A&W Food Services of Canada Inc.

Consolidated Financial Statements
December 30, 2018,
December 31, 2017,
and January 2, 2017
(in thousands of dollars)

Independent auditor's report

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

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of A&W Food Services of Canada Inc. and its subsidiaries (together, the Company) as at December 30, 2018, December 31, 2017 and January 2, 2017, and its financial performance and its cash flows for the 52-week periods ended December 30, 2018 and December 31, 2017 in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 30, 2018, December 31, 2017 and January 2, 2017;
- the consolidated statements of income for the 52-week periods ended December 30, 2018 and December 31, 2017;
- the consolidated statements of comprehensive income for the 52-week periods ended December 30, 2018 and December 31, 2017;
- the consolidated statements of changes in shareholders' deficiency for the 52-week periods ended December 30, 2018 and December 31, 2017;
- the consolidated statements of cash flows for the 52-week periods ended December 30, 2018 and December 31, 2017; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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Other information

Management is responsible for the other information. The other information comprises the Report to Unitholders.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Vancouver, British Columbia
February 15, 2019

A&W Food Services of Canada Inc.

Consolidated Balance Sheets

(in thousands of dollars)

	Note	December 30, 2018 $	December 31, 2017 $ (Restated)	January 2, 2017 $ (Restated)
Assets				
Current assets				
Cash and cash equivalents		11,137	17,551	17,920
Accounts receivable	3, 4	28,969	21,501	19,267
Inventories		11,275	4,901	5,999
Prepaid expenses		1,332	757	357
		52,713	44,710	43,543
Non-current assets				
Investment in A&W Trade Marks Inc.	5	103,161	72,321	62,289
Deferred income taxes	6	19,671	19,687	18,142
Plant and equipment	7	11,950	9,548	8,762
Total assets		187,495	146,266	132,736
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	8	44,350	32,295	29,617
Royalties payable	21	3,262	2,742	2,516
Deposits on franchise and equipment sales	14	12,626	8,112	8,216
Deferred revenue	14	2,247	2,135	1,955
Income taxes payable		1,446	2,476	805
		63,931	47,760	43,109
Non-current liabilities				
Deferred gain	9	179,148	151,351	135,898
Deferred revenue	14	25,184	23,446	21,191
Supplementary retirement benefit plan	10	12,942	14,114	14,218
Term loan	12	-	6,941	-
Other long-term liabilities	11	44	43	78
Obligations under finance leases	11	865	1,037	970
		282,114	244,692	215,464
Shareholders' Deficiency				
Share capital	13	10,500	10,500	10,500
Accumulated deficit		(105,290)	(109,100)	(93,411)
		(94,790)	(98,600)	(82,911)
Non-controlling interest		171	174	183
Total deficiency		(94,619)	(98,426)	(82,728)
Total liabilities and deficiency		187,495	146,266	132,736
Commitments and contingencies	18			
Subsequent event	22			

On behalf of the Board of Directors

(signed) Paul F.B. Hollands Director (signed) Michael Hollend 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 30, 2018 $	52-week period ended December 31, 2017 $ (Restated)
Revenue			
Franchising	14	190,120	171,527
Corporate restaurants		15,885	14,198
		206,005	185,725
Expenses (income)			
Operating costs		110,119	102,827
General and administrative expenses		44,488	36,068
Royalty expense	21	40,890	35,616
Finance expense - net	16	528	824
Amortization of deferred finance fees		59	17
Amortization of deferred gain	9	(2,181)	(1,821)
Share of income of A&W Trade Marks Inc.	5	(8,178)	(6,257)
Gain on sale of Units of A&W Revenue Royalties Income Fund	21	-	(6,314)
		185,725	160,960
Income before income taxes		20,280	24,765
Provision for (recovery of) income taxes	6		
Current		3,192	4,676
Deferred		694	(1,492)
		3,886	3,184
Net income for the year		16,394	21,581
Net income attributable to			
Shareholders of A&W Food Services of Canada Inc.		15,517	20,790
Non-controlling interest		877	791
		16,394	21,581

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 30, 2018 $	52-week period ended December 31, 2017 $ (Restated)
Net income for the year		16,394	21,581
Other comprehensive income (loss)			
Actuarial gain (loss) on supplementary retirement benefit plan - net of tax	10	609	(28)
Comprehensive income		17,003	21,553
Comprehensive income attributable to			
Shareholders of A&W Food Services of Canada Inc.		16,126	20,762
Non-controlling interest		877	791
		17,003	21,553

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 30, 2018 and December 31, 2017

(in thousands of dollars)

	Note	Share capital $	Accumulated deficit $	Total $	Non-controlling interest $	Total deficiency $
Balance – January 1, 2017 (Restated)		10,500	(93,411)	(82,911)	183	(82,728)
Net income for the year		-	20,790	20,790	791	21,581
Dividends on common shares	21	-	(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 (Restated)		10,500	(109,100)	(98,600)	174	(98,426)
Net income for the year		-	15,517	15,517	877	16,394
Dividends on common shares	21	-	(12,316)	(12,316)	(880)	(13,196)
Actuarial gain on supplementary retirement benefit plan - net of tax	10	-	609	609	-	609
Balance – December 30, 2018		10,500	(105,290)	(94,790)	171	(94,619)

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 30, 2018 $	52-week period ended December 31, 2017 $ (Restated)
Cash provided by (used) in			
Operating activities			
Net income for the year		16,394	21,581
Adjustments for			
Depreciation of plant and equipment		2,271	2,073
Deferred income taxes		694	(1,492)
Gain on sale of Units of A&W Revenue Royalties Income Fund	21	-	(6,314)
Gain on disposal of plant and equipment		(69)	(68)
Increase (decrease) in deposits on franchise and equipment sales		4,514	(104)
Supplementary retirement benefit plan		(829)	(718)
Increase in deferred revenue		1,850	2,435
Increase (decrease) in other long-term liabilities	11	1	(35)
Amortization of deferred finance fees		59	17
Amortization of deferred gain		(2,181)	(1,821)
Share of income of A&W Trade Marks Inc.	5	(8,178)	(6,257)
Current income tax expense		3,192	4,676
Income tax paid		(5,124)	(3,005)
Finance expense - net	16	528	824
Finance expense paid		(38)	(291)
Changes in items of non-cash working capital	17	(1,824)	1,279
		11,260	12,780
Investing activities			
Purchase of plant and equipment		(3,982)	(1,878)
Dividends from A&W Trade Marks Inc.	21	7,316	5,684
Proceeds from sale of Units of A&W Revenue Royalties Income Fund		-	14,128
		3,334	17,934
Financing activities			
Decrease in obligations under finance leases		(812)	(758)
Financing fees paid		-	(74)
Proceeds from term loan		-	7,000
Repayment of term loan		(7,000)	-
Dividends paid to shareholder	21	(12,316)	(36,451)
Dividends paid to non-controlling interest		(880)	(800)
		(21,008)	(31,083)
Decrease in cash and cash equivalents		(6,414)	(369)
Cash and cash equivalents - Beginning of year		17,551	17,920
Cash and cash equivalents - End of year		11,137	17,551
Non-cash investing activities			
Non-cash acquisition of automobiles through finance leases		833	1,169

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 30, 2018, the Company opened 42 locations and closed eight locations, bringing the total number of A&W restaurants to 952, of which 943 are franchised and nine 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 2018 year was 52 weeks and ended December 30, 2018 (fiscal 2017 - 52 weeks ended December 31, 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 12, 2019.

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.

(figures in tables expressed in thousands of dollars)

New standards and interpretations adopted

Food Services has applied the following new standards for the first time for its annual reporting period commencing January 1, 2018:

IFRS 15, Revenue from Contracts with Customers, has been adopted effective January 1, 2018, using the full retrospective method without the use of practical expedients and in accordance with IFRS 15 transitional provisions.

The adoption of this standard has changed the timing of recognition of initial franchise fees and renewal fees. These fees were previously recognized upfront upon either opening of the respective restaurant or when a renewal agreement becomes effective. Under the new guidance, the Company has identified one distinct performance obligation, being the provision of franchising services. The Company recognizes revenues on this performance obligation over time because franchisees consume services as they are provided. As a result, the Company defers the entire initial and renewal franchise fee and recognizes revenues over the term of the related franchise agreement.

The adoption of this standard has also changed the reporting of advertising fund contributions received from franchisees and the related advertising expenditures. These advertising fund contributions and expenditures were previously reported on a net basis in the consolidated statements of income. Under the new standard, advertising fund contributions from franchisees and advertising fund expenditures are reported on a gross basis, as the Company controls the advertising services prior to delivery of those services to the franchisees. The related advertising fund revenues and expenses may be reported in different periods in the consolidated statements of comprehensive income.

The timing of the recognition of revenue related to the other revenue streams has not changed as a result of adopting the new guidance.

The cumulative effect of the changes made to the consolidated balance sheet as at January 2, 2017 related to the adoption of IFRS 15 was as follows:

	As previously reported $	Adjustment $	Restated $
Assets			
Accounts receivable	15,403	3,864	19,267
Deferred income taxes	12,087	6,055	18,142
Liabilities			
Accounts payable and accrued liabilities	27,469	2,148	29,617
Income taxes payable	232	573	805
Deferred revenue	-	23,146	23,146
Shareholders' Deficiency			
Accumulated deficit	(77,463)	(15,948)	(93,411)

(figures in tables expressed in thousands of dollars)

The cumulative effect of the changes made to the consolidated balance sheet as at December 31, 2017 related to the adoption of IFRS 15 was as follows:

	As previously reported $	Adjustment $	Restated $
Assets			
Accounts receivable	16,589	4,912	21,501
Deferred income taxes	12,995	6,692	19,687
Liabilities			
Accounts payable and accrued liabilities	29,848	2,447	32,295
Income taxes payable	1,830	646	2,476
Deferred revenue	-	25,581	25,581
Shareholders' Deficiency			
Accumulated deficit	(92,030)	(17,070)	(109,100)

The cumulative effect of the changes made to the consolidated statement of income for the 52-week period ended December 31, 2017 related to the adoption of IFRS 15 was as follows:

	As previously reported $	Adjustment $	Restated $
Revenue			
Franchising	135,015	36,512	171,527
Expenses			
Operating costs	64,629	38,198	102,827
Provision for income taxes – current	4,603	73	4,676
Provision for income taxes – deferred	(855)	(637)	(1,492)
Net income for the period	22,703	(1,122)	21,581

Financial instruments

IFRS 9, *Financial Instruments,* has been adopted effective January 1, 2018, retrospectively without restatement of comparatives. The new standard replaces International Accounting Standards (IAS) 39, Financial Instruments: Recognition and Measurement. Under IFRS 9, Food Services assesses on a forward looking basis the expected credit losses associated with financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, Food Services applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The adoption of this standard had no impact on the consolidated financial statements and no adjustments to opening retained earnings as at January 1, 2018 were necessary.

(figures in tables expressed in thousands of dollars)

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.

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 and advertising. 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.

(figures in tables expressed in thousands of dollars)

Deposits on franchise and equipment sales

Deposits are received from franchisees when a franchise or franchise opportunity agreement is signed for a new restaurant and for those new restaurants constructed by the Company and then sold to franchisees. Deposits related to initial fees are deferred upon opening a restaurant, and recognized as revenue over the term of the related franchise agreement because franchisees consume franchising services as they are provided. The amounts for equipment and turnkey fees are recorded as revenue when the restaurant is opened and commences operation.

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.

(figures in tables expressed in thousands of dollars)

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.

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.

(figures in tables expressed in thousands of dollars)

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.

Revenue recognition

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 and renewal fees, distribution and service fees, advertising contributions, equipment and turnkey and other fees. Revenues related to initial and renewal fees are recognized over the term of the related franchise agreement because franchisees consume franchising services as they are provided. Service fees, in the amount of 2.5% to 3.6% of net sales of franchise operations, are recognized at a point in time as reported by the franchisee. Distribution fees are recognized at a point in time when control has transferred to the distributors and are recorded net of related costs.

Equipment and turnkey fees are recognized at a point in time when control transfers to the franchisee. For new restaurants, control transfers when the restaurant commences operations.

Advertising contributions are recognized at a point in time, as reported by the franchisee. Revenue from corporate restaurants, representing sales of food and beverages, is recognized at a point in time when food and beverages are sold. Other revenues, including revenue from the sale of A&W Root Beer concentrate is recognized at a point in time, when control transfers, which is generally 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.

(figures in tables expressed in thousands of dollars)

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.

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:

a) Financial assets and liabilities at amortized cost (2017 – loans and receivables): Food Services classifies its financial assets at amortized cost only if both of the following criteria are met:

   i) the asset is held within a business model whose objective is to collect the contractual cash flows, and,

   ii) the contractual terms give rise to cash flows that are solely payments of principal and interest.

(figures in tables expressed in thousands of dollars)

Food Services' financial assets and liabilities at amortized cost (2017 - 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, financial assets and liabilities at amortized cost (2017 – loans and receivables) are measured at amortized cost using the effective interest method less a provision for impairment. 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.

b) Financial assets at fair value through other comprehensive income (FVOCI): Financial assets at FVOCI comprise:

   i) Equity securities which are not held for trading and which Food Services has irrevocably elected at initial recognition to recognize in this category,

   ii) Debt securities where the contractual cash flows are solely principal and interest and the objective of Food Services' business model is achieved both by collecting contractual cash flows and selling financial assets.

   Food Services currently has not classified any of its financial instruments as FVOCI.

c) Financial assets at fair value through profit or loss (FVPL): Food Services classifies the following financial assets at FVPL:

   i) Debt instruments that do not qualify for measurement at either amortized cost or FVOCI,

   ii) Equity instruments that are held for trading, and,

   iii) Equity instruments for which Food Services has not elected to recognize fair value gains and losses through other comprehensive income.

   Food Services currently has not classified any of its financial instruments as FVPL.

(figures in tables expressed in thousands of dollars)

New standards and interpretations not yet adopted

Lease accounting

IFRS 16, Leases, replaces the current guidance in 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). Management is evaluating the impact of the adoption of this standard for leases where it is a party in lease arrangements with franchisees.

4 Accounts receivable

	December 30, 2018 $	December 31, 2017 $ (Restated)
Trade receivables	21,894	18,351
Other receivables	7,244	3,330
Provision for impairment	(169)	(180)
	28,969	21,501

As at December 30, 2018, trade receivables of $16,851,000 (December 31, 2017– $15,518,000) were fully performing.

As at December 30, 2018, trade receivables of $4,291,000 (December 31, 2017 – $2,437,000) 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 30, 2018 $	December 31, 2017 $
1 - 30 days	3,758	1,962
31 - 60 days	533	475
	4,291	2,437

(figures in tables expressed in thousands of dollars)

The movement in the provision for impairment is as follows:

	$
Balance – January 2, 2017	433
Reversal of provision for impairment	(228)
Amounts written off	(25)
Balance – December 31, 2017	180
Provision for impairment	29
Amounts written off	(40)
Balance – December 30, 2018	169

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

5 Investment in A&W Trade Marks Inc.

Food Services' 25.9% (December 31, 2017 - 21.9%) investment in Trade Marks is recorded using the equity method.

	Common shares $	Cumulative equity in earnings $	Cumulative dividends $	Total $
Balance – January 2, 2017	66,099	23,524	(27,334)	62,289
January 5, 2017 adjustment to Royalty Pool	17,273	-	-	17,273
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	75,558	29,781	(33,018)	72,321
January 5, 2018 adjustment to Royalty Pool	29,978	-	-	29,978
Equity in earnings	-	8,178	-	8,178
Dividends	-	-	(7,316)	(7,316)
Balance - December 30, 2018	105,536	37,959	(40,334)	103,161

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.

(figures in tables expressed in thousands of dollars)

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 16th annual adjustment to the Royalty Pool took place 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 Partnership paid Food Services $20,791,000, by issuance of 596,251 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 1,192,502 non-voting common shares of Trade Marks.

The final adjustment to the number of LP units issued was made on December 7, 2018 based on the actual annual sales reported by the new restaurants. The actual annual sales of the 42 new A&W restaurants was $63,783,000 compared to the original estimate of $55,642,000. As a result, $5,198,000 representing the remaining 20% of the initial consideration and additional consideration of $3,989,000 were paid to Food Services by issuance of 263,472 additional LP units, which were exchanged for 526,944 non-voting common shares of Trade Marks.

(figures in tables expressed in thousands of dollars)

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 30, 2018	**52-week period ended December 31, 2017** (Restated)
Statutory combined federal and provincial income tax rates	26.85%	26.14%
	$	**$**
Provision for income taxes based on statutory income tax rates	6,595	7,045
Non-taxable portion and rate difference on capital gains	(369)	(738)
Investment in A&W Trade Marks Inc.	778	(537)
Deferred tax on increase to deferred gain	(2,972)	(1,713)
Deferred tax on increase to deferred revenue	(496)	(637)
Non-deductible items	288	141
Rate changes on deferred income taxes	19	(376)
Adjustment to prior period provisions	43	(1)
Provision for income taxes	3,886	3,184

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

	December 30, 2018 **$**	**December 31, 2017** **$** (restated)
Current tax reserves	429	442
Deferred gain	17,764	15,008
Deferred revenue	7,188	6,692
Long-term liabilities	3,442	3,757
Intangible assets	19	21
Plant and equipment	43	11
Investment in A&W Trade Marks Inc.	(9,214)	(6,244)
	19,671	19,687

(figures in tables expressed in thousands of dollars)

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

	December 30, 2018 $	December 31, 2017 $ (Restated)
Deferred tax assets		
Deferred tax assets to be recovered after more than one year	27,542	24,664
Deferred tax assets to be recovered within one year	1,365	1,256
	28,907	25,920
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than one year	(9,214)	(6,211)
Deferred tax liabilities to be recovered within one year	(22)	(22)
	(9,236)	(6,233)
Deferred tax assets - net	19,671	19,687

(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 2, 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
Opening net book value	4,391	3,470	1,687	9,548
Additions	2,636	1,344	833	4,813
Disposals	-	-	(140)	(140)
Depreciation	(432)	(969)	(870)	(2,271)
Net book value	6,595	3,845	1,510	11,950
Balance – December 30, 2018				
Cost	8,893	7,203	3,094	19,190
Accumulated depreciation	(2,298)	(3,358)	(1,584)	(7,240)
Net book value	6,595	3,845	1,510	11,950

(figures in tables expressed in thousands of dollars)

8 Accounts payable and accrued liabilities

	December 30, 2018 $	December 31, 2017 $ (Restated)
Trade payables	20,683	19,133
Equipment, inventory and other	18,809	9,523
Employee benefits payable	4,858	3,639
	44,350	32,295

9 Deferred gain

The deferred gain as at December 30, 2018 and December 31, 2017 is as follows:

	Number of restaurants in Royalty Pool	Deferred gain $	Accumulated amortization $	Net deferred gain $
Balance – January 2, 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
January 5, 2017 adjustment to the Royalty Pool	35	29,978	-	29,978
Amortization of deferred gain	-	-	(2,181)	(2,181)
Balance - December 30, 2018	896	199,528	(20,380)	179,148

(figures in tables expressed in thousands of dollars)

10 Employee benefits

a) Supplementary retirement benefit plan

The most recent actuarial valuation of the unfunded liability was as at December 31, 2018 and the next required valuation will be as at December 29, 2019.

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

	December 30, 2018 $	**December 31, 2017 $**
Discount rate	3.90%	3.40%
Inflation	2.0%	2.0%

The supplementary retirement benefit plan is as follows:

	December 30, 2018 $	**December 31, 2017 $**
Unfunded liability under supplementary retirement benefit plan	13,773	14,872
Less: Current portion included in accrued liabilities	(831)	(758)
Liability on the consolidated balance sheet	12,942	14,114

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

	Discount rate %	**Liability $**
- 50 basis points	3.40%	14,558
+ 50 basis points	4.40%	13,029

(figures in tables expressed in thousands of dollars)

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

	52-week period ended December 30, 2018 $	52-week period ended December 31, 2017 $
Actuarial (gain) loss recognized in other comprehensive income in the period, net of tax expense of $224,000 (December 31, 2017 – $53,000 recovery)	(609)	28
Total cumulative actuarial losses recognized in other comprehensive income, net of tax of $1,052,000 (December 31, 2017 – $1,276,000)	2,872	3,481

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

	Note	$
Balance – January 2, 2017		14,657
Interest cost	16	533
Actuarial loss		80
Benefits paid		(398)
Balance – December 31, 2017		14,872
Interest cost	16	490
Actuarial gain		(833)
Benefits paid		(756)
Balance – December 30, 2018		13,773

b) Defined contribution pension plan

Pension expense for the year for the defined contribution pension plan was $756,000 (December 31, 2017 – $708,000). Total cash payments during the year for the defined contribution pension plan were $756,000 (December 31, 2017 – $708,000).

(figures in tables expressed in thousands of dollars)

11 Other long-term liabilities and obligations under finance leases

	December 30, 2018 $	December 31, 2017 $
Other long-term liabilities	67	65
Less: Current portion included in accrued liabilities	(23)	(22)
	44	43
Obligations under finance leases, with terms of 36 to 50 months and bearing interest at 7% to 11%	1,670	1,859
Less: Current portion included in accrued liabilities	(805)	(822)
	865	1,037

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 30, 2018, letters of credit totalling $329,000 (December 31, 2017 – $329,000) have been issued by the Bank to landlords and cities for development of new restaurants, leaving $7,671,000 of the facility available (December 31, 2017 – $7,671,000).

In April 2018, Food Services repaid the $7,000,000 term loan that had been entered into with the Bank on March 3, 2017. While the term loan was outstanding, interest only was payable monthly at the bank prime rate plus 0.5%.

The term loan comprises:

	December 30, 2018 $	December 31, 2017 $
Term loan	-	7,000
Less: Financing fees	-	(59)
	-	6,941

(figures in tables expressed in thousands of dollars)

13 Share capital

Authorized
Unlimited number of common shares
Unlimited number of preferred shares

Issued

	December 30, 2018 $	December 31, 2017 $
4,781,250 common shares	10,500	10,500

14 Franchising revenue

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

	52-week period ended December 30, 2018 $	52-week period ended December, 31 2017 $ (restated)
At a point in time		
Advertising fund contributions	44,665	38,667
Distribution revenue and service fees	85,322	74,249
Equipment and turnkey fees	47,810	49,273
Other revenue	10,161	7,184
Over time		
Initial franchise fees and renewal fees	2,162	2,154
	190,120	171,527

The Company has recorded $27,431,000 (2017 - $25,581,000) of deferred revenue related to initial franchise fees and renewal fees. The Company expects to recognize as revenue $2,247,000 (2017 - $2,135,000) in the following fiscal period, which represents the current portion of deferred revenue. The non-current portion of deferred revenue of $25,184,000 (2017 - $23,446,000) is expected to be recognized over the remaining term of the franchise agreement.

The Company has recorded $12,626,000 (2017 – $8,112,000) of deposits on franchise and equipment sales that will be recognized as revenue in the following fiscal period, when control transfers which is when the related restaurants commence operations. During the year, $8,112,000 (2017 - $8,216,000) of revenues were recognized related to deposits deferred at the end of the prior period.

(figures in tables expressed in thousands of dollars)

15 Expenses by nature

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

	52-week period ended December 30, 2018 $	52-week period ended December 31, 2017 $
Depreciation of plant and equipment	2,271	2,073
Employee benefit costs		
Wages and salaries and other termination benefits	27,177	23,748
Pension costs - defined contribution plan	756	708
Total employee benefit costs	27,933	24,456

16 Finance expense - net

	52-week period ended December 30, 2018 $	52-week period ended December, 31 2017 $
Interest income	(130)	(45)
Interest cost on supplementary retirement benefit plan	490	533
Interest cost on term loan	24	181
Finance leases	144	155
	528	824

17 Working capital

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

	52-week period ended December 30, 2018 $	52-week period ended December, 31 2017 $ (restated)
Accounts receivable	(7,468)	(2,234)
Inventories	(6,374)	1,098
Prepaid expenses	(575)	(400)
Accounts payable and accrued liabilities	12,073	2,589
Royalties payable	520	226
	(1,824)	1,279

(figures in tables expressed in thousands of dollars)

18 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				
2019	938	44,858	43,097	1,760
2020	638	44,231	42,428	1,803
2021	308	41,390	39,541	1,849
2022	23	38,688	36,912	1,770
2023	-	35,809	34,428	1,381
Balance of commitments	-	318,566	312,421	6,145
	1,907	523,542	508,827	14,708
Less: Imputed interest	(237)	-	-	-
	1,670	523,542	508,827	14,708

Purchase obligations

The Company has purchase obligations for supply to franchisees for food supplies, packaging and equipment of $72,610,000 (December 31, 2017 – $54,886,000).

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.

(figures in tables expressed in thousands of dollars)

19 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 30, 2018, $6,213,000 (December 31, 2017 – $5,020,000) 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)

20 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.

21 Related party transactions and balances

Royalty expense for the year was $40,890,000 (December 31, 2017 – $35,616,000), of which $3,262,000 (December 31, 2017 – $2,742,000) is payable to the Partnership by Food Services at December 30, 2018.

During the year, dividends of $7,316,000 (December 31, 2017 –$5,684,000) 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 $69,000 (December 31, 2017 – $80,000). At December 30, 2018, $nil (December 31, 2017 – $nil) is payable to the private company by Food Services.

During the year, Food Services paid $125,000 (December 31, 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 30, 2018, $nil (December 31, 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 30, 2018 $	52-week period ended December 31, 2017 $
Salaries, bonuses and other short-term employee benefits	3,973	3,949
Pension costs - defined contribution plan	175	181
Pension costs - supplementary retirement benefit plan	490	533
Total	4,638	4,663

(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 $12,316,000 (December 31, 2017 – $36,451,000) from working capital to its shareholder.

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

22 Subsequent event

On January 5, 2019, the number of A&W restaurants in the Royalty Pool was increased by 46 new restaurants less eight restaurants that permanently closed during 2018. The initial consideration for the estimated royalty revenue from the net 38 restaurants added to the Royalty Pool is $27,305,000. The Partnership paid Food Services $21,844,000 by issuance of 627,514 LP Units, representing 80% of the initial consideration. The LP Units were exchanged for 1,255,028 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 2019 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks.