenses of approximately $33.9 million for the 52-week period ended December 31, 2017. The Company does not expect a material change to its consolidated net income, assets, liabilities or shareholders' deficiency as a result of this standard. The Company does not expect an impact on cash flows as a result of the adoption of this standard.

Based on analysis performed to date, the Company anticipates that other revenue streams will not materially change as a result of adopting the new guidance.

Financial instruments

IFRS 9, *Financial Instruments*, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010 and is effective for periods beginning on or after January 1, 2018. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on Food Services.

(figures in tables expressed in thousands of dollars)

4 Accounts receivable

	December 31, 2017 $	January 1, 2017 $
Trade receivables	13,433	12,211
Other receivables	3,336	3,625
Provision for impairment	(180)	(433)
	16,589	15,403

As at December 31, 2017, trade receivables of $10,632,000 (January 1, 2017 - $9,532,000) were fully performing.

As at December 31, 2017, trade receivables of $2,437,000 (January 1, 2017 - $2,416,000) were past due but not impaired. These relate to franchisees and distributors for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	December 31, 2017 $	January 1, 2017 $
1 - 30 days	1,962	1,948
31 - 60 days	475	468
	2,437	2,416

As at December 31, 2017, trade receivables of $396,000 (January 1, 2017 - $263,000) were impaired. The amount of the provision for impairment is $180,000 (January 1, 2017 - $433,000). A portion of the provision for impairment is for other receivables.

The movement in the provision for impairment is as follows:

	$
Balance - January 3, 2016	494
Reversal of provision for impairment	(44)
Amounts written off	(17)
Balance - January 1, 2017	433
Reversal of provision for impairment	(228)
Amounts written off	(25)
Balance - December 31, 2017	180

The creation of the provision for impairment is recorded in operating costs on the consolidated statements of income.

(figures in tables expressed in thousands of dollars)

5 Investment in A&W Trade Marks Inc.

Food Services' 21.9% (January 1, 2017 - 21.8%) investment in Trade Marks is recorded using the equity method.

	Common shares $	Cumulative equity in earnings $	Cumulative dividends $	Total $
Balance - January 3, 2016	49,093	18,310	(22,058)	45,345
January 5, 2016 adjustment to Royalty Pool	17,006	-	-	17,006
Equity in earnings	-	5,214	-	5,214
Dividends	-	-	(5,276)	(5,276)
Balance - January 1, 2017	66,099	23,524	(27,334)	62,289
January 5, 2017 adjustment to Royalty Pool	17,274	-	-	17,274
Equity in earnings	-	6,257	-	6,257
Dividends	-	-	(5,684)	(5,684)
Common shares exchanged for units (note 20)	(7,814)	-	-	(7,814)
Balance - December 31, 2017	75,559	29,781	(33,018)	72,322

The common shares of Trade Marks held by Food Services may be exchanged at the option of Food Services into Units of the A&W Revenue Royalties Income Fund (the Fund) on the basis of two common shares for one Unit of the Fund.

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, adjusted for income taxes payable by Trade Marks. The consideration is paid to Food Services in the form of additional partnership units (LP units). The additional LP units are, at the option of Food Services, exchangeable for additional common shares of Trade Marks which are in turn exchangeable for Units of the Fund on the basis of two common shares for one Unit of the Fund. The consideration paid for the annual adjustment to the Royalty Pool is recorded by Food Services as an increase in its investment in Trade Marks and an increase in the deferred gain (note 9).

The 15th annual adjustment to the Royalty Pool took place on January 5, 2017. The number of A&W restaurants in the Royalty Pool was increased by 30 new restaurants less seven restaurants that permanently closed during 2016. The Partnership paid Food Services $12,037,000, by issuance of 346,386 LP units to Food Services, representing 80% of the initial consideration based on the estimated annual sales of the net new restaurants. The LP units were subsequently exchanged for 692,772 non-voting common shares of Trade Marks.

(figures in tables expressed in thousands of dollars)

The final adjustment to the number of LP units issued was made on December 8, 2017 based on the actual annual sales reported by the new restaurants. The actual annual sales of the 30 new A&W restaurants was $37,693,000 compared to the original estimate of $33,355,000. As a result, $3,009,000 representing the remaining 20% of the initial consideration and additional consideration of $2,226,000 were paid to Food Services by issuance of 150,665 additional LP units, which were exchanged for 301,330 non-voting common shares of Trade Marks.

6 Income taxes

a) The provision for income taxes shown in the consolidated statements of income differs from the amounts obtained by applying statutory tax rates to income before income taxes for the following reasons:

	52-week period ended December 31, 2017	**52-week period ended January 1, 2017**
Statutory combined federal and provincial income tax rates	26.14%	26.14%
	$	**$**
Provision for income taxes based on statutory income tax rates	6,972	4,650
Non-taxable portion and rate difference on capital gains	(738)	(268)
Investment in A&W Trade Marks Inc.	(537)	265
Deferred tax on increase to deferred gain	(1,713)	(1,629)
Non-deductible items	141	113
Rate changes on deferred income taxes	(376)	91
Adjustment to prior period provisions	(1)	(47)
Provision for income taxes	3,748	3,175

b) Deferred income tax assets and liabilities comprise the following:

	December 31, 2017 $	**January 1, 2017 $**
Current tax reserves	442	348
Deferred gain	15,008	13,019
Long-term liabilities	3,757	3,699
Intangible assets	21	22
Plant and equipment	11	(11)
Investment in A&W Trade Marks Inc.	(6,244)	(4,990)
	12,995	12,087

(figures in tables expressed in thousands of dollars)

c) The analysis of deferred tax assets and liabilities is as follows:

	December 31, 2017 $	January 1, 2017 $
Deferred tax assets		
Deferred tax assets to be recovered after more than one year	18,538	16,608
Deferred tax assets to be recovered within one year	690	480
	19,228	17,088
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than one year	(6,211)	(4,958)
Deferred tax liabilities to be recovered within one year	(22)	(43)
	(6,233)	(5,001)
Deferred tax assets - net	12,995	12,087

(figures in tables expressed in thousands of dollars)

7 Plant and equipment

	Leasehold improvements $	Machinery and equipment $	Equipment and automobiles under finance leases $	Total $
Balance - January 3, 2016				
Cost	5,735	6,783	2,466	14,984
Accumulated depreciation	(2,345)	(3,701)	(1,055)	(7,101)
Net book value	3,390	3,082	1,411	7,883
Opening net book value	3,390	3,082	1,411	7,883
Additions	518	1,369	988	2,875
Disposals	-	(8)	(105)	(113)
Depreciation	(298)	(832)	(753)	(1,883)
Net book value	3,610	3,611	1,541	8,762
Balance - January 1, 2017				
Cost	5,633	8,085	2,747	16,465
Accumulated depreciation	(2,023)	(4,474)	(1,206)	(7,703)
Net book value	3,610	3,611	1,541	8,762
Opening net book value	3,610	3,611	1,541	8,762
Additions	1,117	761	1,169	3,047
Disposals	-	-	(188)	(188)
Depreciation	(336)	(902)	(835)	(2,073)
Net book value	4,391	3,470	1,687	9,548
Balance - December 31, 2017				
Cost	6,751	8,695	3,097	18,543
Accumulated depreciation	(2,360)	(5,225)	(1,410)	(8,995)
Net book value	4,391	3,470	1,687	9,548

8 Accounts payable and accrued liabilities

	December 31, 2017 $	January 1, 2017 $
Trade payables	16,687	12,516
Equipment, inventory and other	9,523	11,514
Employee benefits payable	3,639	3,439
	29,849	27,469

(figures in tables expressed in thousands of dollars)

9 Deferred gain

The deferred gain as at December 31, 2017 and January 1, 2017 is as follows:

	Number of restaurants in Royalty Pool	Deferred gain $	Accumulated amortization $	Net deferred gain $
Balance - January 3, 2016	814	135,270	(14,762)	120,508
January 5, 2016 adjustment to the Royalty Pool	24	17,006	-	17,006
Amortization of deferred gain	-	-	(1,616)	(1,616)
Balance - January 1, 2017	838	152,276	(16,378)	135,898
January 5, 2017 adjustment to the Royalty Pool	23	17,274	-	17,274
Amortization of deferred gain	-	-	(1,821)	(1,821)
Balance - December 31, 2017	861	169,550	(18,199)	151,351

10 Employee benefits

a) Supplementary retirement benefit plan

The most recent actuarial valuation of the unfunded liability was as at December 31, 2017 and the next required valuation will be as at December 31, 2018.

The significant actuarial assumptions adopted in determining the accrued benefit obligation are as follows:

	December 31, 2017	January 1, 2017
Discount rate	3.40%	3.85%
Increase in earnings	-	4.0%
Inflation	2.0%	2.0%

(figures in tables expressed in thousands of dollars)

The supplementary retirement benefit plan is as follows:

	December 31, 2017	January 1, 2017
Unfunded liability under supplementary retirement benefit plan	14,872	14,657
Less: Current portion included in accrued liabilities	(758)	(439)
Liability on the consolidated balance sheet	14,114	14,218

The sensitivity of the accrued benefit obligation to a change in the discount rate is as follows:

	Discount rate %	Liability $
- 50 basis points	2.90	15,869
+ 50 basis points	3.90	13,967

The income statement charge for the supplementary retirement benefit plan is as follows:

	52-week period ended December 31, 2017 $	52-week period ended January 1, 2017 $
Actuarial loss recognized in other comprehensive loss in the period, net of tax recovery of $53,000 (January 1, 2017 - $97,000)	28	301
Total cumulative actuarial losses recognized in other comprehensive loss, net of tax of $1,276,000 (January 1, 2017 - $11,224,000)	3,481	3,453

(figures in tables expressed in thousands of dollars)

The movement in the supplementary retirement benefit plan is as follows:

	Note	$
Balance - January 3, 2016		14,102
Interest cost	15	556
Actuarial loss		398
Benefits paid		(399)
Balance - January 1, 2017		14,657
Interest cost	15	533
Actuarial loss		80
Benefits paid		(398)
Balance - December 31, 2017		14,872

b) Defined contribution pension plan

Pension expense for the year for the defined contribution pension plan was $708,000 (January 1, 2017 - $684,000). Total cash payments during the year for the defined contribution pension plan were $708,000 (January 1, 2017 - $684,000).

11 Other long-term liabilities and obligations under finance leases

	December 31, 2017 $	January 1, 2017 $
Other long-term liabilities	65	107
Less: Current portion included in accrued liabilities	(22)	(29)
	43	78
Obligations under finance leases, with terms of 36 to 50 months and bearing interest at 7% to 11%	1,859	1,699
Less: Current portion included in accrued liabilities	(822)	(729)
	1,037	970

12 Operating loan facility and term loan

On March 3, 2017, Food Services increased its $5,000,000 demand operating loan facility with a Canadian chartered bank (the Bank) to $8,000,000 to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the bank prime rate plus 0.5% and are repayable on demand. As at December 31, 2017, letters of credit totalling $329,000 (January 1, 2017 - $236,000) have been issued by the Bank to landlords and cities for development of new restaurants, leaving $7,671,000 of the facility available (January 1, 2017 - $4,764,000).

(figures in tables expressed in thousands of dollars)

On March 3, 2017, Food Services entered into a $7,000,000 term loan with the Bank to fund long-term working capital and operating requirements. The term loan bears interest at the bank prime rate plus 0.5% and is repayable on December 31, 2020. Interest only is payable monthly. The term loan contains a number of covenants including 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 A&W Trade Marks Inc. ratios during each trailing four quarter period. Food Services was in compliance with all of its financial covenants as at December 31, 2017.

The term loan comprises:

	December 31, 2017 $	January 1, 2017 $
Term loan	7,000	-
Less: Financing fees	(59)	-
	6,941	-

13 Share capital

Authorized

Unlimited number of common shares
Unlimited number of preferred shares

Issued

	December 31, 2017 $	January 1, 2017 $
4,781,250 common shares	10,500	10,500

(figures in tables expressed in thousands of dollars)

14 Expenses by nature

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

	52-week period ended December 31, 2017 $	52-week period ended January 1, 2017 $
Depreciation of plant and equipment	2,073	1,883
Employee benefit costs		
Wages and salaries and other termination benefits	23,748	21,876
Pension costs - defined contribution plan	708	684
Total employee benefit costs	24,456	22,560

15 Finance expense - net

	52-week period ended December 31, 2017 $	52-week period ended January 1, 2017 $
Interest income	(45)	(72)
Interest cost on supplementary retirement benefit plan	533	556
Interest cost on term loan	181	-
Finance leases	155	146
	824	630

16 Working capital

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

	52-week period ended December 31, 2017 $	52-week period ended January 1, 2017 $
Accounts receivable	(1,186)	(1,323)
Inventories	1,098	(1,221)
Prepaid expenses	(400)	(29)
Accounts payable and accrued liabilities	2,290	1,927
Royalties payable	226	(546)
	2,028	(1,192)

(figures in tables expressed in thousands of dollars)

17 Commitments and contingencies

Leases

The Company has base rental obligations under operating leases for premises and equipment and under finance leases for equipment and automobiles. Certain of the premises leases require additional payments contingent on sales volume. The Company generally arranges premises leases and enters into agreements whereby the Company licences the premises to the franchisee, for which the Company receives a premises licence fee. Under the licence agreement, the franchisee is responsible for the obligations under the lease. Accordingly, the Company records net operating lease expenses in its consolidated statements of income.

The annual rental payments under finance leases and operating leases, excluding contingent rentals, are as follows:

	Finance lease obligations $	Operating lease obligations $	Operating lease subleases $	Net operating lease liability $
For fiscal year				
2018	904	40,795	39,212	1,583
2019	685	40,046	38,392	1,654
2020	343	38,064	36,367	1,697
2021	93	34,985	33,243	1,742
2022	-	32,222	30,520	1,702
Balance of commitments	-	188,152	182,662	5,490
	2,025	374,264	360,396	13,868
Less: Imputed interest	(166)	-	-	-
	1,859	374,264	360,396	13,868

Purchase obligations

The Company has purchase obligations for supply to franchisees for food supplies, packaging and equipment of $54,886,000 (January 1, 2017 - $59,723,000).

National Advertising Fund

The Company maintains an advertising fund that is supported by prescribed contributions from corporate and franchise restaurants. The advertising fund paid $502,000 (January 1, 2017 - $484,000) to Food Services during the year for marketing, promotional and administrative services provided to the advertising fund. At December 31, 2017, the advertising fund had a deficit balance of $6,000 which is included in accounts receivable (January 1, 2017 - deficit balance of $475,000 included in accounts receivable).

(figures in tables expressed in thousands of dollars)

Contingencies

In the normal course of operations, the Company is party to various legal proceedings. Management has assessed the Company's likely liability for all claims outstanding and has made provision for these claims in the consolidated financial statements. The actual liability could differ from these estimates.

18 Financial instruments and financial risk management

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

Fair values

Management estimates that the fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, royalties payable and obligations under finance leases 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. The Company does not believe it has a significant exposure to any individual franchisee. As at December 31, 2017, $5,020,000 (January 1, 2017 - $4,105,000) 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. 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.

Interest rate risk

The Company has limited exposure to interest rate risk. The operating loan facility and term loan facility bear a floating rate of interest as disclosed in note 12. Cash and cash equivalents earn interest at market rates. All of the Company's other financial instruments are non-interest bearing.

(figures in tables expressed in thousands of dollars)

19 Capital disclosures

Food Services' capital currently consists of shareholders' deficiency. Food Services' capital management objectives have not changed, and are to have sufficient cash and cash equivalents to ensure the growth of the business, fund its investing activities, and pay royalties to the Partnership and dividends on its common shares to its shareholders, after satisfaction of its debt service and income tax obligations, provisions for operating costs and general and administrative expenses, and retention of reasonable working capital reserves. Food Services manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Food Services may adjust the amount of dividends paid to its shareholders.

20 Related party transactions and balances

Royalty expense for the year was $35,616,000 (January 1, 2017 - $33,993,000), of which $2,742,000 (January 1, 2017 - $2,516,000) is payable to the Partnership by Food Services at December 31, 2017.

During the year, dividends of $5,684,000 (January 1, 2017 - $5,276,000) were received from Trade Marks.

During the year, Food Services contracted with a private company controlled by a shareholder and director of Food Services for rental of a private plane and crew for business travel. The cost of the services provided under the contract during the year totalled $80,000 (January 1, 2017 - $221,000). At December 31, 2017, $ nil (January 1, 2017 - $nil) is payable to the private company by Food Services.

During the year, Food Services paid $125,000 (January 1, 2017 - $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. At December 31, 2017, $nil (January 1, 2017 - $nil) is payable to the baseball club by Food Services.

Key management compensation

Key management includes the Company's directors and members of the Company's Strategy Team. The compensation awarded to key management includes:

	52-week period ended December 31, 2017 $	52-week period ended January 1, 2017 $
Salaries, bonuses and other short-term employee benefits	3,949	3,441
Pension costs - defined contribution plan	181	178
Pension costs - supplementary retirement benefit plan	533	556
Total	4,663	4,175

(figures in tables expressed in thousands of dollars)

Sale of Units of A&W Revenue Royalties Income Fund

On March 3, 2017, Food Services exchanged 746,600 common shares of Trade Marks for 373,300 Units of the Fund, which were then sold by Food Services at a price of $39.25 per Unit. Food Services recognized a gain at fair value on the exchange of $6,314,000, net of transaction costs. Following the sale of the Units, Food Services owned approximately 21.2% of the Units of the Fund on a fully diluted basis. The net proceeds from the sale were used to pay a dividend to Food Services' shareholder.

Dividends

During the year, Food Services paid dividends totalling $36,451,000 (January 1, 2017 - $10,000,000) from working capital to its shareholder.

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

21 Subsequent event

On January 5, 2018, the number of A&W restaurants in the Royalty Pool was increased by 42 new restaurants less seven restaurants that permanently closed during 2017. The initial consideration for the estimated royalty revenue from the net 35 restaurants added to the Royalty Pool is $25,989,000. The Partnership paid Food Services $20,791,000 by issuance of 596,251 LP units, representing 80% of the initial consideration. The LP units were exchanged for 1,192,502 non-voting common shares of Trade Marks. The remaining 20% and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be paid to Food Services in December 2018 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks.