

# A&W Revenue Royalties Income Fund

## Financial Statements

for the period from

February 15th, 2002 (commencement of operations)

to December 31, 2002



## Management's Discussion and Analysis

The following is a discussion of the consolidated financial condition and results of operations of A&W Revenue Royalties Income Fund (the "Fund"). It should be read in conjunction with the audited Consolidated Financial Statements of the Fund which are on pages 15 to 22. Since this is the first year of operations of the Fund, comparisons of operations to prior periods are not available.

The annual report of the Fund, including the enclosed annual review of A&W Food Services of Canada Inc. ("Food Services") and this Management Discussion and Analysis contain forward-looking statements based on assumptions that management considered reasonable at the time they were prepared. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the risk factors described on pages 12 and 13.

### INCEPTION OF THE FUND

Inception of the Fund began with the issue and commencement of trading of Fund units on the Toronto Stock Exchange (TSX) on February 15, 2002 (TSX symbol AW.UN).

The Fund was created as a limited purpose trust to invest in securities of A&W Trade Marks Inc. (the "Company"). The Company acquired the A&W trade-marks from Food Services which were then licenced to Food Services for use in its hamburger quick service restaurant business in return for payment of a royalty of 3% of sales of A&W restaurants in Canada. At the inception of the Fund, there were 585 A&W restaurants across Canada for which gross sales were calculated for the purpose of determining the royalty. (See "Subsequent Events" on page 13 for a discussion of the increase in number of restaurants in the Royalty Pool which occurred in January 2003.)

Since the Fund is based on the gross sales of A&W restaurants, its expenses are limited to general and administrative expenses, interest on long-term debt, amortization of deferred financing fees, taxes and Class A share dividends.

At the Fund's inception, Food Services owned 25% of the units of the Fund on a fully diluted basis. In January 2003, Food Services' ownership interest in the Fund increased to 28%. (See "Subsequent Events" on page 13).

So long as Food Services holds an indirect interest in the Fund, distributions by the Fund to unitholders in the amount of approximately 9 cents per month are made before an equivalent amount is paid to Food Services.

From inception in February 2002 to year end, the Fund made its projected distributions to unitholders of 9 cents per unit per month.

### Summary of Operating Results

(in thousands of dollars except per unit amounts)

For the period from February 15, 2002  
(commencement of operations) to  
December 31, 2002

|   |            |
|---|------------|
| Gross sales reported by the 585 A&W outlets in the Royalty Pool | \$ 384,286 |
| Royalty income  | \$ 11,529  |
| Class A share dividends   | 2,620      |
| Net earnings for the period                                     | 7,063      |
| Basic and diluted earnings per Unit                             | \$ 0.847   |

### GROSS SALES REPORTED BY A&W OUTLETS

Gross Sales from the 585 restaurants in the Royalty Pool during the period February 15 to December 31, 2002 were \$384,286,000.

Same store sales for the restaurants in the Royalty Pool declined by 1.4% from 2001. While this decline was disappointing, it was a better result than that realized by others in the industry (QSR).

The following chart shows the changes in same store sales by A&W Restaurants in 2002 versus 2001 compared to those of the industry (QSR) and its competitors in the same periods.

#### Changes in Same Store Sales 2002 compared to 2001

|                       |                    |
|-----------------------|--------------------|
| A&W                   | -1.4%              |
| Major Competitor      | -2.5% <sup>1</sup> |
| Canadian QSR Industry | -5.1% <sup>2</sup> |

<sup>1</sup> As reported by the competitor in print media.

<sup>2</sup> Based on overall sales decline of 0.8% as reported by Stats Can, and an estimated growth in new restaurants of 4.3%

Sales results across the total Canadian foodservice market were the poorest year-over-year since 1991 when the

GST was first applied to restaurant meals. Management of Food Services believes that this decline was primarily attributable to lower expenditures by Canadians on consumables such as foodservice, versus expenditures on capital items such as housing, automobiles, etc. which were driven by record low interest rates.

Despite one of the worst years in Canadian restaurant history, A&W outperformed the overall QSR industry in 2002 – evidence that its strategy of focusing on the “baby boomers” is working. Key strategic initiatives aimed at building same store sales during the year included a focus on establishing Chubby Chicken as a take home meal alternative for the family. Chubby Chicken was reintroduced to the A&W menu nationally in 2001 and was the focus of a national advertising campaign in 2002.

In addition, a major program to re-image A&W’s freestanding (on street) restaurants was undertaken in 2002. Restaurants are being re-imaged in colours and with design features specifically focused on evoking the rich memories that the boomers have of A&W. Seventy-five restaurants were re-imaged in 2002.

### Expenses and Taxes

(in thousands of dollars)

For the period from February 15, 2002  
(commencement of operations) to  
December 31, 2002

|   |                 |
|---|-----------------|
| General and Administrative              | \$ 365          |
| Interest on Term Loan                   | \$ 500          |
| Amortization of deferred financing fees | 120             |
| Taxes                                   | 861             |
| Class A share dividends                 | \$ 2,620        |
|   | <u>\$ 4,466</u> |

Expenses of the Fund are limited to general and administrative expenses for the administration of the Fund itself, such as printing, postage, legal and

accounting, interest expenses on the Fund's term loan, amortization of deferred financing fees associated with the creation of the Fund and Class A share dividends.

Taxes include future income taxes described in note 7(b) on page 21, and the large corporations capital tax of \$250,000. The Government of Canada recently announced that the large corporations capital tax is to be phased out between 2004 and 2008, and limited to capital in excess of \$50 million in 2004. This change will reduce capital taxes payable by the Fund in the future.

The dividends on the Class A shares are treated for accounting purposes as interest expense and, as such, are deducted in arriving at Net Earnings.

#### Distributions to Unitholders

(in thousands of dollars except per unit amounts)

|  | For the period from February 15, 2002<br>(commencement of operations) to<br>December 31, 2002 |          |
|--|---|----------|
| Net earnings for the period                          | \$  | 7,063    |
| Add  |   |          |
| Amortization of deferred financing fees              |   | 120      |
| Future income taxes                                  |   | 611      |
| Class A share dividends                              |   | 2,620    |
| Distributable cash                                   | \$  | 10,414   |
| Distributable cash available for Trust Units         | \$  | 7,860    |
| Distributable cash available for dividends           |   | 2,554    |
|  | \$  | 10,414   |
| Dividends accrued and unpaid on<br>Class A shares    | \$  | 338      |
|  |   |          |
|  | <b>Per Trust Unit</b>   |          |
| Distributable cash (8,340,000 Units)                 | \$ 0.942  | \$ 7,860 |
| Distributions declared and<br>paid (8,340,000 Units) | 0.848   | 7,075    |
| Distributions accrued (8,340,000 Units)              | 0.090   | 751      |

During 2002, Class A share dividends accrued and payable to Food Services amounted to \$2,620,000 and dividends of \$2,282,000 were paid. Distributable cash available to pay Class A share dividends totalled \$2,554,000. At the end of 2002, Class A share dividends accrued but not paid to Food Services amounted to \$338,000. On January 15, 2003 the Company declared a dividend payable to Food Services of \$253,000 payable on January 31, 2003. Distributable cash was available to declare a further Class A share dividend of \$19,000.

#### TAX TREATMENT OF DISTRIBUTIONS

The distributions paid and payable in the year are taxable to unitholders as other investment income.

#### SEASONALITY OF CASH AVAILABLE FOR DISTRIBUTION

Sales in the QSR industry fluctuate seasonally in freestanding restaurants due to the impact of weather. In shopping centers, where A&W has approximately 250 of its restaurants, seasonality (e.g. Christmas, back to school) impacts sales as well. Distributions to unitholders are made on a monthly basis and are levelled out in order to provide unitholders with uniform monthly distributions.

#### RISKS AND UNCERTAINTIES

The performance of the Fund is dependent upon the royalty the Company receives from Food Services. The amount of the royalty is dependent upon the gross sales of the A&W restaurants in the Royalty Pool. Sales are subject to a number of factors that affect the restaurant industry generally and the quick service segment of this

industry in particular. These include: the highly competitive nature of the industry, traffic patterns, demographic considerations and the type, number and proximity of competing quick service restaurants. In addition, factors such as the availability of experienced management and hourly employees may also adversely affect the gross sales of the quick service restaurant industry in general, and the gross sales by A&W restaurants in particular.

Food Services competes with other companies, including other well-capitalized franchisors with extensive financial, technological, marketing and personnel resources and high brand name recognition and awareness. There can be no assurance that Food Services will be able to respond successfully to various competitive factors affecting the franchise operations of Food Services in the quick service restaurant industry.

Any significant event that adversely affects consumption of hamburgers, fries and soft drinks (such as cost, changing tastes or health concerns) could adversely impact the gross sales of A&W restaurants and, consequently, the amount of the royalty payable to the Company.

The growth of the royalty is dependent upon the ability of Food Services to (i) maintain and grow the current system of franchises, (ii) execute its current strategy for growth, (iii) locate new retail sites in prime locations and (iv) obtain qualified operators to become A&W franchisees. Food Services faces competition for retail locations and franchisees from its competitors and from franchisors of other businesses. Food Services' inability to successfully obtain qualified franchisees could adversely affect its business development.

Food Services and A&W franchisees may be the subject of complaints or litigation from guests alleging food-related illnesses, injuries suffered on the premises or other food quality, health or operational concerns. Adverse publicity resulting from such allegations may materially affect the sales of A&W restaurants, regardless of whether such allegations are true or whether Food Services or an A&W franchisee is ultimately held liable.

## EVENTS SUBSEQUENT TO YEAR-END

### a) Change in Royalty Pool

Effective January 5, 2003, the number of A&W restaurants for which royalties are paid to the Fund was increased to include the revenues from 27 new restaurants less eight permanently closed restaurants. The Company paid Food Services \$5,505,000, by issuance of 487,624 Class B shares, as initial consideration for the estimated royalty stream from the 19 net additional restaurants added to the Royalty Pool. A final adjustment to the Class B share consideration will be made in December 2003 based upon the 2003 annual gross sales reported by the new restaurants. Until the 2003 gross sales of the new restaurants are reported, 20% of the Class B shares will be held in escrow. The Class B shares have substantially the same terms as the Class A shares.

The issuance of the Class B shares comprise the first payment of the \$40,000,000 unpaid consideration on the acquisition of the A&W trade-marks and will be recorded as an additional cost of the A&W trade-marks.

**b) Declaration of distributions and dividends in respect of 2002**

On January 6, 2003, the Trustees declared a distribution payable to unitholders of record on January 15, 2003 of 9 cents per unit (\$750,600) and declared a dividend payable to Food Services of \$253,000, both payable on January 31, 2003.

**OUTLOOK**

The Canadian economy is generally forecast to perform at levels below that of 2002. There is considerable uncertainty associated with the war in Iraq as this is being written, and the impact of this conflict on the global and North American economies.

However, Food Services' strategic focus on baby boomers should continue to result in superior performance versus its industry and therefore, despite the economic uncertainties reflected in general equity market malaise, distributions to unitholders from the Fund are expected to be maintained in 2003 at 9 cents per unit, per month.

In terms of strategic initiatives, in mid-March Food Services introduced a new advertising campaign designed to strengthen its bond with boomer consumers. Food Services has also begun the roll out of new menu boards throughout its restaurants. These menu boards are designed to increase the average amount spent per customer transaction by 2%.

Continued focused marketing of Chubby Chicken will also occur in 2003, and Food Services will continue its re-imaging program with an aim of re-imaging 75 restaurants in 2003.

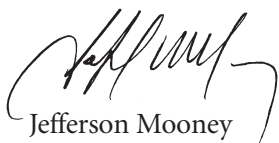
## MANAGEMENT'S STATEMENT OF RESPONSIBILITIES

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Directors and the Trustees. The consolidated financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements.

The Company maintains appropriate systems of internal control, policies and procedures, which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors and the Trustees ensure that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and reports to the Trustees. The auditors have full and direct access to the Audit Committee.

The consolidated financial statements have been independently audited by PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing standards. Their report below expresses their opinion on the consolidated financial statements of the Company.



Jefferson Mooney  
Director

## AUDITORS' REPORT

To the Unitholders of  
A&W Revenue Royalties Income Fund

We have audited the consolidated balance sheet of A&W Revenue Royalties Income Fund (the Fund) as at December 31, 2002 and the consolidated statements of earnings, unitholders' equity and cash flows for the period from February 15, 2002 (commencement of operations) to December 31, 2002. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2002 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Vancouver, British Columbia  
January 28, 2003

**Consolidated Balance Sheet**

(in thousands of dollars)

As at December 31, 2002


|   |            |
|---|------------|
| <b>ASSETS</b>   |            |
| <b>Current assets</b>                                   |            |
| Cash  | \$ 490     |
| Accounts receivable (note 11)                           | 1,266      |
| Prepaid interest  | 25         |
|   | 1,781      |
| <b>Intangible assets</b> (note 4)                       | 120,756    |
| <b>Deferred financing fees</b>                          | 292        |
|   | \$ 122,829 |
| <b>LIABILITIES</b>                                      |            |
| <b>Current liabilities</b>                              |            |
| Accounts payable and accrued liabilities                | \$ 474     |
| Corporate taxes payable                                 | 250        |
| Distribution payable to Unitholders (note 3)            | 751        |
|   | 1,475      |
| <b>Term loan</b> (note 6)                               | 10,000     |
| <b>Future income taxes</b> (note 7)                     | 6,864      |
| <b>A&amp;W Trade Marks Inc. Class A shares</b> (note 8) | 28,138     |
|   | 46,477     |
| <b>Unitholders' Equity</b>                              | 76,352     |
|   | \$ 122,829 |

**Subsequent events** (note 12)

Approved by the Trustees



John R. McLernon



Conrad A. Pinette

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

**Consolidated Statement of Unitholders' Equity**

(in thousands of dollars)

For the period from February 15, 2002  
(commencement of operations) to  
December 31, 2002

|  |                  |
|--|------------------|
| <b>Balance – beginning of period</b>               | \$ —             |
| <b>Issue of Trust Units</b> (note 9)               | 77,115           |
| <b>Net earnings for the period</b>                 | 7,063            |
| <b>Distributions declared and accrued</b> (note 3) | <u>(7,826)</u>   |
| <b>Balance – end of period</b>                     | <u>\$ 76,352</u> |

**Consolidated Statement of Earnings**

(in thousands of dollars except per unit amounts)

For the period from February 15, 2002  
(commencement of operations) to  
December 31, 2002

|   |                   |
|---|-------------------|
| <b>Gross sales reported by A&amp;W outlets</b>                  | <u>\$ 384,286</u> |
| <b>Royalty income</b> (notes 4 and 11)                          | <u>\$ 11,529</u>  |
| <b>Expenses</b>   |                   |
| General and administrative                                      | 365               |
| Interest on term loan   | 500               |
| Amortization of deferred financing fees                         | <u>120</u>        |
|   | <u>985</u>        |
| <b>Earnings before income taxes and Class A share dividends</b> | <u>10,544</u>     |
| <b>Provision for income taxes</b>                               |                   |
| Large corporations tax  | 250               |
| Future income taxes   | <u>611</u>        |
|   | <u>861</u>        |
| <b>Earnings before Class A share dividends</b>                  | 9,683             |
| <b>Class A share dividends</b> (note 8)                         | <u>2,620</u>      |
| <b>Net earnings for the period</b>                              | <u>\$ 7,063</u>   |
| <b>Basic and diluted earnings per</b>                           |                   |
| <b>Trust Unit</b> (8,340,000 Units)                             | <u>\$ 0.847</u>   |

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

**Consolidated Statement of Cash Flows**

(in thousands of dollars)

For the period from February 15, 2002  
(commencement of operations) to  
December 31, 2002

|   |                  |
|---|------------------|
| <b>Cash flows from operating activities</b>     |                  |
| Net earnings for the period                     | \$ 7,063         |
| Items not affecting cash                        |                  |
| Amortization                                    | 120              |
| Provision for future income taxes               | 611              |
| Accrued Class A share dividends (note 8)        | 338              |
|   | <u>8,132</u>     |
| Net changes in non-cash working capital         | <u>(567)</u>     |
|   | <u>7,565</u>     |
| <b>Cash flows from investing activities</b>     |                  |
| Acquisition (note 4)                            | <u>(84,876)</u>  |
| <b>Cash flows from financing activities</b>     |                  |
| Issuance of Trust Units (note 9)                | 83,400           |
| Cost of issuance (note 9)                       | (8,112)          |
| Term loan (note 6)                              | 10,000           |
| Financing fees                                  | (412)            |
| Distributions paid to Unitholders (note 3)      | (7,075)          |
|   | <u>77,801</u>    |
| <b>Increase in cash for the period</b>          | <b>490</b>       |
| <b>Cash - beginning of period</b>               | <b>—</b>         |
| <b>Cash – end of period</b>                     | <b>\$ 490</b>    |
| <b>Supplementary cash flow information</b>      |                  |
| Non-cash financing activities                   |                  |
| Issuance of A&W Trade Marks Inc. Class A shares | <u>\$ 27,800</u> |
| Interest paid                                   | <u>\$ 525</u>    |
| Class A share dividends paid                    | <u>\$ 2,282</u>  |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period February 15, 2002 to December 31, 2002

(All figures in tables expressed in thousands of dollars, except per unit amounts)

### 1. Organization and nature of business

A&W Revenue Royalties Income Fund (the Fund) is a limited purpose trust established with an unlimited number of Trust Units (Units) under the laws of the Province of British Columbia pursuant to the Declaration of Trust on December 18, 2001. The Fund was established to invest in A&W Trade Marks Inc. (the Company), which owns the A&W trade-marks (A&W Marks) used in the A&W quick service restaurant business in Canada. Income tax obligations related to the distributions by the Fund are obligations of the Unitholders.

The business of the Company is the ownership of the A&W Marks and through the Licence and Royalty Agreement with A&W Food Services of Canada Inc. (Food Services) to exploit the use of the A&W Marks and the development of new A&W outlets by Food Services, and the collection of the royalty payable under the Licence and Royalty Agreement. Food Services is a leading franchisor of hamburger quick service restaurants in Canada.

### 2. Summary of significant accounting policies

#### *Basis of financial statements*

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements are from February 15, 2002, the date of the acquisition of the A&W Marks and the closing of the sale of the Units of the Fund, to December 31, 2002.

#### *Principles of consolidation*

The consolidated financial statements include the accounts of the Fund and its 75% owned subsidiary A&W Trade Marks Inc. (the Company). Food Services holds the 25% non-controlling interest in the Company.

#### *Revenue recognition*

Revenue comprises royalty income equal to three per cent of sales from specific A&W outlets in Canada (the royalty pool), and is recognized on an accrual basis.

#### *Intangible assets*

Intangible assets, which have an indefinite life, comprise the A&W Marks and are recorded at cost. Management reviews the carrying value of the intangible assets at least annually for impairment. Intangible assets are written down when declines in value are considered to be other than temporary based upon forecast future cash flows.

#### *Deferred financing fees*

Fees incurred in obtaining debt financing are deferred and are amortized on a straight-line basis over the term of the debt.

#### *Future income taxes*

Future income taxes are calculated using the liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using the substantially enacted tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

#### *Earnings per Unit*

The earnings per Unit are based on the weighted average number of Units outstanding during the period. Diluted earnings per Unit are calculated to reflect the dilutive effect, if any, of Food Services exercising its right to exchange its Class A and common shares of the Company into Units of the Fund at the beginning of the period.

#### *Distributions*

The amount of cash to be distributed annually to Unitholders is determined with reference to distributable cash, which is calculated as net earnings adjusted for amortization, future income taxes, and dividends on Class A shares.

Distributions to Unitholders are intended to be made monthly in arrears based upon distributable cash less cash redemptions of Units, and subject to the Fund retaining such reasonable working capital reserves as may be considered appropriate by the Trustees of the Fund.

Distributions to Food Services comprise cash dividends on the Class A shares of the Company.

## 2. Summary of significant accounting policies (continued)

### Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

### Financial instruments

The Fund's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, distribution payable to Unitholders, and term loan. Unless otherwise noted, it is management's opinion that the Fund is not exposed to significant interest or credit risks arising from these financial instruments. Management estimates that the fair values of these financial instruments approximate their carrying values, unless otherwise noted.

## 3. Distributions

|   |                |       |          |
|---|----------------|-------|----------|
| Net earnings for the period                       |                | \$    | 7,063    |
| Add   |                |       |          |
| Amortization of deferred financing fees           |                |       | 120      |
| Future income taxes                               |                |       | 611      |
| Class A share dividends                           |                |       | 2,620    |
|   |                |       | <hr/>    |
| Distributable cash                                |                | \$    | 10,414   |
|   |                |       | <hr/>    |
| Distributable cash available for Trust Units      |                | \$    | 7,860    |
| Distributable cash available for dividends        |                |       | 2,554    |
|   |                |       | <hr/>    |
|   |                | \$    | 10,414   |
|   |                |       | <hr/>    |
|   | Per Trust Unit |       |          |
| Distributable cash (8,340,000 Units)              | \$             | 0.942 | \$ 7,860 |
|   |                |       | <hr/>    |
| Distributions declared and paid (8,340,000 Units) |                | 0.848 | 7,075    |
|   |                |       | <hr/>    |
| Distribution accrued (8,340,000 Units)            |                | 0.090 | 751      |
|   |                |       | <hr/>    |

The Fund is taxed as a mutual fund trust for income tax purposes. Pursuant to the Declaration of Trust, all of the taxable income earned directly by the Fund in the period is distributable to Unitholders and such distributions are deductible for income tax purposes. This gives rise to an accrued distribution payable to Unitholders of \$750,600 at December 31, 2002 (note 12(b)).

## 4. Acquisition

On February 15, 2002, the Company acquired the A&W Marks used in the A&W quick service restaurant business in Canada for \$152,676,000, of which \$84,876,000 was paid in cash, \$27,800,000 was paid by the issuance of 2,779,975 Class A shares and 2,780,000 common shares of the Company, and the balance of the purchase price (the Balance) of \$40,000,000 is due, without interest, on December 31, 2006.

Over the next five years, the Balance will be reduced by all amounts the Company is required to pay Food Services in respect of annual adjustments (the Determined Amounts) to royalties from new restaurants established. If the total Determined Amounts are less than the Balance, the obligation of the Fund to pay the remaining balance of the purchase price is extinguished. Accordingly, for accounting purposes, the Balance will not be recorded on acquisition but will be recognized in the periods such Determined Amounts become payable (note 12(a)).

Concurrently with the purchase of the A&W Marks, the Company granted Food Services a licence to use the A&W Marks in Canada for a term of 99 years, for which Food Services pays the Company a royalty of three per cent of the gross sales reported to Food Services by the A&W outlets included in the royalty pool.

The acquisition comprised:

|   |    |         |
|---|----|---------|
| A&W Marks                                   | \$ | 120,756 |
| Less: Future income taxes                   |    | (8,080) |
|   |    | <hr/>   |
|   | \$ | 112,676 |
|   |    | <hr/>   |
| Consideration:                              |    |         |
| Cash  | \$ | 84,876  |
| Class A shares of the Company               |    | 27,800  |
| Common shares of the Company (25% interest) |    | —       |
|   |    | <hr/>   |
|   | \$ | 112,676 |
|   |    | <hr/>   |

## 5. Operating bank line of credit

The Company has a demand operating facility of up to \$2,000,000 to fund the Company's working capital requirements and for general corporate purposes. The facility bears interest at bank prime plus 0.5% and is repayable on demand. As at December 31, 2002, the full amount of the facility was available. The facility is collateralized as part of the term loan (note 6).

## 6. Term loan

The Company has a term loan in the amount of \$10,000,000. The term loan is repayable on February 14, 2005 and bears interest at a fixed rate of 6.03% by an interest rate swap effective April 5, 2002 and maturing February 14, 2005. A general security agreement over the assets of the Company is provided as security.

## 7. Income taxes

a) The Fund is not taxable on any income that is distributed to Unitholders. The Company is taxable on its income at Canadian statutory rates.

The provision for income taxes shown in the consolidated statement of earnings differs from the amount obtained by applying statutory tax rates to the earnings before income taxes and dividends on Class A shares for the following reasons:

|   |          |
|---|----------|
| Statutory combined federal and provincial income tax rates on investment income | 22.53%   |
| Provision for income taxes based on statutory income tax rates                  | \$ 2,373 |
| Income distributed or accrued to Unitholders not subject to tax in the Fund     | (1,762)  |
| Large corporations tax  | 250      |
| Provision for income taxes  | \$ 861   |

b) Future income taxes comprise the following:

|                         |            |
|-------------------------|------------|
| Long-term assets        |            |
| Share issue costs       | \$ 1,439   |
| Deferred financing fees | 9          |
| Non-capital losses      | 1,245      |
|                         | 2,693      |
| Long-term liability     |            |
| Intangible assets       | (9,557)    |
|                         | \$ (6,864) |

At December 31, 2002, the Company has non-capital losses available to carry forward of approximately \$5,500,000. These losses expire in 2009.

## 8. A&W Trade Marks Inc. Class A shares

The Class A shares are owned by Food Services and comprise:

|   |           |
|---|-----------|
| A&W Trade Marks Inc. Class A shares – at cost | \$ 27,800 |
| Accrued dividends payable on Class A shares   | 338       |
|   | \$ 28,138 |

The Class A shares entitle Food Services to a fixed cumulative preferential cash dividend at a rate of \$1.075 per share per annum. The Class A shares may be redeemed at the option of Food Services into A&W Notes of the Company on the basis of \$10 principal amount of A&W Notes for one Class A share and, in turn, one common share of the Company and a \$10 A&W Note are exchangeable for a Unit in the Fund. Accordingly, the Class A shares are classified as liabilities of the Fund and the cumulative dividends are classified as interest expense in the consolidated statement of earnings.

## 9. Trust Units

The Declaration of Trust provides that an unlimited number of Units may be issued. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions of the Fund and in the net assets of the Fund. All Units have equal rights and privileges. Each Unit entitles the holder thereof to participate equally in allocations and distributions and to one vote at all meetings of Unitholders for each whole Unit held. The Units issued are not subject to future calls or assessments.

Units are redeemable at any time at the option of the holder at amounts related to market prices at the time, subject to a maximum of \$50,000 in cash redemptions by the Fund in any one month. The limitation may be waived at the discretion of the Trustees of the Fund. Redemption in excess of these amounts, assuming no waiving of the limitation, shall be paid by way of distribution in specie of a pro rata number of securities of the Company held by the Fund.

On February 15, 2002, the Fund issued 8,340,000 Units at \$10.00 per Unit pursuant to a public underwriting. Expenses of the offering amounted to \$6,285,000, net of future income taxes, and were charged to Unitholders' equity.

|   |           |           |
|---|-----------|-----------|
|   | Units     |           |
| Issue of Trust Units  | 8,340,000 | \$ 83,400 |
| Less: Expenses of the offering<br>(\$8,112,000), net of future<br>income taxes of \$1,827,000 | —         | 6,285     |
|   | 8,340,000 | \$ 77,115 |

#### **10. Administration agreement**

The Fund has entered into an administrative agreement with the Company whereby the Company at its expense will provide or arrange for the provision of services required in the administration of the Fund for the next 10 years. In turn, the Company has arranged for certain of these services to be provided by Food Services.

#### **11. Related party transactions and balances**

During the period, royalty income of \$11,529,000 was earned from Food Services, of which \$1,149,000 is receivable at December 31, 2002. The balance of \$117,000 in accounts receivable was also due from Food Services and relates to the reimbursement of costs associated with the public offering.

Other related party transactions and balances are referred to elsewhere in these consolidated financial statements.

#### **12. Subsequent events**

##### *a) Change in royalty pool*

Effective January 5, 2003, the number of A&W restaurants for which royalties are paid to the Fund has been increased to include the revenues from 27 new restaurants less 8 permanently closed restaurants. The Company paid Food Services \$5,505,000, by issuance of 487,624 Class B shares, as initial consideration for the royalty stream from the 19 net additional restaurants added to the royalty pool. A final adjustment to the Class B share consideration will be made in December 2003 based upon the 2003 annual gross sales reported by the new restaurants. Until the 2003 gross sales of the new restaurants are reported, 20% of the Class B shares will be held in escrow. The Class B shares have substantially the same terms as the Class A shares (see note 8).

The issuance of the Class B shares comprise the first payment of the \$40,000,000 unpaid consideration on the acquisition of the A&W Marks and will be recorded as an additional cost of the A&W Marks (note 4).

##### *b) Declaration of distributions in respect of 2002*

On January 6, 2003, the Trustees declared a distribution payable to Unitholders of record on January 15, 2003 of \$0.09 per unit (\$750,600) payable on January 31, 2003.