

Disclosin' Ain't Eazy: A Cautionary Tale of Deficient Disclosure for Franchisors

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The Ontario Superior Court of Justice's recent decision in [*EazyFoods Inc. et al v 615241 Ontario Ltd. et al*](#) offers a cautionary tale to franchisors in respect of their discussions and disclosure practices with prospective franchisees.¹ As most franchisors are well aware, Ontario's *Arthur Wishart Act* and its associated Regulations impose rigorous pre-contractual disclosure requirements.² Failure to comply with those requirements, including through the provision of material information to a prospective franchisee which is not included in a disclosure document leave franchisors vulnerable to claims for rescission in the event that the franchisor-franchisee relationship fails.

Background to the Case

In June of 2023, the principals of EazyFoods Inc. (EazyFoods) took an interest in acquiring an existing "Dixie Lee Fried Chicken" franchise in Bancroft, Ontario. At various times throughout the summer of 2023, the franchisor provided EazyFoods with information about the restaurant through in-person communications, brochures, standalone documents, and emails. In June 2023, the Franchisor also provided EazyFoods with a purported disclosure document under the *Wishart Act*. EazyFoods then proceeded to enter into an asset purchase agreement with the former owner of the restaurant and a new franchise agreement with the franchisor in September of 2023.

Soon thereafter, the restaurant's financial position began to deteriorate. In September 2024, EazyFoods delivered a notice of rescission to the Franchisor seeking to rescind the franchise agreement pursuant to section 6(2) of the *Wishart Act*. EazyFoods claimed that there were various material deficiencies in the disclosure document and that it received "piecemeal disclosure" instead of a single disclosure document. The franchisor denied the effectiveness of EazyFoods' notice of rescission and took the position that EazyFoods was not entitled to rescind the franchise agreement due to its failure to comply with the duty of fair dealing imposed by section 3 of the *Wishart Act*. The franchisor subsequently delivered notices of default in response to EazyFoods' unauthorized closure of the restaurant and, ultimately, a notice of termination.

EazyFoods then commenced an application before the Ontario Superior Court of Justice seeking damages pursuant to section 6(6) of the *Wishart Act*. The application proceeded with the franchisor representing itself and, unsurprisingly, the franchisor was unsuccessful.

The Court's Decision

The Court held that the disclosure document provided to EazyFoods was plagued with material flaws and amounted to no disclosure at all. The Court therefore concluded that the franchise agreement was lawfully rescinded by EazyFoods pursuant to section 6(2) of the *Wishart Act*.

The Court's decision primarily hinged on its finding that the financial statements in the disclosure document were materially deficient in a number of respects. First, the financial statements provided were for a related operating entity and not the actual franchisor entity. The financial statements were also stale-dated, as they related to the fiscal year ended December 31, 2021 and more than 180 days had passed since the end of the 2022 fiscal year when the disclosure document was provided. Based on well-established precedent regarding financial statement disclosure, the Court found that these flaws alone were sufficient to justify rescission.

Notably, the Court also highlighted that the franchisor had completed a financial statement for 2022 just prior to EazyFoods' execution of the franchise agreement, which showed a 50% deterioration in net earnings. The Court found that this qualified as a material change, and ought to have been disclosed by way of a Statement of Material Change pursuant to section 5(5) of the *Wishart Act*. The Court's decision in this respect appears to *confirm* that the timeliness of financial statements should be assessed as at the date of disclosure, and that the need to disclose any subsequently prepared financial statements between the date of disclosure and the execution of the franchise agreement turns on whether those statements disclose a "material change" as defined by the *Wishart Act*.

Despite finding that the financial statement issues were sufficient, on their own, to entitle EazyFoods to rescind, the Court went on to consider EazyFoods' arguments concerning piecemeal disclosure. EazyFoods argued that, in addition to the disclosure document, it received various disclosure-type information from the franchisor by way of emails, brochures, and other materials, some of which included financial projections related to the restaurant. The Court concluded that, while some of this information provided to EazyFoods did not form part of the disclosure so as to amount to piecemeal disclosure, the disclosure document nevertheless lacked critical material facts required to be disclosed under the *Wishart Act*. With respect to certain categories of documents, the Court accepted that the non-disclosure materials provided to EazyFoods were not part of the franchisor's disclosure, but found that their omission from the disclosure document created a separate issue in that the official disclosure document was inaccurate or incomplete. With respect to the financial projections provided to EazyFoods by email, the Court held that such information "does amount to disclosure – piecemeal disclosure, outside of the disclosure document."

This last finding appears to be at odds with the Court's finding in *2611707 Ontario Inc. v Freshly Squeezed Franchise Juice Corporation*, that where a franchisor stipulates that it only relies on the disclosure document as the sole source of disclosure, there can be no "piecemeal disclosure." That finding was affirmed by the

Court of Appeal. Combined with the fact that the franchisor in *EazyFoods* was unrepresented by counsel, and that the Court had already determined the case on the basis of the financial statement issues, the precedential value of this finding may be suspect.

In light of these deficiencies, the Court found that EazyFoods was objectively unable to make an informed investment decision based on the disclosure document provided. The Court dismissed the franchisor's argument that EazyFoods had failed to comply with the duty of fair dealing by sitting on their rights and waiting to rescind, noting that there was no evidence of bad faith conduct and that the franchisee was not able to waive its right to rescind in any event, and awarded EazyFoods \$392,698 in rescission damages, plus costs and interest.

Key Takeaways

The Court's decision in *EazyFoods* underscores that strict compliance with disclosure obligations under the Act is non-negotiable. Franchisors must ensure that all required information, particularly financial statements and other material facts, is accurate, complete, and included within a single, compliant disclosure document.

As highlighted by the Court's decision, disclosure requirements pertaining to financial statements have consistently been applied strictly and deficient financial statement disclosure will often result in the disclosure document being deemed the equivalent of no disclosure at all. Similarly, franchisors are advised to be cautious about disclosure-type information communicated to prospective franchisees outside of the disclosure document. While such information will not likely be considered "disclosure" if the franchisor stipulates that it relies solely on the disclosure document, the provision of information outside of the disclosure document may highlight gaps or omissions in the disclosure document itself or potentially provide grounds for a finding of piecemeal disclosure.

Ultimately, franchisors bear the risk that fragmented or deficient disclosure will prevent a franchisee from making an informed investment decision, exposing the franchisor to rescission claims should the franchisor-franchisee relationship fail. Franchisors are thus well advised to work with experienced franchise counsel in preparing their disclosure documents.

¹ [2026 ONSC 504](#) [*EazyFoods*].

² *Arthur Wishart Act (Franchise Disclosure)*, 2000, [SO 2000, c 3](#) [*Wishart Act*]; [O.Reg 581/00](#).