

A&W Food Services of Canada Inc.

Q3/2016

Consolidated Financial Statements

For the third quarter ended
September 11, 2016

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 4, 2016 to September 11, 2016**

This report and the interim condensed consolidated financial statements of A&W Food Services of Canada Inc. (A&W or Food Services) for the 12 weeks and 36 weeks ended September 11, 2016 are provided as a supplement to the interim condensed consolidated financial statements and Management Discussion and Analysis of the A&W Revenue Royalties Income Fund (the Fund) for the period ended September 11, 2016. This report is dated October 17, 2016 and should be read in conjunction with the interim condensed consolidated financial statements of Food Services for the 12 weeks and 36 weeks ended September 11, 2016 and the audited annual consolidated financial statements of Food Services for the 53 weeks ended January 3, 2016. Such financial statements and additional information about the Fund and Food Services are available at www.sedar.com or www.awincomefund.ca.

Glossary

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

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 2015 year was 53 weeks and ended January 3, 2016 (2014 – 52 weeks ended December 28, 2014). Food Services' third quarter ends 36 weeks after its fiscal year end.

The financial results reported in this report are in accordance with International Financial Reporting Standards (IFRS) as applicable to interim financial reports including International Accounting Standards (IAS) 34, Interim Financial Reporting, except as otherwise noted. The accounting policies applied in 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 3, 2016.

Financial Highlights

(dollars in thousands)	12 week period ended Sep 11, 2016	12 week period ended Sep 6, 2015	36 week period ended Sep 11, 2016	36 week period ended Sep 6, 2015
System sales	\$284,929	\$270,553	\$796,383	\$742,735
System sales growth	5.3%	11.7%	7.2%	12.2%
Same store sales growth ⁽¹⁾	+2.3%	+8.3%	+4.3%	+8.8%
New restaurants opened	4	6	11	14
Restaurants closed	-	3	3	5
Number of restaurants	862	840	862	840
Franchising & corporate restaurant revenue	\$28,977	\$26,957	\$80,834	\$71,932
Operating costs and general and administrative expenses	(16,965)	(16,164)	(50,908)	(44,153)
Depreciation of plant and equipment	440	409	1,302	1,238
Earnings before royalty expense, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	\$12,452	\$11,202	\$31,228	\$29,017
Royalty expense	(8,354)	(7,835)	(23,400)	(21,615)
Net income	\$4,143	\$3,115	\$8,751	\$7,666

(1) Same store sales growth does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies. This important information is provided as it is a key driver of growth. Same store sales growth is based on an equal number of days in each quarter.

Same Store Sales

Same store sales growth is the change in sales of A&W restaurants that operated during the entire 26 4-week periods ending September 11, 2016.

Same store sales for the third quarter of 2016 grew by 2.3% as compared to the same quarter of 2015. Year to date same store sales growth was +4.3%. These results reflect the continued positive guest response to A&W's ingredients guarantee of beef raised without the use of hormones or steroids, eggs from hens fed a diet without animal by-products, chicken raised without the use of antibiotics, organic and Fair Trade coffee and bacon from pork raised without the use of antibiotics. Same store sales growth has been positive for 14 consecutive quarters.

System Sales

Total system sales for all A&W restaurants in Canada for the 12 weeks ended September 11, 2016 were \$284,929,000, an increase of 5.3% from the 12 weeks ended September 6, 2015. Year to date system sales were \$796,383,000, an increase of 7.2% from 2015 year to date. The increase in system sales was due to the same store sales growth plus the increase in the number of restaurants from 840 at the end of the third quarter of 2015 to 862 at the end of the third quarter of 2016.

New Restaurant Openings and Restaurant Closures

Food Services opened four new A&W restaurants during the quarter and 11 year to date in 2016 compared to six new restaurants in the same quarter of 2015 and 14 in 2015 year to date. Many additional new restaurants are under construction or in varying stages of permitting and are expected to open in the coming months. No restaurants closed in the quarter and three year to date, compared to three in the quarter and five year to date in 2015. As at September 11, 2016, there were 862 A&W restaurants in Canada, of which 854 were operated by franchisees and eight were corporately owned and operated.

Overview

Food Services is the franchisor of the A&W restaurant chain in Canada. Food Services' 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 sales of A&W Root Beer concentrate to licensed bottlers who produce and distribute A&W Root Beer for sale in retail grocery stores.

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 licensed 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 pays a royalty of 3% of the sales reported by specific A&W restaurants in Canada (the Royalty Pool).

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 A&W 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 A&W restaurants and the current yield on the units of the Fund, 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 of the Fund on the basis of two common shares for one unit of the Fund. 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 2016 annual adjustment to the Royalty Pool took place on January 5, 2016. The number of A&W restaurants in the Royalty Pool was increased by 32 new restaurants less eight restaurants that permanently closed during 2015. The addition of these 24 net new restaurants brings the total number of A&W restaurants in the Royalty Pool to 838. The estimated annual sales of the 32 new A&W restaurants are \$41,502,000 and annual sales for the eight permanently closed restaurants were \$3,905,000. The initial consideration for the estimated additional royalty stream was \$16,079,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on units of the Fund for the 20 trading days ending October 26, 2015. The yield was adjusted to reflect income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$12,863,000 by issuance of 489,847 LP units which were subsequently exchanged for 979,694 non-voting common shares of Trade Marks. The remaining 20% of the consideration or \$3,216,000 will be paid in December 2016 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks. The actual amount of the consideration paid in December 2016 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

After the initial consideration was paid for the January 5, 2016 adjustment to the Royalty Pool, Food Services' indirect interest in the Fund increased to 21.0%.

Common Shares of A&W Trade Marks Inc.

The ownership of common shares of Trade Marks is 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 December 28, 2014	24,262,671	114,680	84.7	4,376,669	35,498	15.3	28,639,340	150,178
January 5, 2015 adjustment to the Royalty Pool	-	-	(3.1)	1,101,318	13,595	3.1	1,101,318	13,595
Balance as at January 3, 2016	24,262,671	114,680	81.6	5,477,987	49,093	18.4	29,740,658	163,773
January 5, 2016 adjustment to the Royalty Pool ⁽¹⁾	-	-	(2.6)	979,694	12,863	2.6	979,694	12,863
Balance as at September 11, 2016	24,262,671	114,680	79.0	6,457,681	61,956	21.0	30,720,352	176,636

⁽¹⁾ The number of common shares and consideration for the January 5, 2016 adjustment to the Royalty Pool does not include the 122,462 LP units exchangeable for 244,924 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2016 adjustment to the Royalty Pool which is held back until December 2016 when the actual annual sales are reported by the new restaurants.

Ownership of the Fund

The ownership of the Fund, on a fully-diluted basis, is as follows:

	September 11, 2016		January 3, 2016	
	Number of units	%	Number of units	%
Fund units held by public unitholders	12,131,373	79.0	12,131,373	81.6
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services ⁽¹⁾	3,228,841	21.0	2,738,994	18.4
Total equivalent units	15,360,214	100.0	14,870,367	100.0

⁽¹⁾ Common shares of Trade Marks held by Food Services may be exchanged for units of the Fund on the basis of two common shares for a unit of the Fund.

The chart below shows the ownership of the Fund, on a fully-diluted basis, when the remaining 20% of the consideration for the January 5, 2016 adjustment to the Royalty Pool is expected to be paid in December 2016, by issuance of 122,462 LP units exchangeable for 244,924 common shares of Trade Marks. The actual amount of the consideration paid in December 2016 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

	Number of units	%
Fund units held by public unitholders	12,131,373	78.4
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services	3,351,303	21.6
Total equivalent units	15,482,676	100.0

2016 Operating Results

Revenue

Food Services' franchising and corporate revenue for the third quarter of 2016 was \$28,977,000 compared to \$26,957,000 for the third quarter of 2015. Year to date total revenue was \$80,834,000 compared to \$71,932,000 for 2015 year to date.

Franchising revenue for the third quarter was \$25,849,000 compared to \$23,911,000 for the same quarter of the prior year. Year to date franchising revenue was \$71,354,000, compared to \$62,898,000 for 2015 year to date, an increase of \$8,456,000. Year to date revenue generated by the system sales growth increased by \$3,837,000 and revenue from equipment sales increased by \$1,871,000. Revenue from opening new restaurants also increased by \$2,748,000 due to an increase in turnkey revenue as more of the new restaurants opened in 2016 were constructed by Food Services and then sold to franchisees, as compared to 2015.

Corporate restaurant sales in the third quarter of 2016 were \$3,128,000 compared to \$3,046,000 in the same quarter of 2015. Year to date corporate restaurant sales were \$9,480,000 compared to \$9,034,000 in 2015 year to date. Same store sales growth in the corporately owned and operated restaurants was in line with national same store sales growth. A restaurant that was temporarily being operated corporately was refranchised in the quarter.

Operating costs and general and administrative expenses

Operating costs for the third quarter of 2016 were \$10,302,000 compared to \$9,787,000 in the same quarter of 2015. Year to date operating costs were \$28,394,000 compared to \$24,752,000 in 2015 year to date, an increase of \$3,642,000. Costs of sales of food, packaging, equipment and turnkey construction costs increased 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 \$6,663,000 in the third quarter of 2016 compared to \$6,377,000 for the third quarter of 2015, and \$22,514,000 for 2016 year to date compared to \$19,401,000 for 2015 year to date. The increase in the quarter and year to date was due to inflationary increases, investments in strategic initiatives and the growth in the number of restaurants and system sales.

Operating earnings

(dollars in thousands)	12 week period ended Sep 11, 2016	12 week period ended Sep 6, 2015	36 week period ended Sep 11, 2016	36 week period ended Sep 6, 2015
Franchising & corporate restaurant revenue	\$28,977	\$26,957	\$80,834	\$71,932
Operating costs and general and administrative expenses	(16,965)	(16,164)	(50,908)	(44,153)
Depreciation of plant and equipment	440	409	1,302	1,238
Operating earnings (earnings before royalty expense, share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	\$12,452	\$11,202	\$31,228	\$29,017

Operating earnings (earnings before royalty expense, Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) increased by \$1,250,000 to \$12,452,000 for the third quarter of 2016 compared to \$11,202,000 for the third quarter of 2015. Year to date operating earnings increased by \$2,211,000 to \$31,228,000 for 2016 as compared to \$29,017,000 for 2015 year to date. The year to date operating margin remained largely consistent at 38.6% compared to 40.3% for 2015 year to date.

Royalty expense

Royalty expense for the third quarter of 2016 increased by \$519,000 to \$8,354,000 compared to \$7,835,000 for the third quarter of 2015. Year to date royalty expense increased by \$1,785,000 to \$23,400,000 compared to \$21,615,000 for 2015 year to date. The increase in royalty expense resulted from the additional net 24 restaurants in the Royalty Pool and the same store sales growth of restaurants in the Royalty Pool.

Earnings after royalty expense

(dollars in thousands)	12 week period ended Sep 11, 2016	12 week period ended Sep 6, 2015	36 week period ended Sep 11, 2016	36 week period ended Sep 6, 2015
Operating earnings	\$12,452	\$11,202	\$31,228	\$29,017
Royalty expense	(8,354)	(7,835)	(23,400)	(21,615)
Earnings after royalty expense (before share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	\$4,098	\$3,367	\$7,828	\$7,402

Earnings after royalty expense (but before Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) increased by \$731,000 to \$4,098,000 for the third quarter of 2016 compared to \$3,367,000 for the third quarter of 2015. Year to date earnings after royalty expense (but before Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) increased by \$426,000 to \$7,828,000 for 2016 as compared to \$7,402,000 for 2015. The \$426,000 increase was comprised of the \$2,211,000 increase in operating earnings, offset by the \$1,785,000 increase in royalty expense related to same store sales growth of restaurants in the Royalty Pool.

Finance expense - net

(dollars in thousands)	12 week period ended Sep 11, 2016	12 week period ended Sep 6, 2015	36 week period ended Sep 11, 2016	36 week period ended Sep 6, 2015
Interest income	(\$14)	(\$15)	(\$37)	(\$60)
Interest cost on supplementary retirement benefit plan	128	122	380	369
Finance leases	38	26	110	103
	\$152	\$133	\$453	\$412

Food Services' share of Trade Marks' income

Food Services' share of Trade Marks' income for the third quarter of 2016 increased by \$466,000 to \$1,230,000 compared to \$764,000 for the third quarter of 2015. Food Services' year to date share of Trade Marks' income increased by \$769,000 to \$3,138,000 compared to \$2,369,000 for 2015 year to date. Trade Marks' net income for the quarter and year to date was higher than the prior year due primarily to higher royalty income and a lower non-cash loss on the interest rate swap in 2016 as compared to 2015, less higher income tax expense. In addition, Food Services' ownership in Trade Marks increased from 17.4% as at the end of the third quarter of 2015 to 21.0% as at the end of the third quarter of 2016.

Net income

(dollars in thousands)	12 week period ended Sep 11, 2016	12 week period ended Sep 6, 2015	36 week period ended Sep 11, 2016	36 week period ended Sep 6, 2015
Earnings after royalty expense (before share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	\$4,098	\$3,367	\$7,828	\$7,402
Finance expense	(152)	(133)	(453)	(412)
Depreciation of plant and equipment	(440)	(409)	(1,302)	(1,238)
Amortization of deferred gain	371	321	1,111	963
Share of income from A&W Trade Marks Inc.	1,230	764	3,138	2,369
Earnings before income taxes	5,107	3,910	10,322	9,084
Provision for income taxes	(964)	(795)	(1,571)	(1,418)
Net income	\$4,143	\$3,115	\$8,751	\$7,666

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 (loss) consists of actuarial gains or 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; actuarial losses results from a decrease in the discount rate. The actuarial loss, net of tax, for the third quarter of 2016 was \$478,000 compared to a gain of \$429,000 for the third quarter of 2015. Year to date, the actuarial loss net of tax was \$1,028,000 for 2016 compared to a gain of \$139,000 for 2015.

Liquidity and Capital Resources

Food Services is primarily a franchise business with 854 of its 862 restaurants franchised. Food Services has minimal capital requirements related to its corporate restaurants and head office. Future restaurant growth will 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 the expansion of corporate restaurants and has no long term debt obligations. Food Services has sufficient cash on hand to meet its obligations and has a \$5,000,000 demand operating loan facility with HSBC Bank Canada (the Bank) to fund its working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the bank prime rate plus 0.5% and are repayable on demand. Food Services has provided 2,000,000 common shares of Trade Marks as collateral. As at September 11, 2016, letters of credit totalling \$261,000 (January 3, 2016 - \$25,000) have been issued by the Bank on behalf of Food Services to landlords and cities for development of new restaurants, leaving \$4,739,000 (January 3, 2016 - \$4,975,000) of the facility available.

Cash Flows

Cash flows from operating activities increased by \$4,314,000 in the quarter and \$4,010,000 year to date as compared to 2015. The increase was primarily driven by an increase in deposits on franchise and equipment sales and turnkey construction projects for restaurants expected to open in the coming months.

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 was \$23,400,000 (2015 - \$21,615,000), of which \$2,755,000 (January 3, 2016 - \$3,062,000) is payable to the Partnership at September 11, 2016. Royalty expense for the quarter was \$8,354,000 (2015 - \$7,835,000).

During the year to date period, Trade Marks declared dividends on common shares held by Food Services of \$3,312,000 (2015 - \$2,415,000), of which \$429,000 (January 3, 2016 - \$nil) is receivable at September 11, 2016. Dividends declared payable to Food Services during the quarter were \$1,278,000 (2015 - \$919,000).

During the period, Food Services contracted with a private company controlled by certain shareholders and directors of Food Services, for rental of a private plane and crew for business travel. The cost of the services provided under the contract during the period were \$235,000 (2015 - \$314,000). At September 11, 2016, \$92,000 (January 3, 2016 - \$nil) is payable to the private company by Food Services. The cost of services provided during the quarter were \$106,000 (2015 - \$35,000).

During the year to date period, Food Services paid \$125,000 (2015 - \$100,000) to a professional baseball club, of which a shareholder, director and officer of Food Services is a part owner, in exchange for advertising the A&W brand at the ballpark. At September 11, 2016, \$nil (January 3, 2016 - \$nil) is payable to the baseball club by Food Services. The amount paid during the quarter was \$nil (2015 - \$nil).

Food Services maintains an advertising fund that is supported by prescribed contributions from corporate and franchise restaurants. The advertising fund paid \$332,000 (2015 - \$401,000) to Food Services during the year to date period for marketing, promotional and administrative services provided to the advertising fund. The amount paid by the advertising fund to Food Services during the quarter was \$114,000 (2015 - \$108,000). At September 11, 2016, the advertising fund had a surplus balance of \$1,408,000 which is included in accounts payable (January 3, 2016 - \$85,000). The advertising fund's contributions from restaurants are based on sales which fluctuate seasonally. In freestanding A&W restaurants, weather

impacts sales. In A&W restaurants in shopping centres, sales fluctuate due to higher traffic during the back-to-school and Christmas shopping seasons. The advertising fund balance is also affected by timing of expenditures for advertising and promotional programs.

Other related party transactions and balances are referred to elsewhere in this report.

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 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 are investment in Trade Marks, supplementary retirement benefit plan and deferred income taxes. However, such estimates 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

The success of Food Services is dependent on the ability of Food Services to (i) grow same store sales, (ii) maintain and grow the current system of franchises, (iii) locate new retail sites in prime locations and (iv) obtain qualified operators to become A&W franchisees. Sales are subject to a number of factors that affect the restaurant industry generally and the quick service segment of this industry in particular, including the highly competitive nature of the industry, traffic patterns, demographic considerations, and the type, number and proximity of competing quick service restaurants. Any significant event that adversely affects consumption of quick service food or beverages, such as increased food and labour costs, changing tastes or health concerns, inflation, publicity from any food borne illness, government regulations concerning menu labelling or disclosure and drive-thru restrictions could adversely impact the sales of A&W restaurants and consequently, the amount of the royalty payable to the Partnership. Economic conditions, unemployment, changes in disposable consumer income, and a disease outbreak, could adversely impact consumer visits to restaurants, and consequently sales in A&W restaurants and royalty income for the Partnership. Any significant event that adversely impacts traffic to shopping centres, including closures of "anchor" stores, could adversely impact the sales of A&W restaurants in those shopping centres and consequently, the amount of the royalty payable to the Partnership.

The introduction of sales taxes upon sales by restaurants could negatively impact sales at A&W restaurants. In addition, an increase in sales taxes on sales by restaurants could adversely affect sales at A&W restaurants.

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

Sales by A&W franchisees are dependent upon the availability and quality of raw materials used in the products sold by such A&W franchisees. The availability and price of these commodities are subject to fluctuation and may be affected by a variety of factors affecting the supply and demand of the products used in these products. A significant reduction in the availability or quality of raw materials purchased by A&W franchisees resulting from any of the above factors could have a material adverse effect on sales of A&W restaurants.

Certain of the products that Food Services provides to A&W franchisees are sourced from a single or a

limited number of suppliers. An interruption in the supply of such products could materially adversely affect sales in A&W restaurants.

Food Services faces competition for retail locations and franchisees from its competitors and from franchisors of other businesses. Food Services' inability to successfully obtain qualified franchisees could adversely affect its business development. The opening and success of franchised restaurants is dependent on a number of factors, including the availability of suitable sites, negotiations of acceptable lease or purchase terms for new locations, permits and government regulatory compliance, continued access to suitable financing, the ability to meet construction schedules, and the availability of experienced management and hourly employees (including limitations on temporary foreign workers). Increases in minimum wage rates may also affect the opening and success of franchisee restaurants, as a significant portion of the employees of these restaurants are paid at rates related to minimum wage. A&W franchisees may not have all these business abilities or access to financial resources necessary to open an A&W restaurant or to successfully develop or operate an A&W restaurant in their franchise areas in a manner consistent with Food Services' standards.

Food Services depends on the uninterrupted operation of its information systems, networks and services including point-of-sale processing at restaurants, to operate its business. Food Services' operations depend on its ability to protect its computer equipment and systems against damage from physical theft, fire, power loss, computer and telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses and other disruptive events. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new systems or platforms or a breach in security of these systems could result in transaction errors, processing inefficiencies, the loss of or failure to attract new customers, the loss of sales, the loss of or unauthorized access to confidential and personal information, the loss of or damage to intellectual property or trade secrets, damage to Food Services' reputation, litigation, regulatory enforcement actions, violation of privacy, security or other laws and regulations and remediation costs. Furthermore, adverse publicity resulting from allegations of security breaches resulting in the theft of credit and debit card information or personal information of guests may materially affect the sales of A&W restaurants.

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

Outlook

A&W is a strategy driven company with initiatives in place aimed at growing market share in the quick service restaurant (QSR) burger market. These initiatives include repositioning and differentiating A&W in the QSR industry through its use of "better ingredients", accelerating new restaurant growth, and delivering an industry leading guest experience. A&W's mission is "to delight time-crunched Canadian burger lovers with the joy of great tasting natural food, made by people they trust."

A&W began its journey to source simple, great tasting ingredients in 2013, when Food Services became the first and only national burger restaurant in Canada to use only beef raised without the use of hormones and steroids, free of additives, fillers or preservatives. The whole Burger Family — from Baby to Uncle to Grandpa — contains 100% pure beef. The following year, Food Services began to serve only chicken raised without the use of antibiotics and fed a grain-based, vegetarian diet without animal by-products. All of the chicken menu items on Food Services' menu are made with seasoned 100% chicken breast, without fillers. Also in 2014, Food Services enhanced its breakfast menu by moving to eggs from hens fed a fully vegetarian diet without animal by-products. Breakfast was further supported by the launch in January 2015 of organic and Fair Trade coffee, another first for a major chain. In 2016, Food Services became the first North American chain to use bacon from pork that's raised without the use of antibiotics. It's naturally smoked and farmed locally in Canada. Also in 2016, Food Services announced that A&W

restaurants switched to French's ketchup and mustard, made with 100% Canadian tomatoes and 100% Canadian mustard seeds.

Menu innovation has continued in 2016 with the launch of a new Chicken Menu featuring the Chicken Buddy Burger and the Spicy Habanero Chicken Burger. The new chicken menu also features a new all-natural 7-grain bun made without preservatives and additives. Limited time offers in 2016 have included the Peppered Bacon Burger and Smoky BBQ Teen Burger. Guest response to these menu items has been positive.

Food Services' second strategic initiative is accelerating the pace of growth of new A&W restaurants, particularly in the key Ontario and Quebec markets. Eleven new A&W restaurants were opened across the country in 2016 year to date. Many additional new restaurants are under construction or in varying stages of permitting and are expected to open in the coming months.

A third strategic initiative of Food Services is to deliver an industry leading guest experience. This initiative includes the ongoing re-imaging and modernizing of our existing restaurants, and innovation in equipment, operating systems and technology. Including the new restaurants opened in the new design since the beginning of the re-image program, over 75% of A&W's restaurants now have the new design. Costs of re-imaging A&W restaurants are borne by the franchisees and there is no cost to the Fund. New "Good Food Makes Good Food" interior elements are also being introduced in restaurants to communicate Food Services' ingredients guarantee to its guests.

Food Services is proud to report that its 8th annual "Burgers to Beat MS Day" (previously "Cruisin to End MS Day") raised \$1.75 million for the Multiple Sclerosis Society of Canada. These funds go directly to fund research and to improve the lives of MS patients and their families.

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: expected future consideration receivable on adjustments to the Royalty Pool; Food Services' plans to reposition and differentiate A&W in the QSR industry through its use of natural ingredients, accelerating new restaurant growth, and delivering an industry leading guest experience; Food Services expects to have sufficient capital resources to fund the expansion of corporate restaurants.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the general risks that affect the restaurant industry will not arise including that there are no changes in availability of experienced management and hourly employees and no material changes in government regulations concerning menu labelling and disclosure and drive-thru restrictions; no publicity from any food borne illness; no changes in competition; no changes in the quick service restaurant burger market including as a result of changes in consumer taste or health concerns or changes in economic conditions or unemployment or a disease outbreak; no 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 grow same store sales; Food Services is able to maintain and grow the current system of franchises; Food Services is able to locate new retail sites in prime locations; Food Services is able to obtain qualified operators to become A&W franchisees; no closures of A&W restaurants that materially affect the amount of the Royalty; no material changes in traffic patterns at shopping centres; no supply disruptions; franchisees duly pay franchise fees and other amounts; no impact from new or increased sales taxes on gross sales; continued availability of key personnel; continued ability to preserve intellectual property; no material litigation from guests alleging food-related illness, injuries suffered on the premises or other food quality, health or operations concerns; Food Services continues to pay the Royalty; the Partnership continues to make

distributions on its units; Trade Marks continues to pay dividends on the common shares; Trade Marks can continue to comply with its obligations under its credit arrangements; Trade Marks performance does not fluctuate such that cash distributions are affected.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: general risks that affect the restaurant industry including changes in the availability of experienced management and hourly employees and changes in government regulations concerning menu labelling and disclosure and drive-thru restrictions; publicity from any food-borne illness; competition; changes in the quick service restaurant burger market including as a result of changes in consumer taste and health concerns and changes in economic conditions and unemployment and a disease outbreak; increases in food and labour costs; dependence on the availability and quality of raw materials; dependence on additional franchise sales and franchise operations; Food Services' ability to grow same store sales; Food Services' ability to maintain and grow the current system of franchises; Food Services' ability to locate new retail sites in prime locations; Food Services' ability to obtain qualified operators to become A&W franchisees; the closure of A&W restaurants may affect the amount of the Royalty; changes in traffic patterns at shopping centres; dependence on certain suppliers; dependence on A&W franchisees' ability to pay franchise fees and other amounts; the impact of new or increased sales taxes upon gross sales; dependence on key personnel; dependence on intellectual property; potential litigation from guests alleging food-related illness, injuries suffered on the premises or other food quality, health or operations concerns; dependence on intellectual property; dependence of the Fund on Trade Marks, the 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; risks relating to the nature of units; risks relating to the distribution of securities on redemption or termination of the Fund; the Fund may issue additional units diluting existing unitholders' interests; and changes to the Canadian federal income tax treatment of publicly listed trusts and of partnerships and other income tax matters, all as more particularly described in this report under the heading "Risks and Uncertainties" and in the Fund's 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 Balance Sheet
Unaudited

(in thousands of dollars)

	Note	September 11 2016	January 3 2016
Assets			
Current assets			
Cash and cash equivalents		\$ 18,853	\$ 11,403
Accounts receivable		14,275	14,080
Dividends receivable	8	429	-
Inventories		5,233	4,778
Prepaid expenses		191	328
Income taxes recoverable		-	65
		38,981	30,654
Non-current assets			
Investment in A&W Trade Marks Inc.	4	58,034	45,345
Deferred income taxes		12,657	12,229
Plant and equipment		7,716	7,883
Other non-current assets	4	3,216	-
Total assets		\$ 120,604	\$ 96,111
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 22,149	\$ 25,394
Royalties payable	8	2,755	3,062
Deposits on franchise and equipment sales		10,211	2,637
Income taxes payable		98	-
		35,213	31,093
Non-current liabilities			
Deferred gain	4	135,476	120,508
Supplementary retirement benefit plan		15,202	13,702
Other long-term liabilities		79	105
Obligations under finance leases		1,166	958
		187,136	166,366
Shareholders' Deficiency			
Share capital		10,500	10,500
Accumulated deficit		(77,794)	(80,971)
		(67,294)	(70,471)
Non-controlling interest			
		762	216
Total deficiency		(66,532)	(70,255)
Total liabilities and deficiency		\$ 120,604	\$ 96,111

These interim condensed 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)

	12 week period ended Note Sep 11, 2016	12 week period ended Sep 6, 2015	36 week period ended Sep 11, 2016	36 week period ended Sep 6, 2015
Revenue				
Franchising	\$ 25,849	\$ 23,911	\$ 71,354	\$ 62,898
Corporate restaurants	3,128	3,046	9,480	9,034
	28,977	26,957	80,834	71,932
Expenses (income)				
Operating costs	10,302	9,787	28,394	24,752
General and administrative expenses	6,663	6,377	22,514	19,401
Royalty expense	8 8,354	7,835	23,400	21,615
Finance expense - net	6 152	133	453	412
Amortization of deferred gain	4 (371)	(321)	(1,111)	(963)
Share of income from A&W Trade Marks Inc.	4 (1,230)	(764)	(3,138)	(2,369)
	23,870	23,047	70,512	62,848
Income before income taxes	5,107	3,910	10,322	9,084
Provision for (recovery of) income taxes				
Current	895	817	1,631	1,610
Deferred	69	(22)	(60)	(192)
	964	795	1,571	1,418
Net income for the period	\$ 4,143	\$ 3,115	\$ 8,751	\$ 7,666
Net income attributable to:				
Shareholders of A&W Food Services of Canada Inc.	\$ 3,983	\$ 2,936	\$ 8,205	\$ 7,155
Non-controlling interest	160	179	546	511
	\$ 4,143	\$ 3,115	\$ 8,751	\$ 7,666

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

(in thousands of dollars)

	12 week period ended Sep 11, 2016	12 week period ended Sep 6, 2015	36 week period ended Sep 11, 2016	36 week period ended Sep 6, 2015
Net income for the period	\$ 4,143	\$ 3,115	\$ 8,751	\$ 7,666
Other comprehensive income (loss)				
Items that will not be reclassified to net income				
Actuarial gain (loss) on supplementary retirement benefit plan - net of tax	(478)	429	(1,028)	139
Comprehensive income	\$ 3,665	\$ 3,544	\$ 7,723	\$ 7,805
Comprehensive income attributable to:				
Shareholders of A&W Food Services of Canada Inc.	\$ 3,505	\$ 3,365	\$ 7,177	\$ 7,294
Non-controlling interest	160	179	546	511
	\$ 3,665	\$ 3,544	\$ 7,723	\$ 7,805

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

A&W Food Services of Canada Inc.**Interim Condensed Consolidated Statement of Changes in Shareholders' Deficiency****Unaudited**

(in thousands of dollars)

	Share capital	Accumulated deficit	Total	Non- controlling interest	Total deficiency
Balance - December 28, 2014	\$ 10,500	\$ (82,295)	\$ (71,795)	\$ 204	\$ (71,591)
Net income for the period	-	7,155	7,155	511	7,666
Dividends on common shares	-	(3,500)	(3,500)	-	(3,500)
Actuarial loss on supplementary retirement benefit plan - net of tax	-	139	139	-	139
Balance - September 6, 2015	10,500	(78,501)	(68,001)	715	(67,286)
Net income for the period	-	3,326	3,326	261	3,587
Dividends on common shares	-	(5,500)	(5,500)	(760)	(6,260)
Actuarial gain on supplementary retirement benefit plan - net of tax	-	(296)	(296)	-	(296)
Balance - January 3, 2016	10,500	(80,971)	(70,471)	216	(70,255)
Net income for the period	-	8,205	8,205	546	8,751
Dividends on common shares	-	(4,000)	(4,000)	-	(4,000)
Actuarial loss on supplementary retirement benefit plan - net of tax	-	(1,028)	(1,028)	-	(1,028)
Balance - September 11, 2016	\$ 10,500	\$ (77,794)	\$ (67,294)	\$ 762	\$ (66,532)

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

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

Unaudited

(in thousands of dollars)

	12 week period ended	12 week	36 week period ended	36 week
	Note	Sep 11, 2016	period ended Sep 6, 2015	period ended Sep 6, 2015
Cash flows from operating activities				
Net income for the period		\$ 4,143	\$ 3,115	\$ 8,751
Adjustments for				\$ 7,666
Depreciation of plant and equipment		440	409	1,302
Deferred income taxes		69	(22)	(60)
Gain on disposal of plant and equipment		(33)	(21)	(55)
Supplementary retirement benefit plan		(200)	(36)	(276)
Decrease in other long-term liabilities		(9)	(9)	(26)
Amortization of deferred gain	4	(371)	(321)	(1,111)
Share of income of A&W Trade Marks Inc.	4	(1,230)	(764)	(3,138)
Current income tax expense		895	817	1,631
Income tax paid		(626)	(473)	(1,468)
Finance expense - net		152	133	453
Finance expense paid		(24)	(11)	(73)
Changes in items of non-cash working capital	7	3,902	(23)	3,412
Net cash generated from operating activities		7,108	2,794	9,342
Cash flows from investing activities				
Purchase of plant and equipment		(91)	(210)	(300)
Dividends from A&W Trade Marks Inc.		1,269	909	2,883
Net cash generated from investing activities		1,178	699	2,583
Cash flows used in financing activities				
Decrease in obligations under finance leases		(169)	(134)	(475)
Dividends paid to shareholder		-	-	(4,000)
Net cash used in financing activities		(169)	(134)	(4,475)
Increase in cash and cash equivalents		8,117	3,359	7,450
Cash and cash equivalents - beginning of period		10,736	10,342	11,403
Cash and cash equivalents - end of period		\$ 18,853	\$ 13,701	\$ 18,853
Non-cash investing activities				
Non-cash acquisition of automobiles through finance leases		\$ 303	\$ 125	\$ 916
				\$ 536

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

A&W Food Services of Canada Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

September 11, 2016

(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 September 11, 2016, the Company opened 11 locations and closed three locations, bringing the total number of A&W restaurants to 862, of which 854 are franchised and eight 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 (IAS) 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with Food Services' audited annual consolidated financial statements as at January 3, 2016.

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 3, 2016.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors of Food Services on October 17, 2016.

3 Significant accounting policies

Consolidation

The financial statements include the accounts of Food Services and its 60% interest in A&W Root Beer Beverages of Canada Inc. (Beverages). The non-controlling interest represents an equity interest in Beverages owned by outside parties, and is presented as a component of equity.

Fiscal year

To align its financial reporting with the business cycle of its operations, the Company uses a fiscal year comprising a 52- or 53-week period ending the Sunday nearest December 31. The fiscal 2015 year was 53 weeks and ended January 3, 2016 (2014 - 52 weeks ended December 28, 2014). Beverages uses a fiscal year ending December 31. The third quarter ends 36 weeks after the fiscal year end.

A&W Food Services of Canada Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

September 11, 2016

(figures in tables are expressed in thousands of dollars)

4 Investment in A&W Trade Marks Inc. and deferred gain

In 2002, Food Services sold the A&W trade-marks used in the A&W quick service restaurant business in Canada to A&W Trade Marks Inc. (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 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 A&W Revenue Royalties Income Fund (the Fund), 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 of the Fund on the basis of two common shares for one unit of the Fund. 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 14th annual adjustment to the Royalty Pool took place on January 5, 2016. The number of A&W restaurants in the Royalty Pool was increased by 32 new restaurants less eight restaurants that permanently closed during 2015. The estimated annual sales of the 32 new A&W restaurants are \$41,502,000 and annual sales for the eight permanently closed restaurants were \$3,905,000. The initial consideration for the estimated additional royalty stream was \$16,079,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the units of the Fund for the 20 trading days ending October 26, 2015. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$12,863,000 by issuance of 489,847 LP units which were subsequently exchanged for 979,694 non-voting common shares of Trade Marks. The remaining 20% of the consideration or \$3,216,000 will be paid in December 2016 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks. The actual amount of the consideration paid in December 2016 may differ from this amount depending on the actual annual sales reported by the new restaurants.

A&W Food Services of Canada Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

September 11, 2016

(figures in tables are expressed in thousands of dollars)

Food Services' 21.0% (January 3, 2016 – 18.4%) investment in Trade Marks is recorded using the equity method.

	Common shares \$	Cumulative equity in earnings \$	Cumulative dividend \$	Total \$
Balance – December 28, 2014	35,498	14,387	(18,114)	31,771
January 5, 2015 adjustment to Royalty Pool	13,595	-	-	13,595
Equity in earnings	-	3,923	-	3,923
Dividends	-	-	(3,944)	(3,944)
Balance – January 3, 2016	49,093	18,310	(22,058)	45,345
January 5, 2016 adjustment to Royalty Pool	12,863	-	-	12,863
Equity in earnings	-	3,138	-	3,138
Dividends	-	-	(3,312)	(3,312)
Balance – September 11, 2016	61,956	21,448	(25,370)	58,034

The deferred gain as at September 11, 2016 is as follows:

	Number of restaurants in Royalty Pool	Deferred gain \$	Accumulated amortization \$	Net deferred gain \$
Balance – December 28, 2014	790	121,675	(13,346)	108,329
January 5, 2015 adjustment to Royalty Pool	24	13,595	-	13,595
Amortization of deferred gain	-	-	(1,416)	(1,416)
Balance – January 3, 2016	814	135,270	(14,762)	120,508
January 5, 2016 adjustment to Royalty Pool	24	16,079	-	16,079
Amortization of deferred gain	-	-	(1,111)	(1,111)
Balance – September 11, 2016	838	151,349	(15,873)	135,476

A&W Food Services of Canada Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

September 11, 2016

(figures in tables are expressed in thousands of dollars)

5 Expenses by nature

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

	12 week period ended Sep 11, 2016	12 week period ended Sep 6, 2015	36 week period ended Sep 11, 2016	36 week period ended Sep 6, 2015
	\$	\$	\$	\$
Depreciation of plant and equipment	440	409	1,302	1,238
Employee benefit costs				
Wages and salaries and other termination benefits	4,808	4,891	14,382	14,095
Pension costs - defined contribution plan	140	130	509	471
Pension costs - supplementary retirement benefit plan	(108)	56	-	150
Total employee benefit costs	4,840	5,077	14,891	14,716

6 Finance (income) expense

	12 week period ended Sep 11, 2016	12 week period ended Sep 6, 2015	24 week period ended Sep 11, 2016	24 week period ended Sep 6, 2015
	\$	\$	\$	\$
Interest income	(14)	(15)	(37)	(60)
Interest cost on supplementary retirement benefit plan	128	122	380	369
Finance leases	38	26	110	103
	152	133	453	412

7 Working capital

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

	12 week period ended Sep 11, 2016	12 week period ended Sep 6, 2015	24 week period ended Sep 11, 2016	24 week period ended Sep 6, 2015
	\$	\$	\$	\$
Accounts receivable	557	(1,035)	(195)	(1,101)
Inventories	(1,012)	(724)	(455)	(1,783)
Prepaid expenses	(25)	(29)	137	(199)
Accounts payable and accrued liabilities	837	1,866	(3,342)	(965)
Royalties payable	97	106	(307)	214
Deposits on franchise and equipment sales	3,448	(207)	7,574	3,554
	3,902	(23)	3,412	(280)

A&W Food Services of Canada Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

September 11, 2016

(figures in tables are expressed in thousands of dollars)

8 Related party transactions and balances

Royalty expense for the year to date period was \$23,400,000 (2015 - \$21,615,000), of which \$2,755,000 (January 3, 2016 - \$3,062,000) is payable to the Partnership at September 11, 2016. Royalty expense for the quarter was \$8,354,000 (2015 - \$7,835,000).

During the year to date period, Trade Marks declared dividends on common shares held by Food Services of \$3,312,000 (2015 - \$2,415,000), of which \$429,000 (January 3, 2016 - \$nil) is receivable at September 11, 2016. Dividends declared payable to Food Services during the quarter were \$1,278,000 (2015 - \$919,000).

During the year to date period, Food Services contracted with a private company controlled by certain shareholders and directors of Food Services, for rental of a private plane and crew for business travel. The cost of the services provided under the contract during the period were \$235,000 (2015 - \$314,000). At September 11, 2016, \$92,000 (January 3, 2016 - \$nil) is payable to the private company by Food Services. The cost of services provided during the quarter were \$106,000 (2015 - \$35,000).

During the year to date period, Food Services paid \$125,000 (2015 - \$100,000) to a professional baseball club, of which a shareholder, director and officer of Food Services is a part owner, in exchange for advertising the A&W brand at the ballpark. At September 11, 2016, \$nil (January 3, 2016 - \$nil) is payable to the baseball club by Food Services. The amount paid during the quarter was \$nil (2015 - \$nil).

Food Services maintains an advertising fund that is supported by prescribed contributions from corporate and franchise restaurants. The advertising fund paid \$332,000 (2015 - \$401,000) to Food Services during the year to date period for marketing, promotional and administrative services provided to the advertising fund. The amount paid by the advertising fund to Food Services during the quarter was \$114,000 (2015 - \$108,000). At September 11, 2016, the advertising fund had a surplus balance of \$1,408,000 which is included in accounts payable (January 3, 2016 - \$85,000).

A&W Food Services of Canada Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

September 11, 2016

(figures in tables are expressed in thousands of dollars)

Key management compensation

Key management includes the Company's directors and members of the Company's Strategy Team. The compensation awarded to key management includes:

	12 week period ended Sep 11, 2016	12 week period ended Sep 6, 2015	24 week period ended Sep 11, 2016	24 week period ended Sep 6, 2015
	\$	\$	\$	\$
Salaries, bonuses and other short-term employee benefits	677	638	2,043	1,943
Pension costs - defined contribution plan	31	27	150	133
Pension costs - supplementary retirement benefit plan	20	179	380	519
Total	<u>728</u>	<u>844</u>	<u>2,573</u>	<u>2,595</u>

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



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