A&W Food Services of Canada Inc.

Consolidated Financial Statements
December 31, 2023 and January 1, 2023
(in thousands of dollars)

Independent auditor's report

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

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of A&W Food Services of Canada Inc. and its subsidiary (together, the Company) as at December 31, 2023 and January 1, 2023 and its financial performance and its cash flows for the 52-week periods then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

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

- the consolidated balance sheets as at December 31, 2023 and January 1, 2023;
- the consolidated statements of income for the 52-week periods ended December 31, 2023 and January 1, 2023;
- the consolidated statements of comprehensive income for the 52-week periods ended December 31, 2023 and January 1, 2023;
- the consolidated statements of changes in shareholder's deficiency for the 52-week periods ended December 31, 2023 and January 1, 2023;
- the consolidated statements of cash flows for the 52-week periods ended December 31, 2023 and January 1, 2023; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or

conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
February 27, 2024

A&W Food Services of Canada Inc.
Consolidated Balance Sheets

(in thousands of dollars)

	Note	December 31, 2023 $	January 1, 2023 $
Assets			
Current assets			
Cash and cash equivalents		3,808	5,004
Accounts receivable	4	40,122	39,713
Distributions receivable	25	241	241
Leases receivable	5	31,608	25,825
Inventories		14,439	16,396
Prepaid expenses		4,276	3,309
Income taxes recoverable		3,945	1,930
		98,439	92,418
Non-current assets			
Investments in associates	6	169,828	152,944
Other receivables	7	2,051	2,079
Deferred income taxes	8	27,386	29,695
Right-of-use assets	9	20,085	18,689
Leases receivable	5	585,255	578,161
Plant and equipment	10	11,405	10,819
Intangible assets	11	6,322	4,074
Total assets		920,771	888,879
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12	44,544	49,883
Operating loan facility	16	15,726	8,149
Royalties payable	25	4,094	3,891
Lease liabilities	13	33,923	27,836
Deposits on franchise and equipment sales	18	11,581	16,689
Deferred revenue	18	2,535	2,557
		112,403	109,005
Non-current liabilities			
Deferred gain	14	285,434	272,537
Deferred revenue	18	28,456	29,139
Lease liabilities	13	605,708	597,065
Supplementary retirement benefit plan	15	11,232	10,849
Other long-term liabilities		19	22
		1,043,252	1,018,617
Shareholder's Deficiency			
Share capital	17	10,129	10,129
Accumulated deficit		(132,902)	(140,033)
		(122,773)	(129,904)
Non-controlling interest		292	166
Total deficiency		(122,481)	(129,738)
Total liabilities and deficiency		920,771	888,879
Commitments and contingencies	22		
Subsequent event	26		

On behalf of the Board of Directors

_________________________________ Director _________________________________ Director

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

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

(in thousands of dollars)

	Note	52-week period ended December 31, 2023 $	52-week period ended January 1, 2023 $
Revenue			
Franchising	18	276,121	277,895
Corporate restaurants		23,193	21,467
		299,314	299,362
Expenses (income)			
Operating costs		157,311	167,840
General and administrative expenses		53,745	47,705
Royalty expense	25	54,863	52,100
Recovery of impairment of leases receivable	5	43	(521)
Finance expense – net	20	1,387	1,190
Amortization of deferred gain	14	(3,703)	(3,495)
Share of income from associates	6	(11,415)	(10,765)
		252,231	254,054
Income before income taxes		47,083	45,308
Provision for (recovery of) income taxes	8		
Current		6,561	8,916
Deferred		2,510	(10)
		9,071	8,906
Net income for the period		38,012	36,402
Net income attributable to			
Shareholder of A&W Food Services of Canada Inc.		36,810	35,196
Non-controlling interest		1,202	1,206
		38,012	36,402

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

A&W Food Services of Canada Inc.

Consolidated Statements of Comprehensive Income

(in thousands of dollars)

	Note	52-week period ended December 31, 2023 $	52-week period ended January 1, 2023 $
Net income for the period		38,012	36,402
Other comprehensive gain			
Actuarial (loss) gain on supplementary retirement benefit plan – net of tax	15	(548)	1,662
Comprehensive income		37,464	38,064
Comprehensive income attributable to			
Shareholder of A&W Food Services of Canada Inc.		36,262	36,858
Non-controlling interest		1,202	1,206
		37,464	38,064

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

A&W Food Services of Canada Inc.

Consolidated Statements of Changes in Shareholder's Deficiency

For the 52-week period ended December 31, 2023 and the 52-week period ended January 1, 2023

(in thousands of dollars)

	Note	Share capital $	Accumulated deficit $	Total $	Non-controlling interest $	Total deficiency $
Balance – January 2, 2022		20,129	(166,939)	(146,810)	180	(146,630)
Net income for the period		-	35,196	35,196	1,206	36,402
Dividends on common shares	25	-	(9,952)	(9,952)	(1,220)	(11,172)
Return of capital	17	(10,000)	-	(10,000)	-	(10,000)
Actuarial gain on supplementary retirement benefit plan – net of tax	15	-	1,662	1,662	-	1,662
Balance – January 1, 2023		10,129	(140,033)	(129,904)	166	(129,738)
Net income for the period		-	36,810	36,810	1,202	38,012
Dividends on common shares	25	-	(29,131)	(29,131)	(1,076)	(30,207)
Actuarial loss on supplementary retirement benefit plan – net of tax	15	-	(548)	(548)	-	(548)
Balance – December 31, 2023		10,129	(132,902)	(122,773)	292	(122,481)

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

A&W Food Services of Canada Inc.

Consolidated Statements of Cash Flows

(in thousands of dollars)

	Note	52-week period ended December 31, 2023 $	52-week period ended January 1, 2023 $
Cash provided by (used in)			
Operating activities			
Net income for the period		38,012	36,402
Adjustments for			
Depreciation of plant and equipment	10	1,731	2,101
Amortization of intangibles	11	763	-
Depreciation of right-of-use assets	9	2,516	2,360
Deferred income taxes		2,510	(10)
Net loss on disposal of plant and equipment	10	675	66
Impairment loss on plant and equipment		-	299
Decrease in deposits on franchise and equipment sales	18	(5,108)	(6,628)
Increase in other receivables		29	(2,079)
Supplementary retirement benefit plan	15	(856)	(825)
Increase in deferred revenue	18	(705)	760
Decrease in other long-term liabilities		(3)	(6)
Amortization of deferred gain	14	(3,703)	(3,495)
Recovery of impairment of leases receivable		43	(521)
Share of income from associates	6	(11,415)	(10,765)
Current income tax expense		6,561	8,916
Income tax paid		(7,808)	(18,656)
Finance expense – net	20	1,387	1,190
Finance expense paid – net		(169)	(21)
Changes in items of non-cash working capital	21	(5,346)	(3,150)
		19,114	5,938
Investing activities			
Purchase of plant and equipment	10	(2,992)	(1,682)
Purchase of intangible assets	11	(3,011)	(2,950)
Dividends and distributions received from associates	25	11,130	9,945
		5,127	5,313
Financing activities			
Operating lease payments		(2,807)	(2,853)
Draw on operating loan facility	16	7,577	8,149
Return of capital to shareholder	17	-	(10,000)
Dividends paid to shareholder	25	(29,131)	(9,952)
Dividends paid to non-controlling interest		(1,076)	(1,220)
		(25,437)	(15,876)
Decrease in cash and cash equivalents during the period		(1,196)	(4,625)
Cash and cash equivalents – beginning of period		5,004	9,629
Cash and cash equivalents – end of period		3,808	5,004

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

(figures in tables expressed in thousands of dollars)

1 General information

A&W Food Services of Canada Inc. (the "Company" or "Food Services") is in the business of developing and franchising quick service restaurants in Canada. During the period ended December 31, 2023, the Company opened 19 locations and closed 11 locations, bringing the total number of A&W restaurants to 1,054, of which 1,044 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.

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 2023 year was 52 weeks and ended December 31, 2023 (fiscal 2021 – 52 weeks ended January 1, 2023). A&W Root Beer Beverages of Canada Inc. ("Beverages"), the subsidiary of Food Services, uses a fiscal year ending December 31.

2 Basis of preparation

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

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

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

The Board of Directors approved these consolidated financial statements on February 27, 2024.

3 Material accounting policy information

Basis of measurement

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

Consolidation

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

Investment in associates

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

(figures in tables expressed in thousands of dollars)

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 consolidated balance sheet date, Food Services assesses its investments in associates from 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.

Non-controlling interest

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

Functional and presentation currency

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

Critical accounting estimates and judgments

The preparation of consolidated 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 judgments are investments in associates, supplementary retirement benefit plan, deferred income taxes and impairment of leases receivable.

Cash and cash equivalents

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

(figures in tables expressed in thousands of dollars)

Accounts receivable

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

Leases receivable

Where the Company acts as an intermediate lessor, it classifies a sublease as a finance lease by reference to the right-of-use asset arising from the head lease. The Company derecognizes the right-of-use asset relating to the head lease that it transfers to the sublessee and recognizes a corresponding lease receivable, and the lease liability relating to the head lease is retained. Additionally, the lease receivable is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Inventories

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

Impairment of financial assets

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

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

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

Accounts payable and accrued liabilities

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

(figures in tables expressed in thousands of dollars)

Deposits on franchise and equipment sales

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

Provisions

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

Income taxes

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

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

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

(figures in tables expressed in thousands of dollars)

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

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.

Plant and equipment

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

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

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

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

(figures in tables expressed in thousands of dollars)

Intangible assets

Intangible assets are recorded at cost and include internally developed application software. Costs incurred during the development stages of developing application software for internal use are capitalized. All costs incurred during the preliminary research stage, including project scoping, identification and testing of alternatives, are expensed as incurred and recorded in the consolidated statements of income in operating costs.

Once intangible assets are available for use they are amortized on a straight-line basis over their estimated useful lives, which are three to seven years for application software. Estimates of useful lives, residual values and methods of amortization are reviewed annually. Any changes are accounted for prospectively as a change in accounting estimate. Amortization expense is recorded in the consolidated statements of income in operating costs.

Other receivables

Other receivables are amounts due from franchisees related to franchisee support payments. Other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less a provision for impairment and are presented as non-current as payment is due in more than one year.

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.

Share capital

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

Revenue recognition

The Company's revenue consists of fees from franchised restaurants, revenue from the sale of food and supplies to franchisees and distributors, revenue from the opening of new franchised restaurants, revenue from Company-owned restaurants and revenue from the sale of A&W Root Beer concentrate.

(figures in tables expressed in thousands of dollars)

Fees from franchised restaurants include initial and renewal fees, distribution and service fees, advertising contributions, equipment, turnkey, technology and other fees. Revenues related to initial and renewal fees are recognized over the term of the related franchise agreement because franchisees consume franchising services as they are provided. Service fees, in the amount of 2.5% to 3.5% of net sales of franchise operations, are recognized at a point in time. Distribution fees are recognized at a point in time when control has transferred to the distributors and are recorded net of related costs.

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

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

Deferred gain

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

Royalty expense

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

Finance expense

Net finance expense includes interest expense associated with the supplementary retirement benefit plan, interest expense on lease liabilities and interest income on leases receivable.

(figures in tables expressed in thousands of dollars)

Employee benefits

a) Supplementary retirement benefit plan

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

b) Defined contribution pension plan

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

Financial instruments

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

At initial recognition, Food Services classifies its financial instruments in the following categories:

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

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

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

Food Services' financial assets at amortized cost comprise cash and cash equivalents, accounts receivable and distributions receivable, which are included in current assets due to their short-term nature, other receivables and leases receivable. Accounts receivable are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, financial assets at amortized cost are measured at amortized cost using the effective interest method less a provision for impairment. Financial liabilities at amortized cost include accounts payable and accrued liabilities, operating loan facility, royalties payable and lease liabilities. Accounts payable and accrued liabilities, operating loan facility, royalties payable and lease liabilities are initially recognized at the

(figures in tables expressed in thousands of dollars)

amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities, operating loan facility, royalties payable and lease liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due in one year or less. Otherwise, they are presented as non-current liabilities.

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

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

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

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

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

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

   ii) Equity instruments that are held for trading, and

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

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

4 Accounts receivable

	December 31, 2023 $	January 1, 2023 $
Trade receivables	28,006	28,511
Other receivables – current	13,484	12,162
Provision for impairment	(1,368)	(960)
	40,122	39,713

As at December 31, 2023, trade receivables of $17,873,000 (January 1, 2023 – $17,385,000) were fully performing.

(figures in tables expressed in thousands of dollars)

As at December 31, 2023, trade receivables of $6,274,000 (January 1, 2023 – $8,273,000) were past due but not impaired. These relate to franchisees and distributors for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	December 31, 2023 $	January 1, 2023 $
1 – 30 days	5,004	4,854
31 – 60 days	1,270	3,419
	6,274	8,273

The movement in the provision for impairment is as follows:

	$
Balance – January 2, 2022	874
Provision for impairment	88
Amounts written off	(2)
Balance – January 1, 2023	960
Provision for impairment	505
Amounts written off	(97)
Balance – December 31, 2023	1,368

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

5 Leases receivable

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

	December 31, 2023 $	January 1, 2023 $
Current leases receivable	31,608	25,825
Non-current leases receivable	585,255	578,161
	616,863	603,986

(figures in tables expressed in thousands of dollars)

The following table outlines the annual contractual undiscounted payments for leases receivable as at December 31, 2023:

	$
Year 1	55,197
Year 2	53,855
Year 3	57,143
Year 4	51,564
Year 5	45,559
Thereafter	641,471
Total undiscounted leases receivable	904,789
Unearned interest income	(286,147)
Provision for impairment	(1,779)
	616,863

Leases receivable are reviewed for impairment based on expected losses at each consolidated balance sheets 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 ongoing uncertainty 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 $1,779,000 as at December 31, 2023 (January 1, 2023 – $1,736,000). The change in the provision on leases receivable of $43,000 as at December 31, 2023 (January 1, 2023 – $521,000) is recorded as a loss in the consolidated statements of income and comprehensive income. The current portion of the provision for impairment of $23,000 as at December 31, 2023 (January 1, 2023 – $46,000) represents expected losses in the following fiscal period. The non-current portion of the provision for impairment of $1,756,000 as at December 31, 2023 (January 1, 2023 – $1,690,000) relates to expected losses over the remaining term of the leases.

6 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 of the Fund (Limited Voting Units and together with the Units, Trust 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 December 31 2023, Food Services had a 21.0% investment in Trade Marks (January 1, 2023 – 19.1%) and a 9.4% investment in the Fund (January 1, 2023 – 9.4%).

As at December 31, 2023, Food Services' investments in associates totalled $169,828,000 (January 1, 2023– $152,944,000). Food Services' share of income from associates for the period totalled $11,415,000 (2022 – $10,765,000).

(figures in tables expressed in thousands of dollars)

Food Services' investment in Trade Marks is as follows:

	Common shares $	Cumulative equity in earnings $	Cumulative dividends $	Total $
Balance – January 2, 2022	81,192	60,279	(61,231)	80,240
January 5, 2022 adjustment to Royalty Pool	24,558	-	-	24,558
Equity in earnings	-	7,588	-	7,588
Dividends	-	-	(7,126)	(7,126)
Balance – January 1, 2023	105,750	67,867	(68,357)	105,260
January 5, 2023 adjustment to Royalty Pool	16,600	-	-	16,600
Equity in earnings	-	8,380	-	8,380
Dividends	-	-	(8,237)	(8,237)
Balance – December 31, 2023	122,350	76,247	(76,594)	122,003

The common shares of Trade Marks held by Food Services may be exchanged at the option of Food Services into Trust Units on the basis of two common shares for one Trust Unit.

Food Services' investment in the Fund is as follows:

	Limited Voting Units $	Cumulative equity in earnings $	Cumulative distributions $	Total $
Balance – January 2, 2022	47,162	2,236	(2,065)	47,333
Equity in earnings	-	3,177	-	3,177
Distributions	-	-	(2,826)	(2,826)
Balance – January 1, 2023	47,162	5,413	(4,891)	47,684
Equity in earnings	-	3,035	-	3,035
Distributions	-	-	(2,893)	(2,893)
Balance – December 31, 2023	47,162	8,448	(7,784)	47,826

(figures in tables expressed in thousands of dollars)

7 Other receivables

	December 31, 2023 $	January 1, 2023 $
Other receivables – non-current	2,664	2,729
Provision for impairment	(613)	(650)
	2,051	2,079

8 Income taxes

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

	52-week period ended December 31, 2023	52-week period ended January 1, 2023
Statutory combined federal and provincial income tax rates	26.85%	26.85%
	$	$
Expected provision for income taxes based on statutory income tax rates	12,640	12,163
Non-taxable portion and rate difference on capital gains	(627)	(591)
Investment in associates	(1,784)	(800)
Deferred tax on increase to deferred gain	(1,279)	(2,088)
Non-deductible items	79	298
Rate changes on deferred income taxes	-	-
Adjustment to prior period provisions	42	(76)
Provision for income taxes	9,071	8,906

(figures in tables expressed in thousands of dollars)

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

	December 31, 2023 $	January 1, 2023 $
Current tax reserves	642	769
Deferred gain	28,301	27,022
Deferred revenue	8,315	8,504
Long-term liabilities	3,019	2,948
Lease liabilities	5,631	5,146
Lease impairment	477	466
Intangible assets	13	14
Plant and equipment	(2,401)	(584)
Right-of-use assets	(5,389)	(5,014)
Investment in associates	(11,222)	(9,576)
	27,386	29,695

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

	December 31, 2023 $	January 1, 2023 $
Deferred tax assets		
Deferred tax assets to be recovered after more than one year	43,488	42,081
Deferred tax assets to be recovered within one year	2,910	2,788
	46,398	44,869
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than one year	(18,418)	(14,666)
Deferred tax liabilities to be recovered within one year	(594)	(508)
	(19,012)	(15,174)
Deferred tax assets – net	27,386	29,695

(figures in tables expressed in thousands of dollars)

9 Right-of-use assets

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

	Real estate $	Automobiles $	Total $
Balance – January 2, 2022	18,208	1,372	19,580
Additions	263	1,247	1,510
Disposals	-	(59)	(59)
Remeasurement of lease liabilities	21	(3)	18
Depreciation	(1,566)	(794)	(2,360)
Balance – January 1, 2023	16,926	1,763	18,689
Additions	2,664	1,342	4,006
Disposals	-	(91)	(91)
Remeasurement of lease liabilities	(1)	(2)	(3)
Depreciation	(1,583)	(933)	(2,516)
Balance – December 31, 2023	18,006	2,079	20,085

10 Plant and equipment

	Leasehold improvements $	Machinery and equipment $	Total $
Balance – January 2, 2022			
Cost	11,689	10,955	22,644
Accumulated depreciation	(4,174)	(6,867)	(11,041)
Net book value	7,515	4,088	11,603
Opening net book value	7,515	4,088	11,603
Additions	526	1,156	1,682
Disposals	-	(66)	(66)
Depreciation	(843)	(1,258)	(2,101)
Impairment loss	(299)	-	(299)
Net book value	6,899	3,920	10,819

(figures in tables expressed in thousands of dollars)

	Leasehold improvements $	Machinery and equipment $	Total $
Balance – January 1, 2023			
Cost	11,916	11,861	23,777
Accumulated depreciation	(5,017)	(7,941)	(12,958)
Net book value	6,899	3,920	10,819
Opening net book value	6,899	3,920	10,819
Additions	1,130	1,862	2,992
Disposals	(672)	(3)	(675)
Depreciation	(776)	(955)	(1,731)
Net book value	6,581	4,824	11,405
Balance – December 31, 2023			
Cost	11,851	13,700	25,551
Accumulated depreciation	(5,270)	(8,876)	(14,146)
Net book value	6,581	4,824	11,405

11 Intangible assets

	Internally generated application software $
Balance – January 1, 2023	
Cost	4,074
Accumulated amortization	-
Net book value	4,074
Opening net book value	4,074
Additions	3,011
Amortization	(763)
Net book value	6,322
Balance – December 31, 2023	
Cost	7,085
Accumulated amortization	(763)
Net book value	6,322

As at January 1, 2023, intangible assets were still under development and not yet available for use and as a result were not yet being amortized.

(figures in tables expressed in thousands of dollars)

12 Accounts payable and accrued liabilities

	December 31, 2023 $	January 1, 2023 $
Trade payables	18,833	16,571
Employee benefits payable	4,819	5,196
Accrued liabilities and other payables	20,892	28,116
	44,544	49,883

13 Lease liabilities

The Company's leases include base rent for restaurant premises and office space and automobiles. The Company is the head lessee for the majority of its franchised locations and enters into agreements whereby the Company licences the premises to the franchisee, for which the Company receives a premises licence fee. Under the licence agreement, the franchisee is responsible for the obligations under the lease. IFRS 16 requires Food Services, where it acts as the intermediate lessor, to recognize a lease receivable (note 5). The Company has included renewal options in the measurement of lease liability when it is reasonably certain to exercise the renewal option.

The following table presents the lease liabilities for the Company:

	December 31, 2023 $	January 1, 2023 $
Current lease liabilities	33,923	27,836
Non-current lease liabilities	605,708	597,065
	639,631	624,901

Costs not included in the measurement of the lease liabilities are as follows:

	52-week period ended December 31, 2023 $	52-week period ended January 1, 2023 $
Low-value lease costs	49	34
Variable lease costs	1,048	960
	1,097	994

(figures in tables expressed in thousands of dollars)

14 Deferred gain

The deferred gain as at December 31, 2023 is as follows:

	Number of restaurants in Royalty Pool	Deferred gain $	Accumulated amortization $	Net deferred gain $
Balance – January 2, 2022	994	280,487	(29,013)	251,474
January 5, 2022 adjustment to the Royalty Pool	21	24,558	-	24,558
Amortization of deferred gain	-	-	(3,495)	(3,495)
Balance – January 1, 2023	1,015	305,045	(32,508)	272,537
January 5, 2023 adjustment to the Royalty Pool	22	16,600	-	16,600
Amortization of deferred gain	-	-	(3,703)	(3,703)
Balance – December 31, 2023	1,037	321,645	(36,211)	285,434

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 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 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.

The 2023 annual adjustment to the Royalty Pool took place on January 5, 2023. The number of A&W restaurants in the Royalty Pool was increased by 29 new restaurants less 7 restaurants that permanently closed. The Partnership paid Food Services $12,895,000, by issuance of 380,368 LP units to Food Services, representing 80% of the initial consideration based on the estimated annual sales of the net new restaurants. The LP units were subsequently exchanged for 760,736 non-voting common shares of Trade Marks.

The final adjustment to the number of LP units issued was made on December 7, 2023, based on the actual annual sales reported by the new restaurants. The actual annual sales of the 29 new A&W restaurants were $45,565,000, compared to the original estimate of $44,339,000, resulting in total consideration of $16,600,000 payable to Food Services. The remaining consideration of $3,705,000 was paid to Food Services by issuance of 109,332 additional LP units, which were exchanged for 218,664 non-voting common shares of Trade Marks.

(figures in tables expressed in thousands of dollars)

15 Employee benefits

a) Supplementary retirement benefit plan

The most recent actuarial valuation of the unfunded liability was as at December 31, 2023 and the next required valuation will be as at December 29, 2024.

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

	December 31, 2023 $	January 1, 2023 $
Discount rate	4.65	5.05
Inflation	2.00	2.00

The supplementary retirement benefit plan is as follows:

	December 31, 2023 $	January 1, 2023 $
Unfunded liabilities under supplementary retirement benefit plan	12,103	11,720
Less: Current portion included in accrued liabilities	(871)	(871)
Liabilities on the consolidated balance sheets	11,232	10,849

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

	Discount rate %	Liability $
- 50 basis points	5.15	12,699
+ 50 basis points	4.15	11,552

(figures in tables expressed in thousands of dollars)

The consolidated statements of income charge for the supplementary retirement benefit plan is as follows:

	52-week period ended December 31, 2023 $	52-week period ended January 1, 2023 $
Actuarial (loss) gain recognized in other comprehensive loss, net of tax expense of $201,000 (January 1, 2023 – $609,000)	(548)	1,662
Total cumulative actuarial losses recognized in other comprehensive income, net of tax of $1,627,000 (January 1, 2023 – $1,828,000)	2,210	2,536

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

	$
Balance – January 2, 2022	14,410
Interest cost (note 20)	406
Actuarial gain	(2,271)
Benefits paid	(825)
Balance – January 1, 2023	11,720
Interest cost (note 20)	490
Actuarial loss	749
Benefits paid	(856)
Balance – December 31, 2023	12,103

b) Defined contribution pension plan

Pension expense for the period was $1,090,000 (January 1, 2023 – $980,000). Total cash payments during the period were $856,000 (January 1, 2023 – $825,000).

16 Operating loan facility

Food Services has a $40,000,000 demand operating loan facility with a Canadian chartered bank (the “Bank”). On May 4, 2023, Food Services extended the operating loan facility on terms and conditions substantially consistent with those of the previous operating loan facility in place with the Bank. The operating loan facility is set to mature on May 31, 2024.

The $40,000,000 facility is used to fund working capital requirements and for general corporate purposes. Amounts advanced under the operating loan facility bear interest at the bank prime rate plus 1.0% and are repayable on demand. The operating loan facility contains covenants including the requirement to meet certain debt to earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA)

(figures in tables expressed in thousands of dollars)

ratios and debt to Food Services' investment in Trade Marks ratios during each trailing four quarter period. Food Services is also required to pledge 5,000,000 Trade Marks common shares. Food Services was in compliance with all of its financial covenants as at February 27, 2024, December 31, 2023 and January 1, 2023.

As at December 31, 2023, Food Services had drawn $15,726,000 on the credit facility (January 1, 2023 – $8,149,000), of which $3,366,000 was repaid by January 28, 2024, and had issued $198,000 in letters of guarantee (January 1, 2023 – $198,000), leaving $24,076,000 of the facility available (January 1, 2023 – $31,653,000).

17 Share capital

Authorized
Unlimited number of common shares
Unlimited number of preferred shares

Issued

	December 31, 2023 $	January 1, 2023 $
4,781,250 common shares	10,129	10,129

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 of which $10,000,000 was returned to shareholders in 2022.

18 Franchising revenue

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

	52-week period ended December 31, 2023 $	52-week period ended January 1, 2023 $
At a point in time		
Advertising fund contributions	55,864	53,360
Distribution revenue and service fees	130,401	122,631
Equipment and turnkey fees	76,694	91,156
Other revenue	9,958	7,860
Over time		
Initial franchise fees and renewal fees	3,204	2,888
	276,121	277,895

(figures in tables expressed in thousands of dollars)

The Company has recorded $30,991,000 (2023 – $31,696,000) of deferred revenue related to initial franchise fees and renewal fees. The Company expects to recognize as revenue $2,535,000 (2023 – $2,557,000) in the following fiscal period, which represents the current portion of deferred revenue. The non-current portion of deferred revenue of $28,456,000 (2023 – $29,139,000) is expected to be recognized over the remaining term of the franchise agreement.

The Company has recorded $11,581,000 (2023 – $16,689,000) of deposits on franchise and equipment sales of which $10,289,000 is expected to be recognized as revenue in the following fiscal period when control transfers, which is when the related restaurants commence operations. During the period, $14,367,000 (2023 – $20,660,000) of revenues was recognized related to deposits deferred at the end of the prior period.

19 Expenses by nature

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

	52-week period ended December 31, 2023 $	52-week period ended January 1, 2023 $
Depreciation of plant and equipment	1,731	2,101
Amortization of intangible assets	763	-
Depreciation of right-of-use assets	2,516	2,360
Employee benefit costs		
Wages, salaries, bonuses and other termination benefits	36,948	33,545
Pension costs – defined contribution plan	1,090	980
Total employee benefit costs	38,038	34,525

20 Finance expense – net

	52-week period ended December 31, 2023 $	52-week period ended January 1, 2023 $
Net interest expense (income) on operating loan facility and cash	75	(76)
Standby fees	93	98
Interest on supplementary retirement benefit plan	490	406
Interest on leases receivable	(22,709)	(22,816)
Interest on lease liabilities	23,414	23,522
Amortization of deferred financing fees	24	56
	1,387	1,190

(figures in tables expressed in thousands of dollars)

21 Working capital

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

	52-week period ended December 31, 2023 $	52-week period ended January 1, 2023 $
Accounts receivable	(409)	(7,720)
Inventories	1,957	(1,710)
Prepaid expenses	(991)	356
Accounts payable and accrued liabilities	(6,106)	5,546
Royalties payable	203	378
	(5,346)	(3,150)

22 Commitments and contingencies

Purchase obligations

The Company has purchase obligations for supply to franchisees for food supplies, packaging and equipment of $100,761,000 (January 1, 2023 – $123,619,000).

23 Financial instruments and financial risk management

Food Services' financial instruments consist of cash and cash equivalents, accounts receivable, leases receivable, other receivables, accounts payable and accrued liabilities, royalties payable and operating loan facility.

Fair values

Management estimates that the fair values of cash and cash equivalents, accounts receivable, distributions receivable, other receivables, accounts payable and accrued liabilities, royalties payable and operating loan facility approximate their carrying values given the short-term to maturity of these instruments. The fair value of leases receivable approximates their carrying value as the implicit interest used to discount the base value is considered to be based on an appropriate credit and risk rate pertaining to Food Services.

Credit risk

The Company's exposure to credit risk is as indicated by the carrying amount of its accounts receivable, other receivables and leases receivable. Receivables are due from franchisees and distributors. The Company does not believe it has a significant exposure to any individual franchisee. As at December 31, 2023, $7,775,000 (January 1, 2023 – $7,285,000) is receivable from one distributor.

(figures in tables expressed in thousands of dollars)

Liquidity risk

The primary sources of liquidity risk are the royalty payment to the Partnership and dividends on the common shares. The primary sources of funds to pay the royalty and dividends are the fees from franchised restaurants and revenues from the development of franchised restaurants, the sale of food and supplies to franchisees and distributors, revenue from Company-owned restaurants and the sale of A&W Root Beer concentrate. The liquidity risk is assessed as low due to the nature of the income Food Services receives from the franchisees and the Company's ability to reduce future dividends if necessary.

Interest rate risk

The Company has limited exposure to interest rate risk. The operating loan facility bears a floating rate of interest as disclosed in note 16. Cash and cash equivalents earn interest at market rates. All of the Company's other financial instruments are non-interest bearing.

24 Capital disclosures

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

25 Related party transactions and balances

Royalty expense for the period was $54,863,000 (January 1, 2023 – $52,100,000), of which $4,094,000 (January 1, 2023 – $3,891,000) is payable to the Partnership by Food Services at December 31, 2023.

During the period, Trade Marks declared and paid dividends of $8,237,000 (January 1, 2023 – $7,126,000) to Food Services.

During the period, the Fund declared distributions of $2,893,000 (January 1, 2023 – $2,826,000) payable to Food Services as a result of Food Services' ownership of Limited Voting Units. The $241,000 distribution declared on December 7, 2023 payable to Food Services subsequent to the period-end on January 31, 2024 is reported as a current asset as at December 31, 2023 (January 1, 2023 – $241,000).

During the period, Food Services recognized $190,000 (January 1, 2023 – $175,000) as an offset to general and administrative expenses as a result of administrative and advisory services provided to Trade Marks and the Fund.

(figures in tables expressed in thousands of dollars)

During the period, Food Services paid $90,000 (January 1, 2023 – $nil) to a professional baseball club, of which a director of Food Services is a part owner, in exchange for advertising the A&W brand at the ballpark and tickets to the baseball games. As at December 31, 2023, $nil (January 1, 2023 – $nil) is payable to the baseball club by Food Services.

Key management compensation

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

	52-week period ended December 31, 2023 $	52-week period ended January 1, 2023 $
Salaries, bonuses and other short-term employee benefits	3,302	3,884
Pension costs – defined contribution plan	175	172
Pension costs – supplementary retirement benefit plan	490	490
Total	3,967	4,546

Dividends

During the period, Food Services declared and paid cash dividends of $29,131,000 (January 1, 2023 – $9,952,000).

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

26 Subsequent event

On January 5, 2024, the number of A&W restaurants in the Royalty Pool was increased by 19 new restaurants less 9 restaurants that permanently closed. The initial consideration for the estimated royalty revenue from the new 10 restaurants added to the Royalty Pool is $8,307,000. The Partnership paid Food Services $6,646,000 by issuance of 218,029 LP units, representing 80% of the initial consideration. The LP units were exchanged for 436,058 non-voting common shares of Trade Marks. The remaining 20% or $1,661,000 and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be paid in December 2024 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks.