

A&W Food Services of Canada Inc.

Q2/2023

Consolidated Financial Statements

For the second quarter ended
June 18, 2023

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 2, 2023 to June 18, 2023**

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 27, 2023 to June 18, 2023 and the year to date period from January 2, 2023 to June 18, 2023 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 18, 2023. This report is dated July 25, 2023 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 18, 2023 and the audited annual consolidated financial statements of Food Services for the 52 weeks ended January 1, 2023. Such financial statements and additional information about the Fund and Food Services are available at www.sedar.com or 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 2022 year was 52 weeks and ended January 1, 2023 (2021 – 52 weeks ended January 2, 2022). System Sales, System Sales Growth and Same Store Sales Growth – Franchised Restaurants for the 12 weeks and 24 weeks ended June 18, 2023 are compared to the 12 weeks and 24 weeks ended June 19, 2022 so that the two years are comparable. References to year to date amounts in this report are in respect of the period from January 2, 2023 to June 18, 2023.

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 1, 2023.

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)	12-week period ended Jun 18, 2023	12-week period ended Jun 19, 2022	24-week period ended Jun 18, 2023	24-week period ended Jun 19, 2022
System Sales ⁽ⁱ⁾	\$430,409	\$413,984	\$812,220	\$766,597
System Sales Growth ⁽ⁱⁱ⁾	4.0%	15.3%	6.0%	15.1%
Same Store Sales Growth – Franchised Restaurants ⁽ⁱⁱⁱ⁾	2.5%	12.2%	4.1%	12.0%
New restaurants opened	5	7	8	11
Restaurants permanently closed	3	1	6	3
Number of restaurants	1,048	1,037	1,048	1,037
Gross sales reported by A&W restaurants in the Royalty Pool ⁽ⁱⁱⁱ⁾	\$425,768	\$406,215	\$807,066	\$758,829
Royalty Pool Same Store Sales Growth ⁽ⁱⁱⁱ⁾	2.5%	12.2%	4.1%	12.0%
Number of restaurants in the Royalty Pool	1,037	1,015	1,037	1,015
Revenue from franchising	\$67,417	\$65,295	\$121,585	\$116,326
Revenue from corporate restaurants	5,144	5,004	10,195	8,970
Total Revenue	72,561	70,299	131,780	125,296
Operating costs and general and administrative expenses	(50,864)	(49,119)	(92,076)	(86,328)
Depreciation of plant, equipment and right-of-use assets	986	1,009	1,961	1,994
Operating Earnings ⁽ⁱ⁾	22,683	22,189	41,665	40,962
Royalty Expense	(12,773)	(12,187)	(24,113)	(22,584)
Income before taxes	12,559	12,162	21,936	22,557
Net income	\$10,957	\$9,726	\$18,672	\$18,785

⁽ⁱ⁾ "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)	12-week period ended Jun 18, 2023	12-week period ended Jun 19, 2022	24-week period ended Jun 18, 2023	24-week period ended Jun 19, 2022
Revenue from corporate restaurants	5,144	5,004	10,195	8,970
Sales reported by franchised restaurants	425,265	408,980	802,025	757,627
System Sales	\$430,409	\$413,984	\$812,220	\$766,597

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)	12-week period ended Jun 18, 2023	12-week period ended Jun 19, 2022	24-week period ended Jun 18, 2023	24-week period ended Jun 19, 2022
Income before income taxes	12,559	12,162	21,936	22,557
Depreciation of plant, equipment and right-of-use assets	986	1,009	1,961	1,994
Royalty expense	12,773	12,187	24,113	22,584
Finance expense - net	342	297	650	597
Amortization of deferred gain	(807)	(797)	(1,707)	(1,593)
Share of income from associates	(3,170)	(2,669)	(5,288)	(5,177)
Operating Earnings	\$22,683	\$22,189	\$41,665	\$40,962

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 reflects the change in gross sales of franchised A&W restaurants that operated, during the entire 12 and 24-week periods ended June 18, 2023 and June 19, 2022 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.

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 during the entirety of the Fund's year to date periods and second quarters ending June 18, 2023 and June 19, 2022 and is based on an equal number of days in each quarter. This measure is a key performance indicator for 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⁽ⁱⁱⁱ⁾ for the second quarter of 2023 was +2.5% as compared to the second quarter of 2022. Same Store Sales Growth – Franchised Restaurants⁽ⁱⁱⁱ⁾ for the 24-week period ended June 18, 2023 was +4.1% as compared to the comparable period in 2022. The Same Store Sales Growth – Franchised Restaurants in both the 12 and 24-week period was primarily driven by growth in average check size which was mainly attributable to modest increases in response to industry-wide inflation on goods, services, and labour.

⁽ⁱⁱⁱ⁾ "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⁽ⁱ⁾ for the second quarter of 2023 were \$430,409,000, an increase of 4.0% or \$16,425,000 from the second quarter of 2022. System Sales⁽ⁱ⁾ for the 24-week period ended June 18, 2023 were \$812,220,000, an increase of 6.0% or \$45,623,000 from the comparable period in 2022. 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 "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 eight new A&W restaurants, five of which were opened during the second quarter. This compares to eleven restaurants opened during the year to date period ended June 19, 2022 and seven openings in the second quarter of 2022. Six restaurants were permanently closed in the 2023 year to date period, three of which closed during the second quarter, versus three permanent closures in the 2022 year to date period, one of which was in the second quarter of 2022. As at June 18, 2023, there were 1,048 A&W restaurants in Canada, of which 1,038 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.

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 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 during 2022. The estimated annual sales of the 29 new A&W restaurants are \$44,339,000 at the time they were added to the Royalty Pool and annual sales for the 7 permanently closed restaurants were \$3,424,000 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 \$16,118,000, 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 October 31, 2022. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$12,895,000, by issuance of 380,368 LP units which were subsequently exchanged for 760,736 non-voting common shares of Trade Marks. The remaining consideration payable to Food Services for the January 5, 2023 adjustment to the Royalty Pool of \$3,224,000 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 2023 based on the actual annual sales reported by the new restaurants. Food Services has recorded the \$3,224,000 receivable as a current asset as at June 18, 2023 (January 1, 2023 - \$nil). The actual amount of the consideration paid in December 2023 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, 2023 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, 2023 adjustment to the Royalty Pool that are payable in December 2023, Food Services' indirect interest in the Fund increased to 28.1% on a fully diluted basis (28.1% as of January 1, 2023).

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 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 ⁽¹⁾	-	-	(2.6)	1,270,460	24,558	2.6	1,270,460	24,558
Balance as at January 1, 2023	32,185,311	227,798	80.9	7,601,441	105,749	19.1	39,786,752	333,547
January 5, 2023 adjustment to the Royalty Pool ⁽²⁾	-	-	(1.5)	760,736	12,895	1.5	760,736	12,895
Balance as at June 18, 2023	32,185,311	227,798	79.4	8,362,177	118,644	20.6	40,547,488	346,442

⁽¹⁾ The number of common shares includes the 190,903 LP units exchanged for 381,806 common shares of Trade Marks representing the remaining consideration paid in December 2022 for the January 5, 2022 adjustment to the Royalty Pool.

⁽²⁾ 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, 2023 adjustment to the Royalty Pool, which LP units, if any, are held back until the number of LP units is determined in December 2023 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 18, 2023 and January 1, 2023 on a fully-diluted basis, where the ownership of the Fund as at June 18, 2023 includes the issuance of the excess exchangeable LP units that represent the remaining 20% of the initial consideration for the January 5, 2023 adjustment to the Royalty Pool that are payable to Food Services in December 2023.

	June 18, 2023		January 1, 2023	
	Number of units	%	Number of units	%
Units held by public unitholders	14,585,673	71.6	14,585,673	73.3
Limited Voting Units held by Food Services ⁽¹⁾	1,507,020	7.4	1,507,020	7.6
Number of Trust Units issuable upon exchange of securities of Trade Marks held by Food Services ⁽²⁾	4,276,181	21.0	3,800,721	19.1
Total equivalent units	20,368,874	100.0	19,893,414	100.0

⁽¹⁾ 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.

⁽²⁾ 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 2023 Operating Results

Revenue

Food Services' franchising and corporate restaurants revenue for the second quarter of 2023 was \$72,561,000 compared to \$70,299,000 for the second quarter of 2022, an increase of \$2,262,000. Year to date total revenue was \$131,780,000 compared to \$125,296,000, an increase of \$6,484,000. 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. There was a slight decrease in revenue related to the sale of equipment for new restaurants due to Food Services opening fewer restaurants in 2023 as compared to 2022.

TM trademark of the Partnership, used under licence.

Corporate restaurant System Sales were \$5,144,000 for the second quarter of 2023 compared to \$5,004,000 for the second quarter of 2022 and \$10,195,000 in 2023 year to date compared to \$8,970,000 in 2022 year to date. The year to date increase of \$1,225,000 was primarily due to stronger sales performance in shopping centre corporate locations.

Operating costs and general and administrative expenses

Operating costs for the second quarter of 2023 were \$38,836,000 compared to \$38,345,000 for the second quarter of 2022, an increase of \$491,000. Year to date operating costs were \$68,745,000 compared to \$65,934,000 for 2022 year to date, an increase of \$2,811,000. The increase is primarily attributable to increases in the costs of sales of food, supplies and equipment that was sold to existing restaurants all of which are in line with the increase in revenue noted above.

General and administrative expenses represent costs of providing services to franchised restaurants and establishing new restaurants, and were \$12,028,000 for the second quarter of 2023 compared to \$10,774,000 for the second quarter of 2022, an increase of \$1,254,000. Year to date general and administrative expenses were \$23,331,000 for 2023 compared \$20,394,000 for 2022, an increase of \$2,937,000. The increase in general and administrative expenses is largely attributable to increased spend on technology and on travel and other business activities which have resumed to a normal pace as a result of there being no COVID-19 related restrictions in place.

Operating Earnings

(dollars in thousands)	12-week period ended Jun 18, 2023	12-week period ended Jun 19, 2022	24-week period ended Jun 18, 2023	24-week period ended Jun 19, 2022
Operating Earnings ⁽ⁱ⁾	\$22,683	\$22,189	\$41,665	\$40,962

Operating Earnings⁽ⁱ⁾ increased by \$494,000 to \$22,683,000 in Q2 2023 and \$703,000 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.

⁽ⁱ⁾ "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 2023 was \$12,773,000 compared to \$12,187,000 for the second quarter of 2022. Year to date, royalty expense for 2023 was \$24,113,000 compared to \$22,584,000 for 2022. 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 22 new restaurants added to the Royalty Pool on January 5, 2023. See "Annual Adjustment to the Royalty Pool". It is important to note that the royalty expense for the year to date periods in 2023 and 2022 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, 2023 to June 18, 2023 (2022 – January 1, 2022 to June 19, 2022) whereas the royalty expense reported by Food Services is based on Gross sales reported by A&W restaurants in the Royalty Pool from January 2, 2023 to June 18, 2023 (2022 – January 3, 2022 to June 19, 2022).

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 \$1,736,000 as at June 18, 2023 (January 1, 2023 – \$1,736,000). Food Services did not recognize an impairment loss or recovery of impairment in the second quarter or year to date periods in 2023 or 2022.

Finance expense - net

(dollars in thousands)	12-week period ended Jun 18, 2023	12-week period ended Jun 19, 2022	24-week period ended Jun 18, 2023	24-week period ended Jun 19, 2022
Net interest expense (income)	34	(\$15)	41	(\$19)
Standby fees	23	25	37	40
Interest cost on supplementary retirement benefit plan	113	113	226	226
Interest on lease receivables	(5,136)	(5,261)	(10,446)	(10,498)
Interest on lease liabilities	5,297	5,423	10,768	10,823
Amortization of deferred financing fees	11	12	24	25
	\$342	\$297	\$650	\$597

Finance expense - net was consistent in both the second quarters and year to date periods of 2023 and 2022.

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 18, 2023 Food Services had a 20.6% investment in Trade Marks (January 1, 2023 – 19.1%) and a 9.4% investment in the Fund (January 1, 2023 – 9.4%). Taken together, Food Services' ownership of exchangeable common shares of Trade Marks and Limited Voting Units equated to Food Services owning 28.1% of the total equivalent units of the Fund on a fully diluted basis as at June 18, 2023 (26.7% as at January 1, 2023).

Food Services' share of income from associates for the second quarter of 2023 totaled \$3,170,000 compared to \$2,669,000 for the second quarter of 2022. The share of income from associates for the year to date period in 2023 totaled \$5,288,000 compared to \$5,177,000 for the year to date period in 2022. 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, partially offset by a larger unrealized gain recognized in 2022 equal to the change in the fair value of Trade Marks interest rate swap.

Net income

(dollars in thousands)	12-week period ended Jun 18, 2023	12-week period ended Jun 19, 2022	24-week period ended Jun 18, 2023	24-week period ended Jun 19, 2022
Operating Earnings ⁽ⁱ⁾	\$22,683	\$22,189	\$41,665	\$40,962
Royalty expense	(12,773)	(12,187)	(24,113)	(22,584)
Finance expense – net	(342)	(297)	(650)	(597)
Depreciation of plant, equipment and right-of-use assets	(986)	(1,009)	(1,961)	(1,994)
Amortization of deferred gain	807	797	1,707	1,593
Share of income from associates	3,170	2,669	5,288	5,177
Income before income taxes	12,559	12,162	21,936	22,557
Provision for income taxes	1,602	2,436	3,264	3,772
Net income for the period	\$10,957	\$9,726	\$18,672	\$18,785

The \$397,000 increase in income before income taxes for the quarter is primarily attributable to the \$494,000 increase in Operating Earnings⁽ⁱ⁾ and \$501,000 increase in share of income from associates, partially offset by an increase in royalty expense. The \$621,000 year to date decrease in income before taxes is primarily attributable to the \$1,529,000 increase in royalty expense, partially offset by a \$703,000 increase in Operating Earnings⁽ⁱ⁾ and increase in share of income from associates. The decrease in the provision for income taxes for the year to date period is attributable to the respective decrease in income before income taxes for the reasons discussed above, partially offset by an increase in deferred tax.

⁽ⁱ⁾ “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. Year to date there was an actuarial loss, net of tax, of \$119,000 (2022 – gain, net of tax, of \$2,284,000).

Liquidity and Capital Resources

Food Services is primarily a franchise business with 1,038 of its 1,048 (as at June 18, 2023) 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.

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 its 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 \$40,000,000 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) ratios and debt to Food Services’ investment in Trade Marks Inc. 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 June 18, 2023 and January 1, 2023.

As at June 18, 2023, Food Services had drawn \$7,108,000 on the credit facility (January 1, 2023 – \$8,149,000) and had issued \$198,000 in letters of guarantee (January 1, 2023 – \$198,000), leaving \$32,694,000 of the facility available (January 1, 2023 – \$31,653,000).

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 18, 2023 was \$24,113,000 (2022 - \$22,584,000), of which \$4,356,000 (January 1, 2023- \$3,891,000) is payable to the Partnership at June 18, 2023. Royalty expense for the quarter was \$12,773,000 (2022 - \$12,187,000).

During the year to date period ended June 18, 2023, Trade Marks declared five dividends payable to Food Services totaling \$3,346,000 (2022 - \$2,798,000) as a result of Food Services’ ownership of Trade Marks’ common shares. The fifth dividend amounted to \$669,000 and was declared on June 1, 2023 but paid to Food Services subsequent to the period end on June 30, 2023 and is therefore reported as a current asset as at June 18, 2023 (January 1, 2023 – \$nil). During the quarter, Trade Marks declared three dividends payable to Food Services totaling \$2,008,000 (2022 - \$1,679,000).

During the year to date period ended June 18, 2023, the Fund declared five distributions payable to Food Services totaling \$1,205,000 (2022 – \$1,168,000) as a result of Food Services’ ownership of Limited Voting Units. The fifth distribution amounted to \$241,000 and was declared on June 1, 2023 but paid to Food Services subsequent to the period end on June 30, 2023 and is therefore reported as a current asset as at June 18, 2023 (January 1, 2023 – \$241,000). A distribution of \$241,000 (2022 - \$233,000) declared by the Fund on December 8, 2022 was paid to Food Services Subsequent to year end on January 31, 2023. During the quarter the Fund declared three distributions payable to Food Services totaling \$723,000 (2022 - \$701,000).

During the year to date period ended June 18, 2023, Food Services declared five dividends totaling \$4,551,000 (2022 - \$3,966,000) from working capital to its shareholder. The fifth dividend amounted to \$910,000 and was declared on June 1, 2023 but paid subsequent to period end on July 4, 2023 and is therefore reported as a current liability as a June 18, 2023 (January 1, 2023 – \$nil). During the quarter Food Services declared three dividends totaling \$2,730,000 (2022 - \$2,379,000).

On May 31, 2023, Food Services also declared and paid a dividend totaling \$9,000,000 (2022 - \$nil) from working capital to its shareholder.

During the year to date period ended June 18, 2023, Food Services recognized \$95,000 (2022 - \$88,000) as an offset to general and administrative expenses related to administrative services provided to Trade Marks. During the quarter, Food Services recognized \$48,000 as an offset to general and administrative expenses related to administrative services provided to Trade Marks (2022 - \$44,000).

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

Economic Conditions

Food Services’ profitability 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, are indirectly impacted by consumer discretionary spending which is influenced by general economic conditions. These economic conditions could include economic recession or changes in the rate of inflation or deflation, unemployment rates and household debt, political uncertainty, interest rates currency exchange rates or derivative or commodity prices, such as fuel and energy costs. A number of these conditions could impact consumer spending and, as a result, payment patterns could deteriorate or remain unpredictable due to global, national, regional or local economic volatility. Uncertain economic conditions may adversely impact demand for A&W’s products and services which could adversely affect the Fund’s financial performance.

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.

Outlook

The first half of 2023 has yielded more challenging general economic conditions in Canada than there were in fiscal 2022. Interest rate increases, current rates of inflation, consumer confidence and diminishing disposable income are all impactful on consumer discretionary spending.

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 grow and better position it to withstand the risks associated with the current economic conditions and international conflicts. Strategic initiatives, including repositioning and differentiating the A&W brand through the use of 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 as the quick service restaurant ("QSR") industry and the QSR burger market continues resumed growth post pandemic but in the face of more challenging general economic conditions.

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 the introduction of countless other natural ingredient firsts; including chicken raised without the use of antibiotics, organic Fairtrade coffee, bacon from pork raised without the use of antibiotics, real cheese on all burgers and breakfast sandwiches, and A&W Root Beer served in restaurants made from natural cane sugar and all-natural flavours.

In 2018, A&W further strengthened its positioning as a leader in food and innovation with the introduction of the Beyond Meat⁽¹⁾ branded plant-based burger. Food Services was very excited to be the first national burger chain in Canada to offer burger lovers across Canada this burger patty made using 100% plant-based protein with peas, rice, mung beans, coconut oil, pomegranates, potatoes, apples and beets. 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.

⁽¹⁾ trademark of Beyond Meat, Inc., used under license.

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 560 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 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. In late 2021, A&W introduced the Cup Crew exchangeable cup program in Vancouver and expanded the program to Montreal in 2023 as the single use plastics bylaw came into effect March 28, 2023.

Food waste is very common in the restaurant business and beginning in 2021, A&W partnered with Second Harvest, an organization dedicated to ensuring more people have access to healthy food, to redirect unused food in A&W restaurants and distribution centres across Canada to charities and organizations that can use it in their programming. Today, over 300 A&W restaurants are participating in this program bringing a meaningful impact to food waste reduction and allowing more people to have access to healthy food.

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. Five new A&W restaurants opened in the second quarter of 2023, and an additional eight restaurants were under construction as at June 18, 2023.

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 Agreement, Food Services has been granted the exclusive right to use the Pret brand in Canada for a two-year pilot (the “Trial Phase”) during which Food Services is introducing 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 (the "Expansion Phase") pursuant to an agreed upon development plan. As at June 18, 2023, eight A&W locations (five in Toronto and three in Vancouver) were offering Pret products in their restaurants.

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; timing for the payout of distributions; timing for repayment of the government loans; expectations regarding improvements in sales trends and growth at A&W restaurants; Food Services' expectation that the food service industry, and more particularly the QSR segment, will continue to recover and grow; 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; 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 grow and better position it to withstand the risks associated with the current economic conditions and international conflicts; Food Services' belief that strategic initiatives will be key to delivering strong results as the QSR industry and the QSR burger market continue resumed growth post pandemic; 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 additional 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:

- 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;
- existing franchisees are able to successfully operate and grow their businesses and maintain profitability;
- 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; 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 QSR 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 QSR's;
- changes in consumer preferences that adversely affect the consumption of QSR hamburgers, chicken, fries, breakfast items or soft drinks;
- failure to anticipate and address industry trends;
- the impacts of fluctuations in consumer discretionary spending;
- 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 QSR 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 or disruptions, 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, 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 inflation;
- the availability and adequacy of insurance coverage;
- occurrence of catastrophic events; and
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates, household debt, political uncertainty, interest rates, currency exchange rates, or derivative and commodity prices.

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 international conflicts set forth in this report under the heading "Risks and Uncertainties – International Conflicts";
- risks related to Economic Conditions set forth in the MD&A under the header "Risks and Uncertainties – Economic Conditions"; 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 18, 2023
with comparative figures

For the 12 and 24-week periods ended June 19, 2022

(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 18, 2023	January 1, 2023
Assets			
Current assets			
Cash and cash equivalents		\$ 2,201	\$ 5,004
Accounts receivable		34,083	39,713
Dividends and distributions receivable	12	910	241
Leases receivable	4	34,552	25,825
Inventories		15,087	16,396
Prepaid expenses		3,909	3,309
Other assets	6	3,224	-
Income taxes recoverable		2,747	1,930
		96,713	92,418
Non-current assets			
Investments in associates	6	166,576	152,944
Other Receivables		2,079	2,079
Deferred income taxes		29,775	29,695
Right-of-use asset	4	17,910	18,689
Leases receivable	4	561,190	578,161
Plant and equipment		10,928	10,819
Intangible assets	5	6,438	4,074
Total assets		\$ 891,609	\$ 888,879
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 45,117	\$ 49,883
Operating loan facility	7	7,108	8,149
Royalties payable	12	4,356	3,891
Dividends payable	12	910	-
Lease liabilities	4	37,106	27,836
Deposits on franchise and equipment sales		13,474	16,689
Deferred revenue		2,762	2,557
		110,833	109,005
Non-current liabilities			
Deferred gain	6	286,948	272,537
Deferred revenue		28,720	29,139
Lease liabilities	4	578,979	597,065
Supplementary retirement benefit plan		10,843	10,849
Other long-term liabilities		22	22
		1,016,345	1,018,617
Shareholders' Deficiency			
Share capital	14	10,129	10,129
Accumulated deficit		(135,631)	(140,033)
		(125,502)	(129,904)
Non-controlling interest			
		766	166
Total deficiency		(124,736)	(129,738)
Total liabilities and deficiency		\$ 891,609	\$ 888,879
Subsequent events	16		

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 June 18, 2023	12 week period ended June 19, 2022	24 week period ended June 18, 2023	24 week period ended June 19, 2022
Revenue					
Franchising	8	\$ 67,417	\$ 65,295	\$ 121,585	\$ 116,326
Corporate restaurants		5,144	5,004	10,195	8,970
		72,561	70,299	131,780	125,296
Expenses (income)					
Operating costs		38,836	38,345	68,745	65,934
General and administrative expenses		12,028	10,774	23,331	20,394
Royalty expense	12	12,773	12,187	24,113	22,584
Finance expense - net	10	342	297	650	597
Amortization of deferred gain	6	(807)	(797)	(1,707)	(1,593)
Share of income from associates	6	(3,170)	(2,669)	(5,288)	(5,177)
		60,002	58,137	109,844	102,739
Income before income taxes		12,559	12,162	21,936	22,557
Provision for (recovery of) income taxes					
Current		1,526	2,500	3,299	4,326
Deferred		76	(64)	(35)	(554)
		1,602	2,436	3,264	3,772
Net income for the period		\$ 10,957	\$ 9,726	\$ 18,672	\$ 18,785
Net income attributable to:					
Shareholders of A&W Food Services of Canada Inc.		\$ 10,648	\$ 9,462	\$ 18,072	\$ 18,224
Non-controlling interest		309	264	600	561
		\$ 10,957	\$ 9,726	\$ 18,672	\$ 18,785

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

(in thousands of dollars)

	12 week period ended June 18, 2023	12 week period ended June 19, 2022	24 week period ended June 18, 2023	24 week period ended June 19, 2022
Net income for the period	\$ 10,957	\$ 9,726	\$ 18,672	\$ 18,785
Other comprehensive income				
Items that will not be reclassified to net income				
Actuarial gain (loss) on supplementary retirement benefit plan - net of tax	-	894	(119)	2,284
Comprehensive income	\$ 10,957	\$ 10,620	\$ 18,553	\$ 21,069
Comprehensive income attributable to:				
Shareholders of A&W Food Services of Canada Inc.	\$ 10,648	\$ 10,356	\$ 17,953	\$ 20,508
Non-controlling interest	309	264	600	561
	\$ 10,957	\$ 10,620	\$ 18,553	\$ 21,069

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
Balance - January 2, 2022	\$	20,129	(166,939)	\$ (146,810)	\$ 180	\$ (146,630)
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		(10,000)	-	(10,000)	-	(10,000)
Actuarial gain on supplementary retirement benefit plan - net of tax		-	2,284	2,284	-	2,284
Balance - June 19, 2022		10,129	(150,397)	(140,268)	741	(139,527)
Net income for the period		-	16,972	16,972	645	17,617
Dividends on common shares		-	(5,986)	(5,986)	(1,220)	(7,206)
Return of capital		-	-	0	-	0
Actuarial gain on supplementary retirement benefit plan - net of tax		-	(622)	(622)	-	(622)
Balance - January 1, 2023	\$	10,129	\$ (140,033)	\$ (129,904)	\$ 166	\$ (129,738)
Net income for the period		-	18,072	18,072	600	18,672
Dividends on common shares	12	-	(13,551)	(13,551)	-	(13,551)
Actuarial gain (loss) on supplementary retirement benefit plan - net of tax		-	(119)	(119)	-	(119)
Balance - June 18, 2023	\$	10,129	\$ (135,631)	\$ (125,502)	\$ 766	\$ (124,736)

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 June 18, 2023	12 week period ended June 19, 2022	24 week period ended June 18, 2023	24 week period ended June 19, 2022
Cash flows generated from operating activities					
Net income for the period		\$ 10,957	\$ 9,726	\$ 18,672	\$ 18,785
Adjustments for					
Depreciation of plant and equipment	9	404	474	814	927
Depreciation of right-of-use asset	9	582	535	1,147	1,067
Deferred income taxes		76	(64)	(35)	(554)
(Decrease) increase in deposits on franchise and equipment sales		(6,811)	(5,904)	(3,215)	(2,728)
Supplementary retirement benefit plan		(198)	(2,416)	(396)	(2,416)
Increase in deferred revenue		19	568	(214)	264
Amortization of deferred gain	6	(807)	(797)	(1,707)	(1,593)
Share of income from associates	6	(3,170)	(2,669)	(5,288)	(5,177)
Current income tax expense		1,526	2,500	3,299	4,326
Income tax paid		(2,260)	(3,474)	(4,116)	(12,160)
Finance expense - net	10	342	297	650	597
Interest received (paid) - net		(57)	(11)	(78)	(22)
Changes in items of non-cash working capital	11	6,549	1,892	2,015	3,218
Net cash generated from operating activities		7,152	657	11,548	4,534
Cash flows generated from investing activities					
Purchase of plant and equipment		(602)	(426)	(923)	(1,275)
Purchase of intangible assets		(1,563)	-	(2,364)	-
Dividends and distributions received	12	2,731	2,380	3,882	3,407
Net cash generated from investing activities		566	1,954	595	2,132
Cash flows used in financing activities					
Operating lease payments		(767)	(698)	(1,264)	(1,160)
Repayments on operating loan facility		4,411	-	(1,041)	-
Return of capital to shareholder		-	(5,000)	-	(5,000)
Dividends paid to shareholder	12	(11,731)	(2,380)	(12,641)	(3,173)
Net cash used in financing activities		(8,087)	(8,078)	(14,946)	(9,333)
Increase (decrease) in cash and cash equivalents		(369)	(5,467)	(2,803)	(2,667)
Cash and cash equivalents - beginning of period		2,570	12,429	5,004	9,629
Cash and cash equivalents - end of period		\$ 2,201	\$ 6,962	\$ 2,201	\$ 6,962

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

(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 year to date period ended June 18, 2023, the Company opened eight locations and permanently closed three locations, bringing the total number of A&W restaurants to 1,048, of which 1,038 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.

2 Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as applicable to interim financial reports including International Accounting Standards 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 1, 2023.

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 1, 2023.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors of Food Services on July 25, 2023.

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 on the Sunday nearest December 31. The fiscal 2022 year was 52 weeks and ended January 1, 2023 (2021 - 52 weeks ended January 2, 2022). A&W Root Beer Beverages of Canada Inc. (“Beverages”) uses a fiscal year ending December 31. The second quarter ends 24 weeks after the fiscal year end. The 2023 second quarter ended June 18, 2023 and the 2022 second quarter ended June 19, 2022.

(figures in tables are expressed in thousands of dollars)

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 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.

A&W Food Services of Canada Inc.

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(figures in tables are expressed in thousands of dollars)

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:

	Jun 18, 2023	Jan 1, 2023
	\$	\$
Current leases receivable	34,552	25,825
Non-current leases receivable	561,190	578,161
	<u>595,742</u>	<u>603,986</u>

The following table outlines the annual contractual undiscounted payments for leases receivable as at June 18, 2023:

	\$
Year 1	52,979
Year 2	51,609
Year 3	50,194
Year 4	48,968
Year 5	47,245
Thereafter	<u>616,407</u>
Total undiscounted leases receivable	867,402
Unearned interest income	(269,924)
Impairment loss	<u>(1,736)</u>
	<u>595,742</u>

Interest income on leases receivable for the year to date period ended June 18, 2023 was \$10,446,000 (2022 - \$10,498,000). Interest income on leases receivable for the quarter was \$5,136,000 (2022 - \$5,261,000)

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. 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 \$1,736,000 as at June 18, 2023 (January 1, 2023 - \$1,736,000). During the period ended June 18, 2023 there were no additional indicators of impairment therefore no loss or recovery on impairment of leases receivable was recognized (2022 - \$nil).

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(figures in tables are 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.

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

	Real Estate	Automobiles	Total
	\$	\$	\$
Balance – January 1, 2023	16,926	1,763	18,689
Additions	-	377	377
Remeasurement of lease liability	-	(9)	(9)
Depreciation	(730)	(417)	(1,147)
Balance – June 18, 2023	<u>16,196</u>	<u>1,714</u>	<u>17,910</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.

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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.

The following table presents the lease liabilities for the Company:

	Jun 18, 2023	Jan 1, 2023
	\$	\$
Current lease liabilities	37,106	27,836
Non-current lease liabilities	578,979	597,065
	<u>616,085</u>	<u>624,901</u>

Interest expense on lease liabilities for the year to date period ended June 18, 2023 was \$10,768,000 (2022 - \$10,823,000). Interest expense on lease liabilities for the quarter was \$5,297,000 (2022 - \$5,423,000).

Costs not included in the measurement of the lease obligation for the periods ended June 18, 2023 and June 19, 2022 are as follows:

	12-week period ended Jun 18, 2023	12-week period ended Jun 19, 2022	24-week period ended Jun 18, 2023	24-week period ended Jun 19, 2022
	\$	\$	\$	\$
Low-value lease costs	9	12	22	21
Variable lease costs	234	217	473	434
	<u>243</u>	<u>229</u>	<u>495</u>	<u>455</u>

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5 Intangible assets

	Internally generated application software \$
Balance – January 1, 2023	4,074
Additions	2,364
Depreciation	-
Balance – June 18, 2023	<u>6,438</u>

As at June 18, 2023, intangible assets were still under development and not yet available for use and as a result are not yet being amortized.

6 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. The amortization for the year to date period ended June 18, 2023 was \$1,707,000 (2022 - \$1,593,000). Amortization for the quarter was \$807,000 (2022 - \$797,000).

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The deferred gain as at June 18, 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 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
January 5, 2022 adjustment to Royalty Pool		3,086	-	3,086
Amortization of deferred gain	-	-	(1,902)	(1,902)
Balance – January 1, 2023	1,015	305,045	(32,508)	272,537
January 5, 2023 adjustment to Royalty Pool	22	16,118	-	16,118
Amortization of deferred gain	-	-	(1,707)	(1,707)
Balance – June 18, 2023	1,037	321,163	(34,215)	286,948

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 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 during 2022. The estimated annual sales of the 29 new A&W restaurants are \$44,339,000 at the time they were added to the Royalty Pool and annual sales for the 9 permanently closed restaurants were \$3,424,000 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 \$16,118,000, calculated

(figures in tables are expressed in thousands of dollars)

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 October 31, 2022. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$12,895,000, by issuance of 380,368 LP units which were subsequently exchanged for 760,736 non-voting common shares of Trade Marks. The remaining consideration payable to Food Services for the January 5, 2023 adjustment to the Royalty Pool of \$3,224,000 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 2023 based on the actual annual sales reported by the new restaurants. Food Services has recorded the \$3,224,000 receivable as a current asset as at June 18, 2023 (January 1, 2023 - \$nil). The actual amount of the consideration paid in December 2023 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 18, 2023, Food Services had a 20.6% investment in Trade Marks (January 1, 2023 – 19.1%) and a 9.4% investment in the Fund (January 1, 2023 – 9.4%). Taken together, Food Services' ownership of exchangeable common shares of Trade Marks and Limited Voting Units equated to Food Services owning 28.1% of the total equivalent Units on a fully diluted basis as at June 18, 2023 (26.7% as at January 1, 2023).

As at June 18, 2023, Food Services' investments in associates totaled \$166,576,000 (January 1, 2023 - \$152,944,000). Food Services' share of income from associates totaled \$5,288,000 for the year to date period ended June 18, 2023 (2022 - \$5,177,000). Food Services' share of income from associates totaled \$3,170,000 for the quarter (2022 - \$2,669,000).

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The investment in Trade Marks as at June 18, 2023 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	12,895	-	-	12,895
Equity in earnings	-	3,879	-	3,879
Dividends	-	-	(3,346)	(3,346)
Balance – June 18, 2023	118,645	71,746	(71,703)	118,688

The investment in the Fund as at June 18, 2023 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	-	1,409	-	1,409
Distributions	-	-	(1,205)	(1,205)
Balance – June 18, 2023	47,162	6,822	(6,096)	47,888

7 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

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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) 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 June 18, 2023 and January 1, 2023.

As at June 18, 2023, Food Services had drawn \$7,108,000 on the credit facility (January 1, 2023 – \$8,149,000) and had issued \$198,000 in letters of guarantee (January 1, 2023 – \$198,000), leaving \$32,694,000 of the facility available (January 1, 2023 – \$31,653,000).

8 Franchising revenue

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

	12-week period ended Jun 18, 2023	12-week period ended Jun 19, 2022	24-week period ended Jun 18, 2023	24-week period ended Jun 19, 2022
	\$	\$	\$	\$
At a point in time:				
Advertising fund contributions	12,505	11,697	23,563	22,661
Distribution revenue and service fees	31,213	29,504	57,754	54,027
Equipment and turnkey revenue	20,960	21,676	35,267	34,843
Other revenue	2,017	2,109	3,677	3,597
Over time:				
Initial franchise fees and renewal fees	722	309	1,324	1,198
	<u>67,417</u>	<u>65,295</u>	<u>121,585</u>	<u>116,326</u>

Equipment and turnkey revenue includes revenue 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:

	12-week period ended Jun 18, 2023 \$	12-week period ended Jun 19, 2022 \$	24-week period ended Jun 18, 2023 \$	24-week period ended Jun 19, 2022 \$
Depreciation of plant and equipment	404	474	814	927
Depreciation of right-of-use asset	582	535	1,147	1,067
Employee benefit costs				
Wages and salaries and other termination benefits	8,470	7,228	16,279	14,167
Pension costs - defined contribution plan	242	208	548	501
	8,712	7,436	16,827	14,668

10 Finance expense – net

	12-week period ended Jun 18, 2023 \$	12-week period ended Jun 19, 2022\$	24-week period ended Jun 18, 2023 \$	24-week period ended Jun 19, 2022\$
Net interest expense (income)	34	(15)	41	(19)
Standby fees	23	25	37	40
Interest cost on supplementary retirement benefit plan	113	113	226	226
Interest on leases receivable	(5,136)	(5,261)	(10,446)	(10,498)
Interest on lease liabilities	5,297	5,423	10,768	10,823
Amortization of deferred financing fees	11	12	24	25
	342	297	650	597

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11 Working capital

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

	12-week period ended Jun 18, 2023	12-week period ended Jun 19, 2022	24-week period ended Jun 18, 2023	24-week period ended Jun 19, 2022
	\$	\$	\$	\$
Accounts receivable	(1,271)	(3,614)	5,630	406
Inventories	4,868	2,067	1,309	1,236
Prepaid expenses	1,451	(1,197)	(624)	(948)
Accounts payable and accrued liabilities	1,048	4,183	(4,765)	1,881
Royalties payable	453	453	465	643
	<u>6,549</u>	<u>1,892</u>	<u>2,015</u>	<u>3,218</u>

12 Related party transactions and balances

Royalty expense for the year to date period ended June 18, 2023 was \$24,113,000 (2022 - \$22,584,000), of which \$4,356,000 (January 1, 2023- \$3,891,000) is payable to the Partnership at June 18, 2023. Royalty expense for the quarter was \$12,773,000 (2022 - \$12,187,000).

During the year to date period ended June 18, 2023, Trade Marks declared five dividends payable to Food Services totaling \$3,346,000 (2022 - \$2,798,000) as a result of Food Services' ownership of Trade Marks' common shares. The fifth dividend amounted to \$669,000 and was declared on June 1, 2023 but paid to Food Services subsequent to the period end on June 30, 2023 and is therefore reported as a current asset as at June 18, 2023 (January 1, 2023 – \$nil). During the quarter Trade Marks declared three dividends payable to Food Services totaling \$2,008,000 (2022 - \$1,679,000).

During the year to date period ended June 18, 2023, the Fund declared five distributions payable to Food Services totaling \$1,205,000 (2022 – \$1,168,000) as a result of Food Services' ownership of Limited Voting Units. The fifth distribution amounted to \$241,000 and was declared on June 1, 2023 but paid to Food Services subsequent to the period end on June 30, 2023 and is therefore reported as a current asset as at June 18, 2023 (January 1, 2023 – \$ nil). A distribution of \$241,000 (2022 - \$233,000) declared by the Fund on December 8, 2022 was paid to Food Services subsequent to year end on January 31, 2023. During the quarter the Fund declared three distributions payable to Food Services totaling \$723,000 (2022 - \$701,000).

During the year to date period ended June 18, 2023, Food Services declared five dividends totaling \$4,551,000 (2022 - \$3,966,000) from working capital to its shareholder. The fifth dividend amounted

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to \$910,000 and was declared on June 1, 2023 but paid subsequent to period end on July 4, 2023 and is therefore reported as a current liability as a June 18, 2023 (January 1, 2023 – \$nil). During the quarter Food Services declared three dividends totaling \$2,730,000 (2022 - \$2,379,000).

On May 31, 2023, Food Services also declared and paid a dividend totaling \$9,000,000 (2022 - \$nil) from working capital to its shareholder.

During the year to date period ended June 18, 2023, Food Services recognized \$95,000 (2022 - \$88,000) as an offset to general and administrative expenses related to administrative services provided to Trade Marks. During the quarter, Food Services recognized \$48,000 as an offset to general and administrative expenses related to administrative services provided to Trade Marks (2022 - \$44,000).

Other related party transactions are disclosed in note 6.

13 Key management compensation

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

	12-week period ended Jun 19, 2022 \$	12-week period ended Jun 19, 2022 \$	24-week period ended Jun 19, 2022 \$	24-week period ended Jun 19, 2022 \$
Salaries, bonuses and other short-term employee benefits	752	691	1,540	1,441
Pension costs - defined contribution plan	36	34	118	121
Pension costs - supplementary retirement benefit plan	113	113	226	226
Total	901	838	1,884	1,788

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(figures in tables are expressed in thousands of dollars)**14 Share capital**

Authorized

Unlimited number of common shares

Unlimited number of preferred shares

Issued

	Jun 18, 2023 \$	Jan 1, 2023 \$
4,781,250 common shares	10,129	10,129

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. The Company does not believe it has significant exposure to any individual franchisee. As at June 18, 2023, \$8,352,000 (January 1, 2023 – \$7,285,000) is receivable from one distributor.

Liquidity risk

The primary sources of liquidity risks 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.

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Interest rate risk

The Company's exposure to interest rate risk is mainly through the operating loan facility which bears a floating rate of interest as disclosed in note 7. 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 5, 2023, Trade Marks declared dividends of \$669,000 on the common shares held by Food Services.

On July 5, 2023, the Fund declared distributions of \$241,000 on the Limited Voting Units held by Food Services.



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