

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

**Q2/2022**

**Consolidated Financial  
Statements**

For the second quarter ended  
June 19, 2022

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



**A&W Food Services of Canada Inc.  
Report to Unitholders of A&W Revenue Royalties Income Fund  
January 3, 2022 to June 19, 2022**

This report and the unaudited interim condensed consolidated financial statements of A&W Food Services of Canada Inc. (“A&W” or “Food Services”) for the second quarter period from March 28, 2022 to June 19, 2022 and the year to date period from January 3, 2022 to June 19, 2022 are provided as a supplement to the unaudited interim condensed consolidated financial statements and Management Discussion and Analysis of the A&W Revenue Royalties Income Fund (the “Fund”) for the second quarter and year to date period ended June 19, 2022. This report is dated July 26, 2022 and should be read in conjunction with the unaudited interim condensed consolidated financial statements of Food Services for the 12 weeks and 24 weeks ended June 19, 2022 and the audited annual consolidated financial statements of Food Services for the 52 weeks ended January 2, 2022. Such financial statements and additional information about the Fund and Food Services are available at [www.sedar.com](http://www.sedar.com) or [www.awincomefund.ca](http://www.awincomefund.ca).

**Glossary**

A&W	Financial and operating results of Food Services and Beverages
Beverages	A&W Root Beer Beverages of Canada Inc.
Consolidated Financial Statements	Consolidated financial statements which include the accounts of Food Services and its 60% ownership interest in Beverages
Food Services	A&W Food Services of Canada Inc.
The Fund	A&W Revenue Royalties Income Fund
The Partnership or LP	A&W Trade Marks Limited Partnership
Trade Marks	A&W Trade Marks Inc. and A&W Trade Marks Limited Partnership

To align its financial reporting with the business cycle of its operations, Food Services uses a fiscal year comprising a 52 or 53 week period ending on the Sunday nearest December 31. The fiscal 2021 year was 52 weeks and ended January 2, 2022 (2020 – 53 weeks ended January 3, 2021). System Sales, System Sales Growth and Same Store Sales Growth – Franchised Restaurants for the 12 weeks and 24 weeks ended June 19, 2022 are compared to the 12 weeks and 24 weeks ended June 20, 2021 so that the two years are comparable. References to year to date amounts in this report are in respect of the period from January 3, 2022 to June 19, 2022.

The financial results reported in this report are prepared in accordance with International Financial Reporting Standards (“IFRS”) as applicable to interim financial reports, including International Accounting

Standards 34, Interim Financial Reporting. The accounting policies applied in the preparation of the interim condensed consolidated financial statements and this report are consistent with those followed in the preparation of Food Services' annual consolidated financial statements for the year ended January 2, 2022.

### Selected Information

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

(dollars in thousands)	<b>12-week period ended Jun 19, 2022</b>	12-week period ended Jun 20, 2021	<b>24-week period ended Jun 19, 2022</b>	24-week period ended Jun 20, 2021
System Sales <sup>(i)</sup>	<b>\$413,984</b>	\$359,179	<b>\$766,597</b>	\$666,153
System Sales Growth <sup>(ii)</sup>	<b>15.3%</b>	38.1%	<b>15.1%</b>	15.4%
Same Store Sales Growth – Franchised Restaurants <sup>(iii)</sup>	<b>12.2%</b>	33.5%	<b>12.0%</b>	12.2%
New restaurants opened	<b>7</b>	9	<b>11</b>	15
Restaurants permanently closed	<b>1</b>	2	<b>3</b>	5
Number of restaurants	<b>1,037</b>	1,016	<b>1,037</b>	1,016
Gross sales reported by A&W restaurants in the Royalty Pool <sup>(iii)</sup>	<b>\$406,215</b>	\$350,641	<b>\$758,829</b>	\$661,367
Royalty Pool Same Store Sales Growth <sup>(iii)</sup>	<b>12.2%</b>	33.5%	<b>12.0%</b>	12.2%
Number of restaurants in the Royalty Pool	<b>1,015</b>	994	<b>1,015</b>	994
Revenue from franchising	<b>\$65,295</b>	\$51,827	<b>\$116,326</b>	\$90,628
Revenue from corporate restaurants	<b>5,004</b>	3,766	<b>8,970</b>	7,266
<b>Total Revenue</b>	<b>70,299</b>	55,593	<b>125,296</b>	97,894
Operating costs and general and administrative expenses	<b>(49,119)</b>	(36,435)	<b>(86,328)</b>	(65,183)
Depreciation of plant, equipment and right-of-use assets	<b>1,009</b>	993	<b>1,994</b>	1,951
<b>Operating Earnings<sup>(i)</sup></b>	<b>22,189</b>	20,151	<b>40,962</b>	34,662
Royalty Expense	<b>(12,187)</b>	(10,519)	<b>(22,584)</b>	(19,601)
Income before taxes	<b>12,162</b>	13,643	<b>22,557</b>	19,962
<b>Net income</b>	<b>\$9,726</b>	\$10,591	<b>\$18,785</b>	\$15,972

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

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

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

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

(dollars in thousands)	<b>12-week period ended Jun 19, 2022</b>	12-week period ended Jun 20, 2021	<b>24-week period ended Jun 19, 2022</b>	24-week period ended Jun 20, 2021
Revenue from corporate restaurants	<b>5,004</b>	3,766	<b>8,970</b>	7,266
Sales reported by franchised restaurants	<b>408,980</b>	355,413	<b>757,627</b>	658,887
System Sales	<b>\$413,984</b>	\$359,179	<b>\$766,597</b>	\$666,153

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

(dollars in thousands)	<b>12-week period ended Jun 19, 2022</b>	12-week period ended Jun 20, 2021	<b>24-week period ended Jun 19, 2022</b>	24-week period ended Jun 20, 2021
Income before income taxes	<b>12,162</b>	13,643	<b>22,557</b>	19,962
Depreciation of plant, equipment and right-of-use assets	<b>1,009</b>	993	<b>1,994</b>	1,951
Royalty expense	<b>12,187</b>	10,519	<b>22,584</b>	19,601
Finance expense - net	<b>297</b>	329	<b>597</b>	633
Amortization of deferred gain	<b>(797)</b>	(723)	<b>(1,593)</b>	(1,447)
Share of income from associates	<b>(2,669)</b>	(1,940)	<b>(5,177)</b>	(3,368)
Gain on sale of Units of A&W Revenue Royalties Income Fund	-	(2,670)	-	(2,670)
Operating Earnings	<b>\$22,189</b>	\$20,151	<b>\$40,962</b>	\$34,662

## Non-IFRS Measures

Food Services believes that disclosing certain non-IFRS financial measures provides readers of this report with important information regarding Food Services’ financial performance and its ability to pay the royalty to the Partnership. By considering these measures in combination with IFRS measures, Food Services believes that readers are provided with additional and more useful information about Food Services than readers would have if they simply considered IFRS measures alone. These measures do not have a standardized meaning prescribed by IFRS and Food Services’ method of calculating these measures may differ from those of other issuers or companies and may not be comparable to similar measures used by other companies.

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

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

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

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

### **Non-IFRS ratios**

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

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

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

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

*Same Store Sales Growth – Franchised Restaurants.* Same Store Sales Growth – Franchised Restaurants in 2022 versus 2021 reflects the change in gross sales of franchised A&W restaurants that operated, or were temporarily closed at any point due to COVID-19, during the entire 12 and 24-week periods ended June 19, 2022 and June 20, 2021 and is based on an equal number of days in each period. This measure is a key performance indicator for Food Services as it highlights the performance of existing franchised restaurants. Same Store Sales Growth – Franchised Restaurants in 2022 versus 2019 reflects the change in gross sales of franchised A&W restaurants that operated during the 24-week periods ending June 19, 2022 and June 16, 2019. This measure is important as it highlights the performance of the A&W franchised restaurants in 2022 versus their performance in 2019 which is the most recently completed year that was not impacted by COVID-19.

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

*Royalty Pool Same Store Sales Growth.* Royalty Pool Same Store Sales Growth reflects the change in gross sales of A&W restaurants in the Royalty Pool that operated, or were temporarily closed at any point due to COVID-19, during the entirety of the Fund’s year to date periods and second quarters ending June 19, 2022 and June 20, 2021 and is based on an equal number of days in each quarter. This measure is a key performance indicator for Trade Marks Inc. (“Trade Marks”) and the Fund, both of which Food Services has investments in, and is also a key driver of the royalty expense as it highlights the performance of the existing A&W restaurants in the Royalty Pool.

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

Same Store Sales Growth – Franchised Restaurants<sup>(iii)</sup> for the second quarter of 2022 was +12.2% as compared to the second quarter of 2021. Same Store Sales Growth – Franchised Restaurants<sup>(iii)</sup> for the 24-week period ended June 19, 2022 was +12.0% as compared to the comparable period in 2021. The Same Store Sales Growth – Franchised Restaurants in both the 12 and 24-week period was primarily driven by an increase in guest counts across all restaurant concepts and all provinces, due to there being fewer public health restrictions related to COVID-19 in place across Canada in 2022 as compared to the comparable periods in 2021. During the first two quarters of 2021 there were a number of A&W restaurants that were temporarily closed and many of the restaurants that were open were not able to offer dine-in services due restrictions. There were no temporary closures of A&W restaurants due to COVID-19 restrictions in 2022 and by June 19, 2022 most restrictions, such as capacity limits on dine-in guests, reduced hours of operation and requirements for dine-in guests to show proof of vaccination, had been lifted. See “Impact of COVID-19”.

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

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

### **System Sales**

System Sales<sup>(i)</sup> for the second quarter of 2022 were \$413,984,000, an increase of 15.3% or \$54,805,000 from the second quarter of 2021. System Sales<sup>(i)</sup> for the 24-week period ended June 19, 2022 were \$766,597,000, an increase of 15.1% or \$100,444,000 from the comparable period in 2021. The increase in System Sales was driven by the increase in Same Store Sales Growth – Franchised Restaurants discussed above as well as the net addition of new restaurants. See “Impact of COVID-19”, “New Restaurant Openings and Permanent Restaurant Closures” and “Financial Highlights” for further information.

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

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

Year to date Food Services opened eleven new A&W restaurants, seven of which were opened during the second quarter. This compares to fifteen restaurants opened during the year to date period ended June 20, 2021 and nine openings in the second quarter of 2021. Three restaurants were permanently closed in the 2022 year to date period, one of which closed during the second quarter, versus five permanent closures in the 2021 year to date period, two of which were in the second quarter of 2021. As at June 19, 2022, there were 1,037 A&W restaurants in Canada, of which 1,027 were operated by franchisees and 10 were corporately owned and operated.

## **Overview**

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

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

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

## **Impact of COVID-19**

COVID-19 has significantly impacted many businesses across Canada, especially restaurants, and the future effect of COVID-19 continues to be uncertain. Since the onset in March 2020, jurisdictions across Canada have had varying levels of COVID-19 related restrictions in place and many of those restrictions have been modified multiple times in response to the fluctuating number of COVID-19 cases.

Actions required in response to the COVID-19 pandemic have adversely affected A&W restaurant operations in Canada, including the temporary closure of A&W restaurants in 2020 and 2021. At its peak impact in the second quarter of 2020, a total of 230 A&W restaurants (out of the then 971 restaurants in the Royalty Pool) were temporarily closed due to public health measures in response to COVID-19. The COVID-19 related public health restrictions began to ease in the second quarter of 2021, by the end of 2021 all of the A&W restaurants that were temporarily closed due to restrictions had reopened. Restrictions continued to ease in 2022 and by June 19, 2022 most restrictions, such as capacity limits on dine-in guests, reduced hours of operation and requirements for dine-in guests to show proof of vaccination, had been

lifted. The chart below shows the reported number of A&W restaurants that were temporarily closed due to COVID-19 restrictions at specified dates.



Throughout the pandemic, Food Services and its franchisees have worked together on initiatives to help accelerate sales recovery and enhance employee experience. These initiatives include, but are not limited to promotional activity, strengthening and expanding partnerships with third party delivery service providers, increasing the speed of service for drive-thru and serving guests on the A&W mobile app. Food Services and its franchisees also continue to take and maintain measures in their restaurants and broader operations to protect the health of employees and guests including compliance with mandates of relevant public health authorities.

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

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

Food Services is the head lessee for the majority of its franchised locations and enters into agreements whereby Food Services licences the premises to the franchisee, for which Food Services receives a

premises licence fee from its franchisees. Under the licence agreement, the franchisee is responsible for the obligations under the lease. IFRS 16 requires Food Services, where it acts as the intermediate lessor, to recognize a lease liability and a corresponding lease receivable. Lease receivables are reviewed for impairment based on expected losses at each balance sheet date in accordance with IFRS 9 - Financial Instruments. An impairment provision is recorded based on the estimated expected credit loss. Food Services has developed a risk matrix used to assess the credit risk of all head leases and has included the impacts of COVID-19 response measures in its credit risk assumptions. Factors taken into consideration include restaurant concept, payment performance and future expectations for the restaurant operations. Food Services recorded an expected credit loss provision on leases receivable of \$2,257,000 as at June 19 2022 (January 2, 2022 - \$2,257,000). There were no additional indicators of impairment in 2022 and no loss or recovery on impairment of leases receivable was recognized (2021 - \$nil).

Despite the ongoing impacts of COVID-19, when comparing same store sales for franchised restaurants in the 24-week period ended June 19, 2022 to same store sales for franchised restaurants in the 24-week period ended June 16, 2019 (the most recent pre-COVID comparable period), Same Store Sales Growth – Franchised Restaurants<sup>(iii)</sup> was +3.3%. The 3.3% Same Store Sales Growth – Franchised Restaurants<sup>(iii)</sup> over 2019 has been achieved due to strong sales growth from 2019 to 2022 in A&W restaurants with drive-thru.

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

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

The Royalty Pool is adjusted annually to reflect sales from new A&W restaurants added to the Royalty Pool, net of the sales of any A&W restaurants that have permanently closed. Food Services is paid for the additional royalty stream related to the sales of the net new restaurants, based on a formula set out in the Amended and Restated Licence and Royalty Agreement. The formula provides for a payment to Food Services based on 92.5% of the amount of estimated sales from the net new restaurants and the current yield on the Units, adjusted for income taxes payable by Trade Marks. The consideration is paid to Food Services in the form of additional limited partnership units (“LP units”). The additional LP units are, at the option of Food Services, exchangeable for additional common shares of Trade Marks which are in turn exchangeable for Units or limited voting units of the Fund (“Limited Voting Units” and together with the Units, “Trust Units”) on the basis of two common shares for one Trust Unit. The consideration paid for the annual adjustment to the Royalty Pool is recorded by Food Services as an increase in its investment in Trade Marks, and an increase in the deferred gain. These additions to the deferred gain are amortized over the remaining term of the Amended and Restated Licence and Royalty Agreement from the date of addition.

The 2022 annual adjustment to the Royalty Pool took place on January 5, 2022. The number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants less 13 restaurants that permanently closed during 2021. The estimated annual sales of the 34 new A&W restaurants are \$50,688,000 at the time they were added to the Royalty Pool and annual sales for the 13 permanently closed restaurants were \$7,536,000 based on their sales during the first year such restaurants were included in the Royalty Pool. The initial consideration for the estimated additional royalty stream was \$21,472,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the Units for the 20 trading days ending November 1, 2021. The yield was adjusted to reflect the income tax payable by

Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$17,178,000, by issuance of 444,327 LP units which were subsequently exchanged for 888,654 non-voting common shares of Trade Marks. The remaining consideration payable to Food Services for the January 5, 2022 adjustment to the Royalty Pool of \$4,294,000 is to be paid by issuance of additional LP units, which issuance is held back until the number of LP units is determined in December 2022 based on the actual annual sales reported by the new restaurants. Food Services has recorded the \$4,294,000 receivable as a current asset as at June 19, 2022 (January 2, 2022 - \$nil). The actual amount of the consideration paid in December 2022 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

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

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

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

(dollars in thousands)	Fund			Food Services			Total	
	Number of shares	Trade Marks' book value		Number of shares	Trade Marks' book value		Number of shares	Trade Marks' book value
		\$	%		\$	%		
Balance as at January 3, 2021	28,129,271	164,605	75.8	8,973,023	124,220	24.2	37,102,294	288,825
January 5, 2021 adjustment to the Royalty Pool <sup>(1)</sup>	-	-	(2.9)	1,413,998	20,164	2.9	1,413,998	20,164
April 16, 2021 exchange of common shares for Trust Units <sup>(2)</sup>	4,056,040	63,193	10.6	(4,056,040)	(63,193)	(10.6)	-	-
Balance as at January 2, 2022	32,185,311	227,798	83.5	6,330,981	81,191	16.5	38,516,292	308,989
January 5, 2022 adjustment to the Royalty Pool <sup>(3)</sup>	-	-	(1.9)	888,654	17,178	1.9	888,654	17,178
Balance as at June 19, 2022	32,185,311							

<sup>(1)</sup> The number of common shares includes the 241,683 LP units exchanged for 483,366 common shares of Trade Marks representing the remaining consideration paid in December 2021 for the January 5, 2021 adjustment to the Royalty Pool.

<sup>(2)</sup> On April 16, 2021, A&W of Canada Inc., an indirect shareholder of Food Services, completed a reorganization to provide liquidity for some of its shareholders and to simplify the indirect ownership of Food Services (the "Reorganization"). Further details regarding the Reorganization can be found in the Fund's MD&A for the fourth quarter ended December 31, 2021, available at [www.sedar.com](http://www.sedar.com) or [www.awincomefund.ca](http://www.awincomefund.ca).

<sup>(3)</sup> The number of common shares does not include any LP units exchangeable for common shares of Trade Marks in respect of the remaining consideration payable to Food Services for the January 5, 2022 adjustment to the Royalty Pool, which LP units,

if any, are held back until the number of LP units is determined in December 2022 based on the actual annual sales reported by the new restaurants. See “Adjustment to the Royalty Pool”.

## Ownership of the Fund

The table below shows the ownership of the Fund as of June 19, 2022 and January 2, 2022 on a fully-diluted basis, where the ownership of the Fund as at June 19, 2022 includes the issuance of the excess exchangeable LP units that represent the remaining 20% of the initial consideration for the January 5, 2022 adjustment to the Royalty Pool that are payable to Food Services in December 2022.

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

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

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

## Q2 2022 Operating Results

### Revenue

Food Services’ franchising and corporate restaurants revenue for the second quarter of 2022 was \$70,299,000 compared to \$55,593,000 for the second quarter of 2021, an increase of \$14,706,000. Year to date total revenue was \$125,296,000 compared to \$97,894,000. The increase in franchising revenue for both the quarter and year to date period is attributable to higher service fees, contributions to the National Advertising Fund and revenue related to the distribution of food and supplies as a result of the increase in Same Store Sales Growth – Franchised Restaurants, as well as an increase in revenue for equipment sales to existing restaurants. The increase in revenue related to equipment sales is largely attributable to the ongoing roll out of the A&W Brew Bar<sup>TM</sup>. See the “Overview” section of this report for a discussion on the A&W Brew Bar program and its roll out. There was a slight decrease in revenue related to the sale of equipment for new restaurants due to Food Services opening fewer restaurants in 2022 as compared to 2021.

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

Corporate restaurant System Sales were \$5,004,000 for the second quarter of 2022 compared to \$3,766,000 for the second quarter of 2021 and \$8,970,000 in 2022 year to date compared to \$7,266,000 in 2021 year to date. The year to date increase of \$1,704,000 was primarily due to there being fewer COVID-19 related restrictions in Ontario, where all of the corporate restaurants are located, in 2022 as compared to 2021 as well as there being additional sales in 2022 from a corporate restaurant that opened mid-way through Q1 2021.

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

Operating costs for the second quarter of 2022 were \$38,345,000 compared to \$27,698,000 for the second quarter of 2021, an increase of \$10,647,000. Year to date operating costs were \$65,934,000 compared to \$48,336,000 for 2021 year to date, an increase of \$17,598,000. In line with the increases in revenue noted above, operating costs increased due to increases in the costs of sales of food, supplies and equipment that were sold to existing restaurants and an increase in advertising expenses incurred by the National Advertising Fund.

General and administrative expenses represent costs of providing services to franchised restaurants and establishing new restaurants, and were \$10,774,000 for the second quarter of 2022 compared to \$8,737,000 for the second quarter of 2021, an increase of \$2,037,000. Year to date general and administrative expenses were \$20,394,000 for 2022 compared \$16,847,000 for 2021, an increase of \$3,547,000. No subsidies were received or are receivable in 2022 but operating costs and general and administrative expenses in the second quarter of 2021 are net of wage subsidies totaling \$215,000 and rent subsidies totaling \$203,000 which were received under federal government subsidy programs in connection with COVID-19. 2021 year to date operating costs and general and administrative expenses are net of wage subsidies totaling \$1,075,000 and rent subsidies totaling \$203,000. The remaining increase is largely attributable to increased travel, employee training, meetings and other business activities that did not occur in 2021 due to COVID-19.

### **Operating Earnings**

(dollars in thousands)	12-week period ended Jun 19, 2022	12-week period ended Jun 20, 2021	24-week period ended Jun 19, 2022	24-week period ended Jun 20, 2021
Operating Earnings <sup>(i)</sup>	\$22,189	\$20,151	\$40,962	\$34,662

Operating Earnings<sup>(i)</sup> increased by \$2,038,000 to \$22,189,000 in Q2 2022 and by \$6,300,000 to \$40,962,000 on a year to date basis. The increase in Operating Earnings is due to the increase in revenues, partially offset by the increase in operating costs and general and administrative expenses, both of which are discussed above.

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

### **Royalty expense**

Royalty expense for the second quarter of 2022 was \$12,187,000 compared to \$10,519,000 for the second quarter of 2021. Year to date, royalty expense for 2022 was \$22,584,000 compared to \$19,601,000 for 2021. The increase in royalty expense in the quarter and year to date period is attributable to the increase in Gross sales reported by A&W restaurants in the Royalty Pool which was driven by the increase in Royalty Pool Same Store Sales Growth and the gross sales from the additional net 21 new restaurants added to the Royalty Pool on January 5, 2022. See "Annual Adjustment to the Royalty Pool". It is important to note that the royalty expense for the year to date periods in 2022 and 2021 reported by Food Services differ in the amounts of the royalty income reported by the Fund as the Fund's royalty income is based on Gross sales reported by A&W restaurants in the Royalty Pool from January 1, 2022 to June 19, 2022 (2021 – January 1, 2021 to June 20, 2021) whereas the royalty expense is based on Gross sales reported by A&W

restaurants in the Royalty Pool from January 3, 2022 to June 19, 2022 (2021 – January 4, 2021 to June 20, 2021).

### **Impairment of lease receivables**

Food Services is the head lessee for the majority of its franchised locations and enters into agreements whereby Food Services licences the premises to the franchisee, for which Food Services receives a premises licence fee. Under the licence agreement, the franchisee is responsible for the obligations under the lease. IFRS 16 requires Food Services, where it acts as the intermediate lessor, to recognize a lease receivable. Lease receivables are reviewed for impairment based on expected losses at each balance sheet date in accordance with IFRS 9 – Financial Instruments. An impairment loss is recorded when the credit risk is assessed to have increased for the lease receivables. Food Services has developed a risk matrix used to assess the credit risk of all head leases. Food Services recorded an expected credit loss provision on leases receivable of \$2,257,000 as at June 19, 2022 (January 2, 2022 – \$2,257,000). Food Services did not recognize an impairment loss or recovery of impairment in the second quarter or year to date periods in 2022 or 2021.

### **Finance expense - net**

(dollars in thousands)	<b>12-week period ended Jun 19, 2022</b>	12-week period ended Jun 20, 2021	<b>24-week period ended Jun 19, 2022</b>	24-week period ended Jun 20, 2021
Net interest expense (income)	<b>(\$15)</b>	\$20	<b>(\$19)</b>	\$20
Standby fees	<b>25</b>	14	<b>40</b>	29
Interest cost on supplementary retirement benefit plan	<b>113</b>	113	<b>226</b>	226
Interest on lease receivables	<b>(5,261)</b>	(5,017)	<b>(10,498)</b>	(10,009)
Interest on lease liabilities	<b>5,423</b>	5,189	<b>10,823</b>	10,348
Amortization of deferred financing fees	<b>12</b>	10	<b>25</b>	19
	<b>\$297</b>	\$329	<b>\$597</b>	\$633

Net interest expense was consistent in both the second quarters and year to date periods of 2022 and 2021. The increase in interest income on leases receivable and in interest expense on lease liabilities is driven by a year over year increase in the corresponding leases receivable and lease liabilities balances. The increase in standby fees and amortization of deferred financing fees is attributable to the increase in Food Services credit facility in April 2021. See “Liquidity and Capital Resources”.

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

As a result of the annual adjustment to the Royalty Pool and the exchange rights granted under the Amended and Restated Declaration of Trust and the Amended and Restated Exchange Agreement, Food Services owns common shares of Trade Marks and as a result of Food Services exchanging common shares of Trade Marks for Limited Voting Units, Food Services also has direct ownership in the Fund. These investments are accounted for as investments in associates and are recorded using the equity method. As at June 19, 2022 Food Services had a 18.3% investment in Trade Marks (January 2, 2022 – 16.5%) and a 9.4% investment in the Fund (January 2, 2022 – 9.4%). Taken together, Food Services’ ownership of exchangeable common shares of Trade Marks and Limited Voting Units equated to Food Services owning

26.0% of the total equivalent units of the Fund on a fully diluted basis as at June 19, 2022 (24.3% as at January 2, 2022).

Food Services' share of income from associates for the second quarter of 2022 totaled \$2,669,000 compared to \$1,940,000 for the second quarter of 2021. The share of income from associates for the year to date period in 2022 totaled \$5,177,000 compared to \$3,368,000 for the year to date period in 2021. The increase is attributable to an increase in the earnings of Trade Marks and the Fund which was largely driven by higher royalty income due to the increase in Gross sales reported by A&W restaurants in the Royalty Pool.

### **Net income**

(dollars in thousands)	<b>12-week period ended Jun 19, 2022</b>	12-week period ended Jun 20, 2021	<b>24-week period ended Jun 19, 2022</b>	24-week period ended Jun 20, 2021
Operating Earnings <sup>(i)</sup>	<b>\$22,189</b>	\$20,151	<b>\$40,962</b>	\$34,662
Royalty expense	<b>(12,187)</b>	(10,519)	<b>(22,584)</b>	(19,601)
Finance expense – net	<b>(297)</b>	(329)	<b>(597)</b>	(633)
Depreciation of plant, equipment and right-of-use assets	<b>(1,009)</b>	(993)	<b>(1,994)</b>	(1,951)
Amortization of deferred gain	<b>797</b>	723	<b>1,593</b>	1,447
Share of income from associates	<b>2,669</b>	1,940	<b>5,177</b>	3,368
Gain on sale of Units of A&W Revenue Royalties Income Fund	<b>-</b>	2,670	<b>-</b>	2,670
Income before income taxes	<b>12,162</b>	13,643	<b>22,557</b>	19,962
Provision for income taxes	<b>2,436</b>	3,052	<b>3,772</b>	3,990
Net income for the period	<b>\$9,726</b>	\$10,591	<b>\$18,785</b>	\$15,972

The \$1,481,000 decrease in income before income taxes for the quarter is attributable to the \$2,670,00 gain on sale of Units that was recognized in the second quarter of 2021 and the \$1,668,000 increase in royalty expense, partially offset by the \$2,038,000 increase in Operating Earnings<sup>(i)</sup> and the \$729,000 increase in income from associates. The \$2,595,000 year to date increase in income before taxes is primarily attributable to the \$6,300,000 increase in Operating Earnings<sup>(i)</sup> and the \$1,809,000 increase in income from associates, partially offset by the \$2,983,000 increase in royalty expense and the \$2,670,00 gain on sale of Units that was recognized in the second quarter of 2021. The decrease in the provision for income taxes for the quarter and increase for the year to date period is attributable to the respective decrease and increase in income before income taxes for the reasons discussed.

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

### **Net income attributable to non-controlling interests**

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

### **Other comprehensive income**

Other comprehensive income consists of actuarial gains and losses, net of tax, on the supplementary retirement benefit plan. Actuarial gains result from an increase in the discount rate used to determine the accrued benefit obligation and actuarial losses result from a decrease in the discount rate. There was an actuarial gain, net of tax, of \$894,000 recognized in the second quarter of 2022 (2021 – Nil). Year to date there was an actuarial gain, net of tax, of \$2,284,000 (2021 - \$984,000).

### **Liquidity and Capital Resources**

Food Services is primarily a franchise business with 1,027 of its 1,037 (as at June 19, 2022) restaurants franchised. Food Services' capital requirements are related to its corporate restaurants and head office and investments in technology and information systems. Future restaurant growth is expected to continue to be funded by franchisees although from time to time, Food Services expects to incur capital expenditures to open new corporate restaurants in the Ottawa market. Food Services expects to have sufficient capital resources to fund these capital requirements and has sufficient cash on hand to meet its obligations.

On April 23, 2021, Food Services increased its credit facility from \$25,000,000 to \$40,000,000 to fund working capital and for general corporate purposes. Consistent with the terms under the \$25,000,000 credit facility, amounts advanced under the \$40,000,000 facility bear interest at the bank prime rate plus 1.0% and are repayable on demand. The covenants, which remain unchanged from those of the \$25,000,000 credit facility, include the requirement to meet certain debt to earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) ratios and debt to Food Services' investment in Trade Marks ratios during each trailing four quarter period. The amendment included a reduction to the number of common shares of Trade Marks that Food Services is required to pledge from 7,000,000 shares to 5,000,000 shares.

As at June 19, 2022 and January 2, 2022, Food Services had not drawn on the credit facility and had the full \$40,000,000 facility available. Food Services was in compliance with all of its financial covenants as at July 26, 2022, June 19, 2022 and January 2, 2022.

In 2020, Food Services' shareholder invested \$10,000,000 of common equity in the Company to ensure sufficient liquidity during the period of uncertainty caused by COVID-19. During the second quarter of 2022, Food Services returned the \$10,000,000 of capital to its shareholder. Of the \$10,000,000 return of capital, \$5,000,000 was paid in cash in the second quarter of 2022 and the remaining \$5,000,000 is payable on November 30, 2022 and is recorded as a promissory note payable as at June 19, 2022.

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

Food Services has no off-balance sheet arrangements.

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

Royalty expense for the year to date period ended June 19, 2022 was \$22,584,000 (2021 - \$19,601,000), of which \$4,156,000 (January 2, 2022- \$3,513,000) is payable to the Partnership at June 19, 2022. Royalty expense for the quarter was \$12,187,000 (2021 - \$10,519,000).

During the year to date period ended June 19, 2022, Trade Marks declared five dividends payable to Food Services totaling \$2,798,000 (2021 - \$2,622,000 ) as a result of Food Services' ownership of Trade Marks' common shares. The fifth dividend amounted to \$560,000 and was declared on June 8, 2022 but paid to Food Services subsequent to the period end on June 30, 2022 and is therefore reported as a current asset as

at June 19, 2022 (January 2, 2022 – \$nil). During the quarter, Trade Marks declared three dividends payable to Food Services totaling \$1,679,000 (2021 - \$1,458,000).

During the year to date period ended June 19, 2022, the Fund declared five distributions payable to Food Services totaling \$1,168,000 (2021 – \$406,000) as a result of Food Services’ ownership of Limited Voting Units. The fifth distribution amounted to \$233,000 and was declared on June 8, 2022 but paid to Food Services subsequent to the period end on June 30, 2022 and is therefore reported as a current asset as at June 19, 2022 (January 2, 2022 – \$234,000). During the quarter the Fund declared three distributions payable to Food Services totaling \$701,000 (2021 - \$406,000).

During the year to date period ended June 19, 2022, Food Services declared five dividends totaling \$3,966,000 (2021 - \$68,119,000) from working capital to its shareholder. The fifth dividend amounted to \$793,000 and was declared on June 8, 2022 but paid subsequent to period end on July 4, 2022 and is therefore reported as a current liability as a June 19, 2022 (January 2, 2022 – \$nil). During the quarter Food Services declared three dividends totaling \$2,379,000 (2021 - \$66,955,000). Of the total dividends declared in the second quarter of 2021 and year to date period ended June 20, 2021, \$66,287,000 related to the Reorganization transaction that occurred on April 16, 2021. See “Common Shares of A&W Trade Marks Inc.”.

On April 8, 2022, Trade Marks and Food Services entered into an agreement for Food Services to provide administrative services to Trade Marks (the “Services Agreement”). Under the terms of the Services Agreement, Food Services is entitled to be paid an annual fee, on a quarterly basis, for the services provided in each fiscal year in an amount approved by the board of directors of Trade Marks that is based on a prescribed time and effort computation. The Services Agreement will remain in effect for the duration of the Administration Agreement dated February 15, 2002 between Trade Marks and the Fund, unless terminated by either party by giving 5 years advance written notice to the other party. During the year to date period ended June 19, 2022, Food Services recognized \$88,000 (2021 - \$nil) as an offset to general and administrative expenses related to administrative services provided to Trade Marks, \$44,000 which is reported in accounts receivable as at June 19, 2022 (January 2, 2022 - \$40,000). During the quarter, Food Services recognized \$44,000 as an offset to general and administrative expenses related to administrative services provided to Trade Marks (2021 - \$nil).

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

### **Critical Accounting Estimates**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. It is reasonably possible that circumstances may arise that would cause actual results to differ from management estimates; however, management does not believe it is likely that such differences will materially affect Food Services’ financial position. Significant areas requiring the use of management estimates and judgements are investments in associates, supplementary retirement benefit plan, deferred income taxes and leases receivable. The supplementary retirement benefit plan and deferred income taxes are not “critical accounting estimates” as (i) they do not require Food Services to make assumptions about matters that are highly uncertain at the time the estimate is made, and (ii) different

estimates that could have been used, or changes in the accounting estimates that are reasonably likely to occur from period to period, would not have had a material impact on Food Services' financial condition, changes in financial condition or financial performance.

## **Risks and Uncertainties**

### ***International Conflict***

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

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

Since March 2020, the COVID-19 pandemic has had significant impacts on the Canadian economy, the QSR industry, and the willingness of the general public to dine outside their homes and travel. These have negatively impacted Food Services, its franchisees and the Fund (including Trade Marks and the Partnership), and have adversely affected each of their respective investments, results of operations and financial condition. Restrictions on the operations of A&W restaurants in response to COVID-19, continued to impact system sales at A&W restaurants in 2022, particularly in the first quarter. System sales drive the fees payable to Food Services by its franchisees and the amount of royalties payable to the Fund (through the Partnership), and correspondingly, the funds available to be paid as dividends by Trade Marks to Food Services and the Fund and available to distribute to unitholders of the Fund. Food Services may become liable for the lease obligations of certain of its franchisees, if such franchisees default on their leases as a result of the impacts of COVID-19 or otherwise, and such obligations may be significant and Food Services may be unsuccessful in seeking recovery from such franchisees, all of which may adversely affect Food Services' investments, results of operations and financial condition. Food Services' projections may be inaccurate, and do not represent a financial forecast and actual results may differ materially from those anticipated by the projections. Monthly distributions on Units are not guaranteed and may be reduced, suspended or terminated at any time. Recent sales improvements for restaurants in the Royalty Pool may not continue and may slow or regress. A&W restaurant locations may close temporarily or permanently due to the impacts of COVID-19. Government restrictions related to COVID-19 may be reinstated, which may restrict the ability of A&W restaurants to operate, or result in forced closures, reduced guest traffic, supply interruptions or staff shortages. All of the government programs that have been helpful to A&W franchisees have ceased.

In addition, it is unknown if and to what extent the COVID-19 pandemic will alter consumer behaviour and demand for QSR services. Health epidemics or pandemics can adversely affect consumer spending and confidence levels and supply availability and costs, as well as the local operations in impacted markets, all of which can adversely affect the financial results, condition and outlook of Food Services and A&W

franchisees. Importantly, the global pandemic resulting from COVID-19 has disrupted global health, economic and market conditions, consumer behavior and A&W restaurant operations beginning in early 2020. Local and national governmental mandates or recommendations and public perceptions of the risks associated with the COVID-19 pandemic have caused, and may continue to cause, consumer behavior to change, which could continue to adversely affect Food Services' and A&W franchisees' business. Food Services and A&W franchisees could also be adversely impacted by the worsening or increased volatility of economic conditions.

The COVID-19 pandemic may also heighten other risks disclosed herein, such as, but not limited to, those related to consumer behavior, consumer perceptions of the A&W brand, supply chain interruptions, inflation, interest rates, commodity costs and labour availability and cost. See "Impact of COVID-19".

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

## **Outlook**

Food Services believes that the food service industry, and more particularly the quick service restaurant (QSR) segment of the industry, is recovering from the impact of COVID-19. Against this backdrop, the success of the A&W brand and individual franchised A&W restaurants is paramount to the long-term success of the overall A&W system and, in turn, to the Fund. Both Food Services and its franchisees have worked diligently to develop and implement plans and programs to mitigate the effects of the COVID-19 pandemic. Food Services' objective is to ensure that A&W's 1,037 restaurants (as at June 19, 2022) are able to safely operate (as permitted by health authorities and government regulations mandated from time to time) and have the ability to emerge from this period of uncertainty in a financial condition that enables them to compete effectively and grow their businesses.

Food Services believes that its mission "To become #1 with millennial burger lovers, chosen and trusted for truly good food and the convenience they crave" will help it to continue to rebound from the impact of COVID-19. Strategic initiatives, including repositioning and differentiating the A&W brand through the use of delicious natural ingredients; continued new restaurant growth, and delivering an industry leading guest experience, have all contributed to A&W's strong appeal and the trust it has built with Canadian consumers over many years. These strengths will be key to delivering strong results and improved market share as the QSR industry and the QSR burger market resume growth.

A&W is proud to be a Canadian company, 100% Canadian owned and operated, and a leader in sourcing simple, great-tasting ingredients, farmed with care. In 2013, Food Services launched an initiative to focus on natural ingredients and became the first and only national burger chain in Canada to serve beef raised without artificial hormones or steroids. This was then followed by a continued effort to source other proteins from animals that were raised without the use artificial hormones and antibiotics. A&W also serves organic Fairtrade Coffee and A&W Root Beer made from natural cane sugar and all-natural flavours in its restaurants.

In 2018, A&W further strengthened its positioning as a leader in food and innovation with the introduction of the Beyond Meat<sup>(1)</sup> branded plant-based burger. Food Services was very excited to be the first national burger chain in Canada to offer this plant-based burger patty and A&W continues to enhance its position as a leader in great tasting plant-based options with regular introductions of new recipes and products to its plant-based line-up.

<sup>(1)</sup> Trademark of Beyond Meat, Inc., used under licence.

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

In 2021, Food Services announced that it is expanding the beverage offerings at A&W restaurants with the phased rollout of the A&W Brew Bar. The A&W Brew Bar offers a variety of frozen beverages as well as hot and cold espresso-based beverages. The A&W Brew Bar is now available in over 260 A&W restaurants across the country.

A&W is committed to reducing its environmental impact through conscious use of packaging, waste, energy and water, and high-efficiency equipment is being introduced into A&W restaurants to use less energy. In October 2021, A&W launched the “A&W Cup Crew”, an exchangeable cup pilot at A&W restaurants in Vancouver and in March 2022, A&W launched a pilot program in Toronto for its “Zero Cup” which is a fully compostable, plastic-free cup that requires no lid or straw.

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

Food Services has continued to grow new A&W restaurants, particularly in the key Ontario and Quebec markets. Eleven new A&W restaurants during the first two quarters of 2022, and an additional twenty-one restaurants were under construction as at June 19, 2022.

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

On June 2, 2022 Food Services announced that it had signed a Country Agreement (the "Country Agreement") with UK-based Pret A Manger (Europe) Limited ("Pret"), which sets forth the general terms and conditions granting Food Services master franchisor rights to Canada for Pret A Manger.

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

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

## FORWARD LOOKING INFORMATION

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

The forward-looking information in this report includes, but is not limited to; the expectation that the Trustees will continue to review distribution levels on a regular basis and that any change in monthly distributions will be implemented with a view to maintain the continuity of uniform monthly distributions; expectations regarding Canada being on the road to recovery from COVID-19; the impact of COVID-19, including its impact on the global economy in general and on the businesses of Food Services and A&W franchisees in particular; statements with respect to government restrictions on business operations, and in particular restaurants; statements regarding the extent to which the COVID-19 pandemic will alter consumer behaviour and demand for QSR services; expectations regarding improvements in sales trends at A&W restaurants; statements regarding the duration of various government support programs; Food Services’ expectation that the food service industry, and more particularly the QSR segment, will recover; the success of the A&W brand and individual franchised restaurants being paramount to the long-term success of the overall A&W system and, in turn, to the unitholders of the Fund; statements regarding future adjustments to the Royalty Pool; statements regarding the potential impact of international conflicts; Food Services’ objectives with respect to the A&W restaurants and its planned strategies to achieve those objectives; statements regarding future restrictions on the operations of A&W restaurants as well as temporary restaurant closures and the corresponding reductions to the amounts of royalties payable to and earned by the Fund, as well as funds available to distribute to unitholders of the Fund; the expectation that Trade Marks will remain in compliance with all covenants related to its term debt based on current projections; the expectation that Food Services will remain in compliance with all covenants related to its operating loan facility based on current projections; Food Services’ expectation that future restaurant growth will be funded by franchisees; Food Services’ expectation that it will incur capital expenditures to open new corporate restaurants in the Ottawa market and that it will have sufficient capital resources to fund these capital requirements; Food Services’ belief that its mission “to become #1 with millennial burger lovers, chosen and trusted for truly good food and the convenience they crave” will help it to continue to rebound from the impact of COVID-19; Food Services’ belief that strategic initiatives will be key to delivering strong results and improved market share as the QSR industry and the QSR burger market resume growth; growth of new locations, industry leading innovation, a safe and stable supply chain, and continued efforts to consistently deliver great food and a better guest experience are all expected to contribute to building loyalty and enhancing performance over the long term; the expectation that Food Services will open Pret locations and that the Fund will earn royalty income from the sale of Pret products; the expectation that the Trial Phase will be successful and that Food Services will expand the Pret brand across Canada; and Food Services remaining committed to the long-term health and success of its franchise network and the Fund.

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

- the general risks that affect the restaurant industry will not arise, other than those related to COVID-19;
- there are no changes in availability of experienced management and hourly employees;

- there are no material changes in government regulations concerning menu labelling and disclosure and drive-thru restrictions;
- no publicity from any food borne illness;
- no material changes in competition;
- no material increases in food and labour costs;
- the continued availability of quality raw materials;
- continued additional franchise sales and maintenance of franchise operations;
- Food Services is able to maintain and grow the current system of franchises;
- Food Services is able to locate new retail sites in desirable locations;
- Food Services is able to obtain qualified operators to become A&W franchisees;
- no material impact from new or increased sales taxes upon gross sales;
- continued availability of key personnel;
- continued ability to preserve intellectual property;
- no material litigation from guests at A&W restaurants;
- Food Services continues to pay the royalty;
- Food Services can continue to comply with its obligations under its credit arrangements;
- Trade Marks can continue to comply with its obligations and covenants under its credit arrangements;
- the Fund will receive sufficient revenue in the future (in the form of royalty payments from Food Services) to maintain the payment of monthly distributions;
- the projections for the A&W business provided by Food Services are accurate;
- the impacts of the COVID-19 pandemic on the A&W system will not significantly worsen; and
- Food Services will be successful in executing on its business strategies and such strategies will achieve their intended results.

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

- the general risks that affect the restaurant industry in general and the quick service segment in particular, including competition with other well-capitalized franchisors and operators of quick service restaurants;
- changes in consumer preferences that adversely affect the consumption of quick service restaurant hamburgers, chicken, fries, breakfast items or soft drinks;
- negative publicity, litigation or complaints from perceived or actual food safety events or other events involving the foodservice industry in general or A&W restaurants in particular;
- changes in the availability and quality of raw materials, including A&W's natural ingredients;
- the possible lack of success of new products and advertising campaigns;
- changes in climate or increases in environmental regulation;
- changes in Food Services' ability to continue to grow same store sales, locate new retail sites in desirable locations and obtain qualified operators to become A&W franchisees;
- increases in closures of A&W restaurants adversely affecting the royalty;
- decreases in traffic at shopping centres and other retail modes;
- changes in Food Services' ability to pay the royalty due to changes in A&W franchisees' ability to generate sales and pay franchise fees and other amounts to Food Services;
- changes in government regulation that affect the restaurant industry in general or the quick service restaurant industry in particular, including franchise legislation and sales tax legislation;

- changes in the availability of key personnel, including qualified franchise operators;
- changes in the ability to enforce or maintain intellectual property;
- technological breakdowns, cybersecurity breaches and the security of consumer and personal information;
- the amplificatory effects of media and social media;
- risks related to global health crises, disease outbreaks (including COVID-19), and other unexpected events which could affect Food Services' and A&W franchisees' supply chains, business continuity, and financial results;
- risks related to international conflicts;
- risks related to international inflation;
- the availability and adequacy of insurance coverage;
- occurrence of catastrophic events; and
- risks related to COVID-19 set forth in this report, including under the headings "Risks and Uncertainties – COVID-19" and "Impact of COVID-19".

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

- dependence of the Fund on Trade Marks, Partnership and Food Services;
- dependence of the Partnership on Food Services;
- risks related to leverage and restrictive covenants;
- the risk that cash distributions are not guaranteed and will fluctuate with the Partnership's performance and could be reduced or suspended at any time;
- risks related to the unpredictability and volatility of Unit prices;
- risks related to the nature of Units;
- risks related to the distribution of securities on redemption or termination of the Fund;
- risks related to the Fund issuing additional Units diluting existing unitholders' interests;
- risks related to income tax matters and investment eligibility;
- risks related to the limitations of internal controls over financial reporting;
- risks related to COVID-19 set forth in this report, including under the headings "Risks and Uncertainties – COVID-19" and "Impact of COVID-19";
- risks related to international conflicts set forth in this report under the heading "Risks and Uncertainties – International Conflicts"; and
- risks related to Food Services not meeting its objectives, and the possibility that its strategies to meet its objectives may not be successful.

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

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

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

## **Interim Condensed Consolidated Financial Statements (Unaudited)**

**For the 12 and 24-week periods ended June 19, 2022**  
with comparative figures  
for the 12 and 24-week periods ended June 20, 2021

(in thousands of dollars)

These interim condensed consolidated financial statements have been prepared by and are the responsibility of management. As A&W Food Services of Canada Inc. is a private entity, the company's auditor has not performed a review of these financial statements.

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

(in thousands of dollars)

	Note	June 19, 2022	January 2, 2022
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 6,962	\$ 9,629
Accounts receivable		31,587	31,993
Dividends and distributions receivable	12	793	234
Leases receivable	4	30,559	28,599
Inventories		13,450	14,686
Prepaid expenses		4,645	3,722
Income taxes recoverable		328	-
Other assets	5	4,294	-
		<b>92,618</b>	<b>88,863</b>
<b>Non-current assets</b>			
Investments in associates	5	145,962	127,573
Deferred income taxes		30,012	30,295
Right-of-use asset	4	19,240	19,580
Leases receivable	4	579,525	579,906
Plant and equipment		11,953	11,603
<b>Total assets</b>		<b>\$ 879,310</b>	<b>\$ 857,820</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 43,331	\$ 43,485
Royalties payable	12	4,156	3,513
Dividends payable	12	793	-
Promissory notes	14	5,000	-
Lease liabilities	4	32,771	30,907
Deposits on franchise and equipment sales		20,589	23,317
Deferred revenue		2,527	2,475
Income taxes payable		-	7,506
		<b>109,167</b>	<b>111,203</b>
<b>Non-current liabilities</b>			
Deferred gain	5	271,353	251,474
Deferred revenue		28,673	28,461
Lease liabilities	4	599,319	599,710
Supplementary retirement benefit plan		10,297	13,574
Other long-term liabilities		28	28
		<b>1,018,837</b>	<b>1,004,450</b>
<b>Shareholders' Deficiency</b>			
Share capital	14	10,129	20,129
Accumulated deficit		(150,397)	(166,939)
		<b>(140,268)</b>	<b>(146,810)</b>
<b>Non-controlling interest</b>			
		741	180
<b>Total deficiency</b>		<b>(139,527)</b>	<b>(146,630)</b>
<b>Total liabilities and deficiency</b>		<b>\$ 879,310</b>	<b>\$ 857,820</b>
<b>Subsequent events</b>	<b>16</b>		

These interim condensed consolidated financial statements have been prepared by and are the responsibility of management. As A&W Food Services of Canada Inc. is a private entity, the company's auditor has not performed a review of these financial statements.

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

(in thousands of dollars)

	Note	12 week period ended Jun 19, 2022	12 week period ended Jun 20, 2021	24 week period ended Jun 19, 2022	24 week period ended Jun 20, 2021
<b>Revenue</b>					
Franchising	8	\$ 65,295	\$ 51,827	\$ 116,326	\$ 90,628
Corporate restaurants		5,004	3,766	8,970	7,266
		<b>70,299</b>	<b>55,593</b>	<b>125,296</b>	<b>97,894</b>
<b>Expenses (income)</b>					
Operating costs		38,345	27,698	65,934	48,336
General and administrative expenses		10,774	8,737	20,394	16,847
Royalty expense	12	12,187	10,519	22,584	19,601
Finance expense - net	10	297	329	597	633
Amortization of deferred gain	5	(797)	(723)	(1,593)	(1,447)
Share of income from associates	5	(2,669)	(1,940)	(5,177)	(3,368)
Gain on sale of Units of A&W Revenue Royalties Income Fund	5	-	(2,670)	-	(2,670)
		<b>58,137</b>	<b>41,950</b>	<b>102,739</b>	<b>77,932</b>
<b>Income before income taxes</b>		<b>12,162</b>	<b>13,643</b>	<b>22,557</b>	<b>19,962</b>
<b>Provision for (recovery of) income taxes</b>					
Current		2,500	9,538	4,326	10,942
Deferred		(64)	(6,486)	(554)	(6,952)
		<b>2,436</b>	<b>3,052</b>	<b>3,772</b>	<b>3,990</b>
<b>Net income for the period</b>		<b>\$ 9,726</b>	<b>\$ 10,591</b>	<b>\$ 18,785</b>	<b>\$ 15,972</b>
<b>Net income attributable to:</b>					
Shareholders of A&W Food Services of Canada Inc.		\$ 9,462	\$ 10,529	\$ 18,224	\$ 15,597
Non-controlling interest		264	62	561	375
		<b>\$ 9,726</b>	<b>\$ 10,591</b>	<b>\$ 18,785</b>	<b>\$ 15,972</b>

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

(in thousands of dollars)

		12 week period ended Jun 19, 2022	12 week period ended Jun 20, 2021	24 week period ended Jun 19, 2022	24 week period ended Jun 20, 2021
<b>Net income for the period</b>		<b>\$ 9,726</b>	<b>\$ 10,591</b>	<b>\$ 18,785</b>	<b>\$ 15,972</b>
<b>Other comprehensive income</b>					
<b>Items that will not be reclassified to net income</b>					
Actuarial gain on supplementary retirement benefit plan - net of tax		894	-	2,284	984
<b>Comprehensive income</b>		<b>\$ 10,620</b>	<b>\$ 10,591</b>	<b>\$ 21,069</b>	<b>\$ 16,956</b>
<b>Comprehensive income attributable to:</b>					
Shareholders of A&W Food Services of Canada Inc.		\$ 10,356	\$ 10,529	\$ 20,508	\$ 16,581
Non-controlling interest		264	62	561	375
		<b>\$ 10,620</b>	<b>\$ 10,591</b>	<b>\$ 21,069</b>	<b>\$ 16,956</b>

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

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

**Interim Condensed Consolidated Statement of Changes in Shareholders' Deficiency**

**Unaudited**

(in thousands of dollars)

		Share capital	Accumulated deficit	Total	Non-controlling interest	Total deficiency
<b>Balance - January 3, 2021</b>	<b>\$</b>	<b>20,500</b>	<b>\$ (128,410)</b>	<b>\$ (107,910)</b>	<b>\$ 149</b>	<b>\$ (107,761)</b>
Net income for the period		-	15,597	15,597	375	15,972
Dividends on common shares	12	-	(68,119)	(68,119)	-	(68,119)
Return of capital	14	(371)	-	(371)	-	(371)
Actuarial gain on supplementary retirement benefit plan - net of tax		-	984	984	-	984
<b>Balance - June 20, 2021</b>		<b>20,129</b>	<b>(179,948)</b>	<b>(159,819)</b>	<b>524</b>	<b>(159,295)</b>
Net income for the period		-	19,942	19,942	856	20,798
Dividends on common shares		-	(6,491)	(6,491)	(1,200)	(7,691)
Actuarial loss on supplementary retirement benefit plan - net of tax		-	(442)	(442)	-	(442)
<b>Balance - January 2, 2022</b>		<b>20,129</b>	<b>(166,939)</b>	<b>(146,810)</b>	<b>180</b>	<b>(146,630)</b>
Net income for the period		-	18,224	18,224	561	18,785
Dividends on common shares	12	-	(3,966)	(3,966)	-	(3,966)
Return of capital	14	(10,000)	-	(10,000)	-	(10,000)
Actuarial gain on supplementary retirement benefit plan - net of tax		-	2,284	2,284	-	2,284
<b>Balance - June 19, 2022</b>	<b>\$</b>	<b>10,129</b>	<b>\$ (150,397)</b>	<b>\$ (140,268)</b>	<b>\$ 741</b>	<b>\$ (139,527)</b>

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

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

(in thousands of dollars)

	Note	12 week period ended Jun 19, 2022	12 week period ended Jun 20, 2021	24 week period ended Jun 19, 2022	24 week period ended Jun 20, 2021
<b>Cash flows generated from operating activities</b>					
Net income for the period		\$ 9,726	\$ 10,591	\$ 18,785	\$ 15,972
Adjustments for					
Depreciation of plant and equipment	9	474	464	927	914
Depreciation of right-of-use asset	9	535	529	1,067	1,037
Deferred income taxes		(64)	(6,486)	(554)	(6,952)
Gain on sale of Units of A&W Revenue Royalties Income Fund		-	(2,670)	-	(2,670)
(Decrease) increase in deposits on franchise and equipment sales		(5,904)	4,366	(2,728)	10,370
Supplementary retirement benefit plan		(2,416)	(189)	(2,416)	(383)
Increase in deferred revenue		568	577	264	523
Decrease in other long-term liabilities		-	(1)	-	(3)
Amortization of deferred gain	5	(797)	(723)	(1,593)	(1,447)
Share of income from associates	5	(2,669)	(1,940)	(5,177)	(3,368)
Current income tax expense		2,500	9,538	4,326	10,942
Income tax paid		(3,474)	(1,122)	(12,160)	(4,001)
Finance expense - net	10	297	329	597	633
Interest paid - net		(11)	(34)	(22)	(49)
Changes in items of non-cash working capital	11	1,892	(2,570)	3,218	(6,876)
<b>Net cash generated from operating activities</b>		<b>657</b>	<b>10,659</b>	<b>4,534</b>	<b>14,642</b>
<b>Cash flows generated from investing activities</b>					
Purchase of plant and equipment		(426)	(526)	(1,275)	(1,850)
Dividends and distributions received	12	2,380	2,532	3,407	3,028
Transaction costs	5	-	(273)	-	(273)
<b>Net cash generated from investing activities</b>		<b>1,954</b>	<b>1,733</b>	<b>2,132</b>	<b>905</b>
<b>Cash flows used in financing activities</b>					
Operating lease payments		(698)	(701)	(1,160)	(1,143)
Draws on operating loan facility - net		-	1,320	-	1,320
Return of capital to shareholder	14	(5,000)	(371)	(5,000)	(371)
Dividends paid to shareholder	12	(2,380)	(50,531)	(3,173)	(51,027)
<b>Net cash used in financing activities</b>		<b>(8,078)</b>	<b>(50,283)</b>	<b>(9,333)</b>	<b>(51,221)</b>
<b>Decrease in cash and cash equivalents</b>		<b>(5,467)</b>	<b>(37,891)</b>	<b>(2,667)</b>	<b>(35,674)</b>
<b>Cash and cash equivalents - beginning of period</b>		<b>12,429</b>	<b>41,786</b>	<b>9,629</b>	<b>39,569</b>
<b>Cash and cash equivalents - end of period</b>		<b>\$ 6,962</b>	<b>\$ 3,895</b>	<b>\$ 6,962</b>	<b>\$ 3,895</b>

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

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(figures in tables are expressed in thousands of dollars)

## **1 General information**

A&W Food Services of Canada Inc. (the “Company” or “Food Services”) is in the business of developing and franchising quick-service restaurants in Canada. During the period ended June 19, 2022, the Company opened eleven locations and permanently closed three locations, bringing the total number of A&W restaurants to 1,037, of which 1,027 are franchised and 10 are owned and operated corporately. Food Services’ registered offices are located at Suite 300 - 171 West Esplanade, North Vancouver, British Columbia, Canada.

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

Actions required in response to the COVID-19 pandemic have adversely affected A&W restaurant operations in Canada, including the temporary closure of A&W restaurants in 2021. The COVID-19 related public health restrictions began to ease in the second quarter of 2021 and by January 2, 2022 all of the A&W restaurants that were temporarily closed due to restrictions had reopened. Restrictions continued to ease in 2022 and by June 19, 2022 most restrictions, such as capacity limits on dine-in guests, reduced hours of operation and requirements for dine-in guests to show proof of vaccination, had been lifted. The future effect of COVID-19 on the Company as well as the economy and businesses, in general, remains uncertain.

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

Food Services is the head lessee for the majority of its franchised locations and enters into agreements whereby Food Services licences the premises to the franchisee, for which Food Services receives a premises licence fee from its franchisees. Under the licence agreement, the franchisee is responsible for the obligations under the lease. International Financial Reporting Standard (“IFRS”) 16 requires Food Services, where it acts as the intermediate lessor, to recognize a lease liability and a corresponding lease receivable. Leases receivable are reviewed for impairment based on expected losses at each consolidated balance sheet date in accordance with IFRS 9, Financial Instruments. An impairment provision is recorded based on the estimated expected credit loss. Food Services has developed a risk matrix used to assess the credit risk of all head leases and has included the impacts of COVID-19 response measures in its credit risk assumptions. Factors taken into consideration include restaurant concept, payment performance and future expectations for the restaurant operations (note 4).

(figures in tables are expressed in thousands of dollars)

## **2 Basis of preparation**

These interim condensed consolidated financial statements have been prepared in accordance with IFRS, as applicable to interim financial reports including International Accounting Standards (“IAS”) 34, Interim Financial Reporting. The interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with Food Services’ audited annual consolidated financial statements as at January 2, 2022.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of Food Services’ annual consolidated financial statements for the year ended January 2, 2022.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors of Food Services on July 26, 2022.

## **3 Significant accounting policies**

### **Fiscal year**

To align its financial reporting with the business cycle of its operations, the Company uses a fiscal year comprising a 52- or 53-week period ending the Sunday nearest December 31. The fiscal 2021 year was 52 weeks and ended January 2, 2022 (2020 - 53 weeks ended January 3, 2021). A&W Root Beer Beverages of Canada Inc. (“Beverages”) uses a fiscal year ending December 31. The second quarter ends 24 weeks after the Company’s fiscal year end. The 2022 second quarter ended June 19, 2022 and the 2021 second quarter ended June 20, 2021.

### **Consolidation**

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

### **Investment in associates**

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

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

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

June 19, 2022

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(figures in tables are expressed in thousands of dollars)

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

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

#### 4 Leases

##### Leases receivable

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

	<b>Jun 19, 2022</b>	Jan 2, 2022
	\$	\$
Current leases receivable	30,559	28,599
Non-current leases receivable	579,525	579,906
	<u>610,084</u>	<u>608,505</u>

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

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

June 19, 2022

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(figures in tables are expressed in thousands of dollars)

The following table outlines the annual contractual undiscounted payments for leases receivable as at June 19, 2022:

	\$
Year 1	51,612
Year 2	51,422
Year 3	50,522
Year 4	49,121
Year 5	47,875
Thereafter	<u>640,061</u>
Total undiscounted leases receivable	890,613
Unearned interest income	(278,272)
Impairment loss	<u>(2,257)</u>
	<u>610,084</u>

Interest income on leases receivable for the year to date period ended June 19, 2022 was \$10,498,000 (2021 - \$10,009,000). Interest income on leases receivable for the quarter was \$5,261,000 (2021 - \$5,017,000)

Leases receivable are reviewed for impairment based on expected losses at each balance sheet date in accordance with IFRS 9, Financial Instruments. An impairment loss is recorded when the credit risk is assessed to have increased for leases receivable. Food Services has developed a risk matrix used to assess the credit risk of leases receivable where Food Services are guarantors for head leases and has included the impacts of COVID-19 response measures in its credit risk assumptions. Factors taken into consideration include restaurant concept, payment performance and future expectations for the restaurant operations. Food Services recorded an expected credit loss provision on leases receivable of \$2,257,000 as at June 19, 2022 (January 2, 2022 - \$2,257,000). During the period ended June 19, 2022 there were no additional indicators of impairment therefore no loss or recovery on impairment of leases receivable was recognized (2021 - \$nil).

**Right-of-use assets**

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

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

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

June 19, 2022

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(figures in tables are expressed in thousands of dollars)

use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

	<b>Real Estate</b>	<b>Automobiles</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance – January 2, 2022	18,208	1,372	19,580
Additions	263	528	791
Disposals	-	(59)	(59)
Remeasurement of lease liability	(5)	(1)	(6)
Depreciation	(718)	(348)	(1,066)
Balance – June 19, 2022	<u>17,748</u>	<u>1,492</u>	<u>19,240</u>

**Lease liabilities**

Lease liabilities are initially measured at the present value of the lease payments over the lease term. The lease term includes periods associated with options to extend or excludes periods associated with options to terminate the lease when it is reasonably certain that management will exercise these options. The lease payments are discounted using the interest rate implicit in the leases; if that cannot be readily determined, the Company uses its incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

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

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

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

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

June 19, 2022

(figures in tables are expressed in thousands of dollars)

The following table presents the lease liabilities for the Company:

	<b>Jun 19, 2022</b>	Jan 2, 2022
	\$	\$
Current lease liabilities	32,771	30,907
Non-current lease liabilities	599,319	599,710
	<u>632,090</u>	<u>630,617</u>

Interest expense on lease liabilities for the year to date period ended June 19, 2022 was \$10,823,000 (2021 - \$10,348,000). Interest expense on lease liabilities for the quarter was \$5,423,000 (2021 - \$5,189,000).

Costs not included in the measurement of the lease obligation for the periods ended June 19, 2022 and June 20, 2021 are as follows:

	<b>12-week period ended Jun 19, 2022</b>	12-week period ended Jun 20, 2021	<b>24-week period ended Jun 19, 2022</b>	24-week period ended Jun 20, 2021
	\$	\$	\$	\$
Low-value lease costs	12	12	21	24
Variable lease costs	217	191	434	355
	<u>229</u>	<u>203</u>	<u>455</u>	<u>379</u>

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

In 2002, Food Services sold the A&W trade-marks used in the A&W quick service restaurant business in Canada to Trade Marks, which subsequently transferred them to the A&W Trade Marks Limited Partnership (the "Partnership"). The Partnership has granted Food Services a licence (the "Amended and Restated Licence and Royalty Agreement") to use the A&W trade-marks in Canada for a term expiring December 30, 2100, for which Food Services pays a royalty of 3% of the sales reported to Food Services by specific A&W restaurants in Canada (the "Royalty Pool"). The gain realized on the sale of the A&W trade-marks was deferred and is being amortized over the term of the Amended and Restated Licence and Royalty Agreement. Prior to October 2003, the amortization was based upon the present value of the expected royalty payments made under the Amended and Restated Licence and Royalty Agreement. Amortization of the gain is recognized on the consolidated statement of income.

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

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

June 19, 2022

(figures in tables are expressed in thousands of dollars)

The amortization for the year to date period ended June 19, 2022 was \$1,593,000 (2021 - \$1,447,000). Amortization for the quarter was \$797,000 (2021 - \$723,000).

The deferred gain as at June 19, 2022 is as follows:

	<b>Number of restaurants in Royalty Pool</b>	<b>Deferred gain \$</b>	<b>Accumulated amortization \$</b>	<b>Net deferred gain \$</b>
Balance – January 3, 2021	971	260,323	(25,877)	234,446
January 5, 2021 adjustment to Royalty Pool	23	20,164	-	20,164
Amortization of deferred gain	-	-	(3,136)	(3,136)
Balance – January 2, 2022	994	280,487	(29,013)	251,474
January 5, 2022 adjustment to Royalty Pool	21	21,472	-	21,472
Amortization of deferred gain	-	-	(1,593)	(1,593)
Balance – June 19, 2022	1,015	301,959	(30,606)	271,353

The Royalty Pool is adjusted annually to reflect sales from new A&W restaurants added to the Royalty Pool, net of the sales of any A&W restaurants that have permanently closed. Food Services is paid for the additional royalty stream related to the sales of the net new restaurants, based on a formula set out in the Amended and Restated Licence and Royalty Agreement. The formula provides for a payment to Food Services based on 92.5% of the amount of estimated sales from the net new restaurants and the current yield on the Units of the Fund (“Units”), adjusted for income taxes payable by Trade Marks. The consideration is paid to Food Services in the form of additional limited partnership units (“LP units”). The additional LP units are, at the option of Food Services, exchangeable for additional common shares of Trade Marks which are in turn exchangeable for Units or Limited Voting Units of the Fund (“Limited Voting Units” and together with the Units, “Trust Units”) on the basis of two common shares for one Trust Unit. The consideration paid for the annual adjustment to the Royalty Pool is recorded by Food Services as an increase in its investment in Trade Marks, and an increase in the deferred gain. These additions to the deferred gain are amortized over the remaining term of the Amended and Restated Licence and Royalty Agreement from the date of addition.

The 2022 annual adjustment to the Royalty Pool took place on January 5, 2022. The number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants less 13 restaurants that permanently closed during 2021. The estimated annual sales of the 34 new A&W restaurants are \$50,688,000 at the time they were added to the Royalty Pool and annual sales for the 13 permanently closed restaurants were \$7,536,000 based on their sales during the first year such restaurants were

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included in the Royalty Pool. The initial consideration for the estimated additional royalty stream was \$21,472,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the Units for the 20 trading days ending November 1, 2021. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$17,178,000, by issuance of 444,327 LP units which were subsequently exchanged for 888,654 non-voting common shares of Trade Marks. The remaining consideration payable to Food Services for the January 5, 2022 adjustment to the Royalty Pool of \$4,294,000 is to be paid by issuance of additional LP units, which issuance is held back until the number of LP units is determined in December 2022 based on the actual annual sales reported by the new restaurants. Food Services has recorded the \$4,294,000 receivable as a current asset as at June 19, 2022 (January 2, 2022 - \$nil). The actual amount of the consideration paid in December 2022 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

**B) Investments in associates**

As a result of the annual adjustment to the Royalty Pool and the exchange rights granted under the Amended and Restated Declaration of Trust and the Amended and Restated Exchange Agreement, Food Services owns common shares of Trade Marks and as a result of Food Services exchanging common shares of Trade Marks for Limited Voting Units, Food Services also has direct ownership in the Fund. These investments are accounted for as investments in associates and are recorded using the equity method. As at June 19, 2022 Food Services had a 18.3% investment in Trade Marks (January 2, 2022 – 16.5%) and a 9.4% investment in the Fund (January 2, 2022 – 9.4%). Taken together, Food Services' ownership of exchangeable common shares of Trade Marks and Limited Voting Units equated to Food Services owning 26.0% of the total equivalent units of the Fund on a fully diluted basis as at June 19, 2022 (24.3% as at January 2, 2022).

During the second quarter of 2021, on April 16, 2021, A&W of Canada Inc. ("A&W Canada"), an indirect shareholder of Food Services, completed a reorganization to provide liquidity for some of its long-standing shareholders and to simplify the indirect ownership of Food Services (the "Reorganization").

As part of the Reorganization, and pursuant to the Amended and Restated Declaration of Trust and the Amended and Restated Exchange Agreement, Food Services exchanged 1,042,000 common shares of Trade Marks, with a book value of \$16,234,000, for 521,000 Units, which Units were then purchased by shareholders of A&W Canada at a price of \$36.42 per Unit. The sale of Units was a non-cash transaction whereby Food Services received gross proceeds from the sale of \$18,974,000 in the form of promissory notes. Promissory notes totalling \$17,092,000 were extinguished upon Food Services' payment of dividends to its shareholder, leaving \$1,882,000 in residual promissory notes receivable

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which were paid in full as of January 2, 2022. Food Services recognized a \$2,670,000 gain on the sale, net of \$70,000 in transaction costs in the second quarter of 2021.

In addition, Food Services exchanged 3,014,040 of its common shares of Trade Marks, with a book value of \$46,959,000, for 1,507,020 Limited Voting Units. Limited Voting Units may be converted to Units and have equal rights and privileges as Units except that holders of the Limited Voting Units, together with the common shares of Trade Marks that are exchangeable for Limited Voting Units, are not entitled in the aggregate to cast more than 40% of the votes cast upon a resolution with respect to the appointment or removal of Trustees of the Fund and are not entitled to cast votes upon a resolution to amend the Declaration of Trust. Food Services did not recognize a gain on the exchange of the 3,014,040 common shares of Trade Marks as the Limited Voting Units continued to be held by Food Services and were therefore recognized at cost, being the book value of the common shares exchanged plus \$203,000 in transaction costs. Food Services paid cash dividends of \$49,195,000 to its shareholder as part of the Reorganization.

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

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

The Fund did not receive any proceeds from the Reorganization and Food Services paid for the expenses of the Reorganization. The Reorganization did not constitute a change of control of Food Services, as the existing shareholders continue to maintain majority control of Food Services. There was no change in management or the operations of the Food Services' business in connection with the Reorganization.

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As at June 19, 2022 Food Services' investments in associates totaled \$145,962,000 (January 2, 2022 - \$127,573,000). Food Services' share of income from associates totaled \$5,177,000 for the year to date period ended June 19, 2022 (2021 - \$3,368,000). Food Services' share of income from associates totaled \$2,669,000 for the quarter (2021 - \$1,940,000).

The investment in Trade Marks as at June 19, 2022 is as follows:

	<b>Common shares</b>	<b>Cumulative equity in earnings</b>	<b>Cumulative dividends</b>	<b>Total</b>
	\$	\$	\$	\$
Balance– January 3, 2021	124,221	52,793	(54,973)	122,041
January 5, 2021 adjustment to Royalty Pool	20,164	-	-	20,164
Equity in earnings	-	7,486	-	7,486
Dividends	-	-	(6,258)	(6,258)
Common shares of Trade Marks exchanged for Trust Units	(63,193)	-	-	(63,193)
Balance – January 2, 2022	81,192	60,279	(61,231)	80,240
January 5, 2022 adjustment to Royalty Pool	17,178	-	-	17,178
Equity in earnings	-	3,643	-	3,643
Dividends	-	-	(2,798)	(2,798)
Balance – June 19, 2022	98,370	63,922	(64,029)	98,263

The investment in the Fund as at June 19, 2022 is as follows:

	<b>Limited Voting Units</b>	<b>Cumulative equity in earnings</b>	<b>Cumulative distributions</b>	<b>Total</b>
	\$	\$	\$	\$
Balance – January 3, 2021	-	-	-	-
Common shares of Trade Marks exchanged for Limited Voting Units	47,162	-	-	47,162
Equity in earnings	-	2,236	-	2,236
Distributions	-	-	(2,065)	(2,065)
Balance – January 2, 2022	47,162	2,236	(2,065)	47,333
Equity in earnings	-	1,534	-	1,534
Distributions	-	-	(1,168)	(1,168)
Balance – June 19, 2022	47,162	3,770	(3,233)	47,699

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## **6 Operating loan facility**

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

Consistent with the terms under the \$25,000,000 credit facility, amounts advanced under the \$40,000,000 facility bear interest at the bank prime rate plus 1.0% and are repayable on demand. The covenants, which remain unchanged from those of the \$25,000,000 credit facility, include the requirement to meet certain debt to earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) ratios and debt to Food Services’ investment in Trade Marks Inc. ratios during each trailing four quarter period. The amendment included a reduction to the number of Trade Marks common shares that Food Services is required to pledge from 7,000,000 shares to 5,000,000 shares. Food Services was in compliance with all of its financial covenants as at June 19, 2022 and January 2, 2022.

As at June 19, 2022 and January 2, 2022, Food Services had not drawn on the credit facility and had the full \$40,000,000 facility available.

## **7 New restaurant openings**

Food Services opened eleven new franchised restaurants during the year to date period ended June 19, 2022 (2021 – fifteen), seven of which were opened during the quarter (2021 – nine). There was a decrease in both revenue and expenses related to turnkey fees and the sale of equipment for new restaurants in both the year to date period and quarter, as compared to the comparative periods in 2021, due to the decrease in the number of new restaurants opened. These decreases however were more than offset by increases in revenues and expenses related to the sale of equipment to existing restaurants.

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**8 Franchising revenue**

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

	<b>12-week period ended Jun 19, 2022</b>	12-week period ended Jun 20, 2021	<b>24-week period ended Jun 19, 2022</b>	24-week period ended Jun 20, 2021
	\$	\$	\$	\$
At a point in time:				
Advertising fund contributions	11,697	10,474	22,661	19,961
Distribution revenue and service fees	29,504	23,639	54,027	43,575
Equipment and turnkey revenue	21,676	13,376	34,843	19,362
Other revenue	2,109	3,607	3,597	6,441
Over time:				
Initial franchise fees and renewal fees	309	731	1,198	1,289
	<u>65,295</u>	<u>51,827</u>	<u>116,326</u>	<u>90,628</u>

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

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**9 Expenses by nature**

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

	<b>12-week period ended Jun 19, 2022</b>	12-week period ended Jun 20, 2021	<b>24-week period ended Jun 19, 2022</b>	24-week period ended Jun 20, 2021
	\$	\$	\$	\$
Depreciation of plant and equipment	474	464	927	914
Depreciation of right-of-use asset	535	529	1,067	1,037
<hr/>				
Employee benefit costs				
Wages and salaries and other termination benefits	7,228	6,391	14,167	12,222
Pension costs - defined contribution plan	208	194	501	391
	<hr/>	<hr/>	<hr/>	<hr/>
	7,436	6,585	14,668	12,613

Employee wages and salaries for the comparative year to date period ended June 20, 2021 are net of wage subsidies of \$1,075,000 that were received or receivable under federal government subsidy programs in connection with COVID-19. Wage subsidies for the second quarter of 2021 were \$215,000. No wage subsidies were received or are receivable in 2022.

**10 Finance expense – net**

	<b>12-week period ended Jun 19, 2022</b>	12-week period ended Jun 20, 2021	<b>24-week period ended Jun 19, 2022</b>	24-week period ended Jun 20, 2021
	\$	\$	\$	\$
Net interest expense (income)	(15)	20	(19)	20
Standby fees	25	14	40	29
Interest cost on supplementary retirement benefit plan	113	113	226	226
Interest on leases receivable	(5,261)	(5,017)	(10,498)	(10,009)
Interest on lease liabilities	5,423	5,189	10,823	10,348
Amortization of deferred financing fees	12	10	25	19
	<hr/>	<hr/>	<hr/>	<hr/>
	297	329	597	633

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**11 Working capital**

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

	<b>12-week period ended Jun 19, 2022</b>	12-week period ended Jun 20, 2021	<b>24-week period ended Jun 19, 2022</b>	24-week period ended Jun 20, 2021
	\$	\$	\$	\$
Accounts receivable	(3,614)	(4,585)	406	(3,359)
Inventories	2,067	(535)	1,236	(1,861)
Prepaid expenses	(1,197)	(1,499)	(948)	(1,166)
Dividends receivable	-	70	-	(598)
Accounts payable and accrued liabilities	4,183	4,325	1,881	203
Dividends payable	-	(668)	-	-
Royalties payable	453	322	643	(95)
	<u>1,892</u>	<u>(2,570)</u>	<u>3,218</u>	<u>(6,876)</u>

**12 Related party transactions and balances**

Royalty expense for the year to date period ended June 19, 2022 was \$22,584,000 (2021 - \$19,601,000), of which \$4,156,000 (January 2, 2022- \$3,513,000) is payable to the Partnership at June 19, 2022. Royalty expense for the quarter was \$12,187,000 (2021 - \$10,519,000).

During the year to date period ended June 19, 2022, Trade Marks declared five dividends payable to Food Services totaling \$2,798,000 (2021 - \$2,622,000 ) as a result of Food Services' ownership of Trade Marks' common shares. The fifth dividend amounted to \$560,000 and was declared on June 8, 2022 but paid to Food Services subsequent to the period end on June 30, 2022 and is therefore reported as a current asset as at June 19, 2022 (January 2, 2022 – \$nil). During the quarter Trade Marks declared three dividends payable to Food Services totaling \$1,679,000 (2021 - \$1,458,000).

During the year to date period ended June 19, 2022, the Fund declared five distributions payable to Food Services totaling \$1,168,000 (2021 – \$406,000) as a result of Food Services' ownership of Limited Voting Units. The fifth distribution amounted to \$233,000 and was declared on June 8, 2022 but paid to Food Services subsequent to the period end on June 30, 2022 and is therefore reported as a current asset as at June 19, 2022 (January 2, 2022 – \$234,000). During the quarter the Fund declared three distributions payable to Food Services totaling \$701,000 (2021 - \$406,000).

During the year to date period ended June 19, 2022, Food Services declared five dividends totaling \$3,966,000 (2021 - \$68,119,000) from working capital to its shareholder. The fifth dividend amounted to \$793,000 and was declared on June 8, 2022 but paid subsequent to period end on July 4, 2022 and is

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therefore reported as a current liability as a June 19, 2022 (January 2, 2022 – \$nil). During the quarter Food Services declared three dividends totaling \$2,379,000 (2021 - \$66,955,000). Of the total dividends declared in the second quarter of 2021 and year to date period ended June 20, 2021, \$66,287,000 related to the Reorganization transaction that occurred on April 16, 2021 (note 5).

On April 8, 2022, Trade Marks and Food Services entered into an agreement for Food Services to provide administrative services to Trade Marks (the “Services Agreement”). Under the terms of the Services Agreement, Food Services is entitled to be paid an annual fee, on a quarterly basis, for the services provided in each fiscal year in an amount approved by the board of directors of Trade Marks that is based on a prescribed time and effort computation. The Services Agreement will remain in effect for the duration of the Administration Agreement dated February 15, 2002 between Trade Marks and the Fund, unless terminated by either party by giving 5 years advance written notice to the other party. During the year to date period ended June 19, 2022, Food Services recognized \$88,000 (2021 - \$nil) as an offset to general and administrative expenses related to administrative services provided to Trade Marks, \$44,000 which is reported in accounts receivable as at June 19, 2022 (January 2, 2022 - \$40,000). During the quarter, Food Services recognized \$44,000 as an offset to general and administrative expenses related to administrative services provided to Trade Marks (2021 - \$nil).

Other related party transactions are disclosed in note 5 and 14.

**13 Key management compensation**

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

	<b>12-week period ended Jun 19, 2022</b>	12-week period ended Jun 20, 2021	<b>24-week period ended Jun 19, 2022</b>	24-week period ended Jun 20, 2021
	\$	\$	\$	\$
Salaries, bonuses and other short-term employee benefits	691	751	1,441	1,539
Pension costs - defined contribution plan	34	37	121	74
Pension costs - supplementary retirement benefit plan	113	113	226	226
Total	<u>838</u>	<u>901</u>	<u>1,788</u>	<u>1,839</u>

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**14 Share capital**

## Authorized

Unlimited number of common shares

Unlimited number of preferred shares

## Issued

	<b>Jun 19, 2022</b>	Jan 2, 2022
	\$	\$
4,781,250 common shares	<u>10,129</u>	<u>20,129</u>

In 2020, Food Services' shareholder invested \$10,000,000 of common equity in the Company to ensure sufficient liquidity during the period of uncertainty caused by COVID-19. On May 27, 2022 Food Services reduced its share capital by \$10,000,000. Of the \$10,000,000 return of capital, \$5,000,000 was paid in cash to Food Services' shareholder on May 31, 2022 and the remaining \$5,000,000 is payable on November 30, 2022 and is recorded as a promissory note in current liabilities as at June 19, 2022.

**15 Financial instruments and financial risk management**

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

**Fair values**

Management estimates that the fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and royalties payable approximate their carrying values given the short term to maturity of these instruments.

**Credit risk**

The Company's exposure to credit risk is as indicated by the carrying amount of its accounts receivable. Receivables are due from franchisees and distributors. COVID-19 continues to impact system sales at some of A&W's restaurants and subsequently revenue from franchised restaurants, which may increase the credit risk associated with receivables from franchisees. Management has made allowances for expected credit losses using historical information and adjusted for specific circumstances due to COVID-19. The Company does not believe it has a significant exposure to any

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individual franchisee. As at June 19, 2022, \$8,582,000 (January 2, 2022 – \$6,752,000) is receivable from one distributor.

**Liquidity risk**

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

**Interest rate risk**

The Company has limited exposure to interest rate risk. The operating loan facility bears a floating rate of interest as disclosed in note 6. Cash and cash equivalents earn interest at market rates. All of the Company's other financial instruments are non-interest bearing.

**16 Subsequent events**

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

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



**A&W Food Services of Canada Inc.  
300 – 171 West Esplanade  
North Vancouver, BC  
V7M 3K9**

**Tel: 604-988-2141  
[www.aw.ca](http://www.aw.ca)**