

A&W Food Services of Canada Inc.

Q3/2023

Consolidated Financial Statements

For the third quarter ended
September 10, 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 September 10, 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 third quarter period from June 19, 2023 to September 10, 2023 and the year to date period from January 2, 2023 to September 10, 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 third quarter and year to date period ended September 10, 2023. This report is dated October 17, 2023 and should be read in conjunction with the unaudited interim condensed consolidated financial statements of Food Services for the 12 weeks and 36 weeks ended September 10, 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.sedarplus.ca 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 36 weeks ended September 10, 2023 are compared to the 12 weeks and 36 weeks ended September 11, 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 September 10, 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” for further details on how these non-IFRS measures are calculated and used to assess Food Services’ performance.

(dollars in thousands)	12-week period ended Sep 10, 2023	12-week period ended Sep 11, 2022	36-week period ended Sep 10, 2023	36-week period ended Sep 11, 2022
System Sales ⁽ⁱ⁾	\$463,284	\$450,866	\$1,275,504	\$1,217,463
System Sales Growth ⁽ⁱⁱ⁾	2.8%	7.0%	4.8%	12.0%
Same Store Sales Growth – Franchised Restaurants ⁽ⁱⁱⁱ⁾	1.1%	4.0%	3.0%	8.9%
New restaurants opened	2	3	10	14
Restaurants permanently closed	2	1	8	4
Number of restaurants	1,048	1,039	1,048	1,039
Gross sales reported by A&W restaurants in the Royalty Pool ⁽ⁱⁱⁱ⁾	\$456,842	\$439,950	\$1,263,908	\$1,198,779
Royalty Pool Same Store Sales Growth ⁽ⁱⁱⁱ⁾	1.1%	4.0%	3.0%	8.9%
Number of restaurants in the Royalty Pool	1,037	1,015	1,037	1,015
Revenue from franchising	\$59,215	\$64,378	\$180,800	\$180,704
Revenue from corporate restaurants	5,438	5,278	15,633	14,248
Total Revenue	64,653	69,656	196,433	194,952
Operating costs and general and administrative expenses	(41,559)	(46,906)	(133,635)	(133,234)
Depreciation of plant, equipment, intangible asset and right-of-use assets	1,260	1,027	3,221	3,021
Operating Earnings ⁽ⁱ⁾	24,354	23,777	66,019	64,739
Royalty Expense	(13,705)	(13,198)	(37,818)	(35,782)
Income before taxes	12,926	12,553	34,862	35,110
Net income	\$9,456	\$9,380	\$28,128	\$28,165

(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 Sep 10, 2023	12-week period ended Sep 11, 2022	36-week period ended Sep 10, 2023	36-week period ended Sep 11, 2022
Revenue from corporate restaurants	\$5,438	\$5,278	\$15,633	\$14,248
Sales reported by franchised restaurants	457,846	445,588	1,259,871	1,203,215
System Sales	\$463,284	\$450,866	\$1,275,504	\$1,217,463

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 Sep 10, 2023	12-week period ended Sep 11, 2022	36-week period ended Sep 10, 2023	36-week period ended Sep 11, 2022
Income before income taxes	\$12,926	\$12,553	\$34,862	\$35,110
Depreciation of plant, equipment, intangible asset and right-of-use assets	1,260	1,027	3,221	3,021
Royalty expense	13,705	13,198	37,818	35,782
Finance expense - net	300	280	950	877
Amortization of deferred gain	(853)	(796)	(2,560)	(2,389)
Share of income from associates	(2,984)	(2,485)	(8,272)	(7,662)
Operating Earnings	\$24,354	\$23,777	\$66,019	\$64,739

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 36-week periods ended September 10, 2023 and September 11, 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 third quarters ending September 10, 2023 and September 11, 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 third quarter of 2023 was +1.1% as compared to the third quarter of 2022. Same Store Sales Growth – Franchised Restaurants⁽ⁱⁱⁱ⁾ for the 36-week period ended September 10, 2023 was +3.0% as compared to very strong quarterly results in the comparable period in 2022.

⁽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 third quarter of 2023 were \$463,284,000, an increase of 2.8% or \$12,418,000 from the third quarter of 2022. System Sales⁽ⁱ⁾ for the 36-week period ended September 10, 2023 were \$1,275,504,000, an increase of 4.8% or \$58,041,000 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 measures 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 ten new A&W restaurants, two of which were opened during the third quarter. This compares to fourteen restaurants opened during the year to date period ended September 11, 2022 and three openings in the third quarter of 2022. Eight restaurants were permanently closed in the 2023 year to date period, two of which closed during the third quarter, versus four permanent closures in the 2022 year to date period, one of which was in the third quarter of 2022. As at September 10, 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 September 10, 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

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 ⁽³⁾	-	-	(1.5)	760,736	12,895	1.5	760,736	12,895
Balance as at September 10, 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 September 10, 2023 and January 1, 2023 on a fully-diluted basis, where the ownership of the Fund as at September 10, 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.

	September 10, 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.

Q3 2023 Operating Results

Revenue

Food Services' franchising and corporate restaurants revenue for the third quarter of 2023 was \$64,653,000 compared to \$69,656,000 for the third quarter of 2022, a decrease of \$5,003,000. Year to date total revenue was \$196,433,000 compared to \$194,952,000. The increase in franchising revenue for the 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. This was partially offset by a decrease in revenue related to equipment sales as a result of a larger proportion of the A&W Brew BarTM roll out being in 2022 and a slight reduction in revenue related to the sale of equipment for new restaurants due to Food Services opening fewer restaurants in 2023 as compared to 2022. See the "Overview" section of this report for a discussion on the A&W Brew Bar program and its roll out.

TM trademark of the Partnership, used under licence.

Corporate restaurant System Sales were \$5,438,000 for the third quarter of 2023 compared to \$5,278,000 for the third quarter of 2022 and \$15,633,000 in 2023 year to date compared to \$14,248,000 in 2022 year to date. The year to date increase of \$1,385,000 was primarily due to stronger sales performance in shopping centre corporate locations.

Operating costs and general and administrative expenses

Operating costs for the third quarter of 2023 were \$30,737,000 compared to \$36,919,000 for the third quarter of 2022, a decrease of \$6,182,000. Year to date operating costs were \$99,482,000 compared to \$102,853,000 for 2022 year to date, a decrease of \$3,371,000. In line with the slight decrease in revenue noted above, operating costs decreased due to decreases in the costs of sales of equipment that were sold to existing restaurants, partially offset by increases in cost of sales of food and an increase in advertising expenses incurred by the National Advertising Fund.

General and administrative expenses represent costs of providing services to franchised restaurants and establishing new restaurants, and were \$10,822,000 for the third quarter of 2023 compared to \$9,987,000 for the third quarter of 2022, an increase of \$835,000. Year to date general and administrative expenses

were \$34,153,000 for 2023 compared \$30,381,000 for 2022, an increase of \$3,772,000. The increase in general and administrative expenses is largely attributable to travel and other business activities which have resumed to a normal pace, post pandemic.

Operating Earnings

(dollars in thousands)	12-week period ended Sep 10, 2023	12-week period ended Sep 11, 2022	36-week period ended Sep 10, 2023	36-week period ended Sep 11, 2022
Operating Earnings ⁽ⁱ⁾	\$24,354	\$23,777	\$66,019	\$64,739

Operating Earnings⁽ⁱ⁾ increased by \$577,000 to \$24,354,000 in the third quarter of 2023 and increased by \$1,280,000 to \$66,019,000 on a year to date basis. The increase in Operating Earnings is attributable to the decrease in operating costs which are discussed above and an increase in revenue on a year to date basis.

⁽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 third quarter of 2023 was \$13,705,000 compared to \$13,198,000 for the third quarter of 2022. Year to date, royalty expense for 2023 was \$37,818,000 compared to \$35,782,000 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 September 10, 2023 (2022 – January 1, 2022 to September 11, 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 September 10, 2023 (2022 – January 3, 2022 to September 11, 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 September 10, 2023 (January 1, 2023 – \$1,736,000). Food Services did not recognize an impairment loss or recovery of impairment in the third quarter or year to date periods in 2023 or 2022.

Finance expense - net

(dollars in thousands)	12-week period ended Sep 10, 2023	12-week period ended Sep 11, 2022	36-week period ended Sep 10, 2023	36-week period ended Sep 11, 2022
Net interest (income) expense	\$(4)	\$(34)	\$37	\$(53)
Standby fees	24	25	61	65
Interest cost on supplementary retirement benefit plan	113	113	339	339
Interest on lease receivables	(5,439)	(5,232)	(15,885)	(15,730)
Interest on lease liabilities	5,597	5,395	16,365	16,218
Amortization of deferred financing fees	9	13	33	38
	\$300	\$280	\$950	\$877

Finance expense - net was consistent in both the third 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 September 10, 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 2, 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 September 10, 2023 (26.7% as at January 1, 2023) excluding 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' share of income from associates for the third quarter of 2023 totaled \$2,984,000 compared to \$2,485,000 for the third quarter of 2022. The share of income from associates for the year to date period in 2023 totaled \$8,272,000 compared to \$7,662,000 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 22 net new restaurants added to the Royalty Pool on January 5, 2023 and an increase in Gross sales reported by A&W restaurants in the Royalty Pool.

Net income

(dollars in thousands)	12-week period ended Sep 10, 2023	12-week period ended Sep 11, 2022	36-week period ended Sep 10, 2023	36-week period ended Sep 11, 2022
Operating Earnings ⁽ⁱ⁾	\$24,354	\$23,777	\$66,019	\$64,739
Royalty expense	(13,705)	(13,198)	(37,818)	(35,782)
Finance expense – net	(300)	(280)	(950)	(877)
Depreciation of plant, equipment, intangible asset and right-of-use assets	(1,260)	(1,027)	(3,221)	(3,021)
Amortization of deferred gain	853	796	2,560	2,389
Share of income from associates	2,984	2,485	8,272	7,662
Income before income taxes	12,926	12,553	34,862	35,110
Provision for income taxes	3,470	3,173	6,734	6,945
Net income for the period	\$9,456	\$9,380	\$28,128	\$28,165

The \$373,000 increase in income before income taxes for the quarter is primarily attributable to the \$577,000 increase in Operating Earnings⁽ⁱ⁾ and the \$499,000 increase in income from associates, partially offset by the \$507,000 increase in royalty expense. The \$248,000 year to date decrease in income before taxes is primarily attributable to the \$2,036,000 increase in royalty expense partially offset by a \$1,280,000 increase in Operating Earnings⁽ⁱ⁾ and the \$610,000 increase in income from associates. The increase in the provision for income taxes for the quarter is attributable a \$1,022,000 increase in the deferred tax expense which is the result of a net increase in permanent tax adjustments. The slight decrease in the provision for income taxes for the year to date period is attributable to the decrease in income before income taxes which decreased for the reasons discussed above, partially offset by the increase in deferred taxes.

⁽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. There was an actuarial gain, net of tax, of \$116,000 recognized in the third quarter of 2023 (2022 – gain, net of tax, of \$100,000). Year to date there was an actuarial loss, net of tax, of \$3,000 (2022 - \$2,384,000).

Liquidity and Capital Resources

Food Services is primarily a franchise business with 1,038 of its 1,048 (as at September 10, 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 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 September 10, 2023 and January 1, 2023.

As at September 10, 2023, Food Services had drawn \$1,216,000 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 \$38,586,000 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 September 10, 2023 was \$37,818,000 (2022 - \$35,782,000), of which \$4,512,000 (January 1, 2023 - \$3,891,000) is payable to the Partnership at September 10, 2023. Royalty expense for the quarter was \$13,705,000 (2022 - \$13,198,000).

During the year to date period ended September 10, 2023, Trade Marks declared eight dividends payable to Food Services totaling \$5,353,000 (2022 - \$4,476,000) as a result of Food Services’ ownership of Trade Marks’ common shares. The eighth dividend amounted to \$669,000 and was declared on September 8, 2023 but paid to Food Services subsequent to the period end on September 29, 2023 and is therefore reported as a current asset as at September 10, 2023 (January 1, 2023 – \$nil). During the quarter Trade Marks declared three dividends payable to Food Services totaling \$2,007,000 (2022 - \$1,679,000).

During the year to date period ended September 10, 2023, the Fund declared eight distributions payable to Food Services totaling \$1,929,000 (2022 – \$1,869,000) as a result of Food Services’ ownership of Limited Voting Units. The eighth distribution amounted to \$241,000 and was declared on September 8, 2023 but paid to Food Services subsequent to the period end on September 29, 2023 and is therefore reported as a current asset as at September 10, 2023 (January 1, 2023 – \$nil). 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 September 10, 2023, Food Services declared eight dividends totaling \$6,372,000 (2022 - \$6,345,000) from working capital to its shareholder. The eighth dividend amounted to \$910,000 and was declared on September 8, 2023 but paid subsequent to period end on October 6, 2023

and is therefore reported as a current liability as at September 10, 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 September 10, 2023, Food Services recognized \$143,000 (2022 - \$131,000) 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.sedarplus.ca.

Outlook

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 580 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. Ten new A&W restaurants opened in the first three quarters of 2023, and an additional thirteen restaurants were under construction as at September 10, 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.

Pursuant to the Country 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 pursuant to an agreed upon development plan. As at September 10, 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 applies 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; estimates regarding annual sales; 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; the economic conditions that could impact consumer spending; 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 36-week periods ended September 10, 2023

with comparative figures

For the 12 and 36-week periods ended September 11, 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	September 10, 2023	January 1, 2023
Assets			
Current assets			
Cash and cash equivalents		\$ 2,346	\$ 5,004
Accounts receivable		31,372	39,713
Dividends and distributions receivable	12	910	241
Leases receivable	4	31,798	25,825
Inventories		17,390	16,396
Prepaid expenses		5,327	3,309
Other assets	6	3,224	-
Income taxes recoverable		430	1,930
		92,796	92,418
Non-current assets			
Investments in associates	6	166,830	152,944
Other Receivables		2,076	2,079
Deferred income taxes		28,594	29,695
Right-of-use asset	4	17,401	18,689
Leases receivable	4	566,685	578,161
Plant and equipment		11,525	10,819
Intangible assets	5	6,164	4,074
Total assets		\$ 892,071	\$ 888,879
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 41,532	\$ 49,883
Operating loan facility	7	1,216	8,149
Royalties payable	12	4,512	3,891
Dividends payable	12	910	-
Lease liabilities	4	34,271	27,836
Deposits on franchise and equipment sales		15,375	16,689
Deferred revenue		2,534	2,557
		100,350	109,005
Non-current liabilities			
Deferred gain	6	286,095	272,537
Deferred revenue		28,888	29,139
Lease liabilities	4	584,013	597,065
Supplementary retirement benefit plan		10,599	10,849
Other long-term liabilities		21	22
		1,009,966	1,018,617
Shareholders' Deficiency			
Share capital	14	10,129	10,129
Accumulated deficit		(129,175)	(140,033)
		(119,046)	(129,904)
Non-controlling interest			
		1,151	166
Total deficiency		(117,895)	(129,738)
Total liabilities and deficiency		\$ 892,071	\$ 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 Sep 10, 2023	12 week period ended Sep 11, 2022	36 week period ended Sep 10, 2023	36 week period ended Sep 11, 2022
Revenue					
Franchising	8	\$ 59,215	\$ 64,378	\$ 180,800	\$ 180,704
Corporate restaurants		5,438	5,278	15,633	14,248
		64,653	69,656	196,433	194,952
Expenses (income)					
Operating costs		30,737	36,919	99,482	102,853
General and administrative expenses		10,822	9,987	34,153	30,381
Royalty expense	12	13,705	13,198	37,818	35,782
Finance expense - net	10	300	280	950	877
Amortization of deferred gain	6	(853)	(796)	(2,560)	(2,389)
Share of income from associates	6	(2,984)	(2,485)	(8,272)	(7,662)
		51,727	57,103	161,571	159,842
Income before income taxes		12,926	12,553	34,862	35,110
Provision for (recovery of) income taxes					
Current		2,333	3,058	5,632	7,384
Deferred		1,137	115	1,102	(439)
		3,470	3,173	6,734	6,945
Net income for the period		\$ 9,456	\$ 9,380	\$ 28,128	\$ 28,165
Net income attributable to:					
Shareholders of A&W Food Services of Canada Inc.		\$ 9,071	\$ 9,054	\$ 27,143	\$ 27,278
Non-controlling interest		385	326	985	887
		\$ 9,456	\$ 9,380	\$ 28,128	\$ 28,165

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

(in thousands of dollars)

	12 week period ended Sep 10, 2023	12 week period ended Sep 11, 2022	36 week period ended Sep 10, 2023	36 week period ended Sep 11, 2022
Net income for the period	\$ 9,456	\$ 9,380	\$ 28,128	\$ 28,165
Other comprehensive income				
Items that will not be reclassified to net income				
Actuarial gain (loss) on supplementary retirement benefit plan - net of tax	116	100	(3)	2,384
Comprehensive income	\$ 9,572	\$ 9,480	\$ 28,125	\$ 30,549
Comprehensive income attributable to:				
Shareholders of A&W Food Services of Canada Inc.	\$ 9,187	\$ 9,153	\$ 27,140	\$ 29,661
Non-controlling interest	385	326	985	887
	\$ 9,572	\$ 9,479	\$ 28,125	\$ 30,548

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		-	27,278	27,278	887	28,165
Dividends on common shares	12	-	(6,345)	(6,345)	-	(6,345)
Return of capital		(10,000)	-	(10,000)	-	(10,000)
Actuarial gain on supplementary retirement benefit plan - net of tax		-	2,384	2,384	-	2,384
Balance - September 11, 2022		10,129	(143,622)	(133,493)	1,067	(132,426)
Net income for the period		-	7,918	7,918	319	8,237
Dividends on common shares		-	(3,607)	(3,607)	(1,220)	(4,827)
Return of capital		-	-	0	-	0
Actuarial gain on supplementary retirement benefit plan - net of tax		-	(722)	(722)	-	(722)
Balance - January 1, 2023	\$	10,129	\$ (140,033)	\$ (129,904)	\$ 166	\$ (129,738)
Net income for the period		-	27,143	27,143	985	28,128
Dividends on common shares	12	-	(16,282)	(16,282)	-	(16,282)
Actuarial gain (loss) on supplementary retirement benefit plan - net of tax		-	(3)	(3)	-	(3)
Balance - September 10, 2023	\$	10,129	\$ (129,175)	\$ (119,046)	\$ 1,151	\$ (117,895)

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 Sep 10, 2023	12 week period ended Sep 11, 2022	36 week period ended Sep 10, 2023	36 week period ended Sep 11, 2022
Cash flows generated from operating activities					
Net income for the period		\$ 9,456	\$ 9,380	\$ 28,128	\$ 28,165
Adjustments for					
Depreciation of plant and equipment	9	381	486	1,195	1,413
Depreciation of intangible asset	9	303	-	303	-
Depreciation of right-of-use asset	9	576	541	1,723	1,608
Deferred income taxes		1,137	115	1,102	(439)
Increase (decrease) in deposits on franchise and equipment sales		1,901	3,066	(1,314)	338
Decrease in other receivables		3	-	3	-
Supplementary retirement benefit plan		(198)	(4,715)	(593)	(4,715)
(Decrease) increase in deferred revenue		(60)	34	(274)	298
Amortization of deferred gain	6	(853)	(796)	(2,560)	(2,389)
Share of income from associates	6	(2,984)	(2,485)	(8,272)	(7,662)
Current income tax expense		2,333	3,058	5,632	7,384
Income tax paid		(16)	(2,786)	(4,132)	(14,946)
Finance expense - net	10	300	280	950	877
Interest received (paid) - net		(23)	10	(101)	(11)
Changes in items of non-cash working capital	11	(4,448)	(1,220)	(2,433)	(418)
Net cash generated from operating activities		7,809	4,968	19,358	9,503
Cash flows generated from investing activities					
Purchase of plant and equipment		(977)	(219)	(1,901)	(1,496)
Purchase of intangible assets		(29)	(81)	(2,393)	(81)
Dividends and distributions received	12	2,731	2,379	6,613	5,785
Net cash generated from investing activities		1,724	2,079	2,319	4,208
Cash flows used in financing activities					
Operating lease payments		(765)	(708)	(2,029)	(1,868)
Repayments on operating loan facility		(5,892)	-	(6,933)	-
Return of capital to shareholder		-	-	-	(5,000)
Dividends paid to shareholder	12	(2,731)	(2,380)	(15,372)	(5,551)
Net cash used in financing activities		(9,388)	(3,088)	(24,334)	(12,419)
Increase (decrease) in cash and cash equivalents		145	3,959	(2,657)	1,292
Cash and cash equivalents - beginning of period		2,201	6,962	5,004	9,629
Cash and cash equivalents - end of period		\$ 2,346	\$ 10,921	\$ 2,346	\$ 10,921

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 period ended September 10, 2023, the Company opened ten locations and permanently closed eight 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 October 17, 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 the Sunday nearest December 31. The fiscal 2022 year was 52 weeks and ended January 1, 2023 (2021 - 53 weeks ended January 2, 2022). A&W Root Beer Beverages of Canada Inc. (“Beverages”) uses a fiscal year ending December 31. The third quarter ends 36 weeks after the Company’s fiscal year end. The 2023 third quarter ended September 10, 2023 and the 2022 third quarter ended September 11, 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.

Intangible assets

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

Once intangible assets are available for use they are amortized on a straight-line basis over their estimated useful life which is 3 – 7 years for application software. Estimates of useful lives, residual

A&W Food Services of Canada Inc.

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(figures in tables are expressed in thousands of dollars)

values and methods of amortization are reviewed annually. Any changes are accounted for prospectively as a change in accounting estimate. Amortization expense is recorded in the consolidated statements of income in operating costs.

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:

	Sep 10, 2023	Jan 1, 2023
	\$	\$
Current leases receivable	31,798	25,825
Non-current leases receivable	566,685	578,161
	<u>598,483</u>	<u>603,986</u>

The following table outlines the annual contractual undiscounted payments for leases receivable as at September 10, 2023:

	\$
Year 1	53,487
Year 2	52,104
Year 3	50,786
Year 4	49,445
Year 5	47,493
Thereafter	<u>618,927</u>
Total undiscounted leases receivable	872,242
Unearned interest income	(272,023)
Impairment loss	<u>(1,736)</u>
	<u>598,483</u>

Interest income on leases receivable for the year to date period ended September 10, 2023 was \$15,885,000 (2022 - \$15,730,000). Interest income on leases receivable for the quarter was \$5,439,000 (2022 - \$5,232,000)

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

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the restaurant operations. Food Services recorded an expected credit loss provision on leases receivable of \$1,736,000 as at September 10, 2023 (January 1, 2023 - \$1,736,000). During the period ended September 10, 2023 there were no additional indicators of impairment therefore no loss or recovery on impairment of leases receivable was recognized (2022 - \$nil).

Right-of-use assets

Right-of-use assets comprise the Company's leases for corporate restaurant premises, head office space, and automobiles. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date, which is the possession date of the asset. The right-of-use asset is initially measured based on the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received, and excludes all sales taxes. Right-of-use assets are depreciated to the earlier of the end of the useful life of the asset or the lease term using the straight-line method. The lease term includes periods associated with options to extend or excludes periods associated with options to terminate the lease when it is reasonably certain that management will exercise these options. Additionally, right-of-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
Disposals	-	-	-
Remeasurement of lease liability	1	57	58
Depreciation	(1,093)	(630)	(1,723)
Balance – September 10, 2023	<u>15,834</u>	<u>1,567</u>	<u>17,401</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.

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

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

The following table presents the lease liabilities for the Company:

	Sep 10, 2023	Jan 1, 2023
	\$	\$
Current lease liabilities	34,271	27,836
Non-current lease liabilities	584,013	597,065
	<u>618,284</u>	<u>624,901</u>

Interest expense on lease liabilities for the year to date period ended September 10, 2023 was \$16,365,000 (2022 - \$16,218,000). Interest expense on lease liabilities for the quarter was \$5,597,000 (2022 - \$5,395,000).

Costs not included in the measurement of the lease obligation for the periods ended September 10, 2023 and September 11, 2022 are as follows:

	12-week period ended Sep 10, 2023	12-week period ended Sep 11, 2022	36-week period ended Sep 10, 2023	36-week period ended Sep 11, 2022
	\$	\$	\$	\$
Low-value lease costs	11	13	33	34
Variable lease costs	223	198	697	632
	<u>235</u>	<u>211</u>	<u>730</u>	<u>666</u>

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(figures in tables are expressed in thousands of dollars)**5 Intangible asset**

	Internally generated application software \$
Balance – January 1, 2023	4,074
Additions	2,393
Depreciation	(303)
Balance – September 10, 2023	<u>6,164</u>

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 September 10, 2023 was \$2,560,000 (2022 - \$2,389,000). Amortization for the quarter was \$853,000 (2022 - \$796,000).

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(figures in tables are expressed in thousands of dollars)

The deferred gain as at September 10, 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	24,558	-	24,558
Amortization of deferred gain	-	-	(3,495)	(3,495)
Balance – January 1, 2023	1,015	305,045	(32,508)	272,537
January 5, 2023 adjustment to Royalty Pool	22	16,118	-	16,118
Amortization of deferred gain	-	-	(2,560)	(2,560)
Balance – September 10, 2023	1,037	321,163	(35,068)	286,095

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 of Trade Marks 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 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

(figures in tables are expressed in thousands of dollars)

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 September 10, 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 September 10, 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 September 10, 2023 (26.7% as at January 1, 2023).

As at September 10, 2023 Food Services' investments in associates totaled \$166,830,000 (January 1, 2023 - \$152,944,000). Food Services' share of income from associates totaled \$8,272,000 for the year to date period ended September 10, 2023 (2022 - \$7,662,000). Food Services' share of income from associates totaled \$2,984,000 for the quarter (2022 - \$2,485,000).

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The investment in Trade Marks as at September 10, 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	-	6,070	-	6,070
Dividends	-	-	(5,353)	(5,353)
Balance – September 10, 2023	118,645	73,937	(73,710)	118,872

The investment in the Fund as at September 10, 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	-	2,203	-	2,203
Distributions	-	-	(1,929)	(1,929)
Balance – September 10, 2023	47,162	7,616	(6,820)	47,958

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 September 10, 2023 and January 1, 2023.

As at September 10, 2023, Food Services had drawn \$1,216,000 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 \$38,586,000 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 Sep 10, 2023	12-week period ended Sep 11, 2022	36-week period ended Sep 10, 2023	36-week period ended Sep 11, 2022
	\$	\$	\$	\$
At a point in time:				
Advertising fund contributions	14,008	13,795	37,571	36,456
Distribution revenue and service fees	31,729	30,712	89,483	84,739
Equipment and turnkey revenue	10,807	17,549	46,074	52,392
Other revenue	2,298	1,732	5,975	5,329
Over time:				
Initial franchise fees and renewal fees	373	590	1,697	1,788
	59,215	64,378	180,800	180,704

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

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9 Expenses by nature

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

	12-week period ended Sep 10, 2023 \$	12-week period ended Sep 11, 2022 \$	36-week period ended Sep 10, 2023 \$	36-week period ended Sep 11, 2022 \$
Depreciation of plant and equipment	381	486	1,195	1,413
Depreciation of intangible asset	303	-	303	-
Depreciation of right-of-use asset	576	541	1,723	1,608
Employee benefit costs				
Wages and salaries and other termination benefits	8,359	7,411	24,638	21,578
Pension costs - defined contribution plan	240	209	788	710
	8,599	7,620	25,426	22,288

10 Finance expense – net

	12-week period ended Sep 10, 2023 \$	12-week period ended Sep 11, 2022 \$	36-week period ended Sep 10, 2023 \$	36-week period ended Sep 11, 2022 \$
Net interest expense (income)	(4)	(34)	37	(53)
Standby fees	24	25	61	65
Interest cost on supplementary retirement benefit plan	113	113	339	339
Interest on leases receivable	(5,439)	(5,232)	(15,885)	(15,730)
Interest on lease liabilities	5,597	5,395	16,365	16,218
Amortization of deferred financing fees	9	13	33	38
	300	280	950	877

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11 Working capital

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

	12-week period ended Sep 10, 2023	12-week period ended Sep 11, 2022	36-week period ended Sep 10, 2023	36-week period ended Sep 11, 2022
	\$	\$	\$	\$
Accounts receivable	2,711	(3,410)	8,342	(3,004)
Inventories	(2,303)	(3,481)	(994)	(2,245)
Prepaid expenses	(1,427)	(1,099)	(2,051)	(2,047)
Accounts payable and accrued liabilities	(3,585)	6,569	(8,351)	6,034
Royalties payable	156	201	621	844
	(4,448)	(1,220)	(2,433)	(418)

12 Related party transactions and balances

Royalty expense for the year to date period ended September 10, 2023 was \$37,818,000 (2022 - \$35,782,000), of which \$4,512,000 (January 1, 2023- \$3,891,000) is payable to the Partnership at September 10, 2023. Royalty expense for the quarter was \$13,705,000 (2022 - \$13,198,000).

During the year to date period ended September 10, 2023, Trade Marks declared eight dividends payable to Food Services totaling \$5,353,000 (2022 - \$4,476,000) as a result of Food Services' ownership of Trade Marks' common shares. The eighth dividend amounted to \$669,000 and was declared on September 8, 2023 but paid to Food Services subsequent to the period ended September 29, 2023 and is therefore reported as a current asset as at September 10, 2023 (January 1, 2023 – \$nil). During the quarter Trade Marks declared three dividends payable to Food Services totaling \$2,007,000 (2022 - \$1,679,000).

During the year to date period ended September 10, 2023, the Fund declared eight distributions payable to Food Services totaling \$1,929,000 (2022 – \$1,869,000) as a result of Food Services' ownership of Limited Voting Units. The eighth distribution amounted to \$241,000 and was declared on September 8, 2023 but paid to Food Services subsequent to the period ended September 29, 2023 and is therefore reported as a current asset as at September 10, 2023 (January 1, 2023 – \$nil). 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 September 10, 2023, Food Services declared eight dividends totaling \$6,372,000 (2022 - \$6,345,000) from working capital to its shareholder. The eighth dividend

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amounted to \$910,000 and was declared on September 8, 2023 but paid subsequent to period ended October 6, 2023 and is therefore reported as a current liability as at September 10, 2023 (January 1, 2023 – \$nil). During the quarter, Food Services declared three dividends totaling \$2,370,000 (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 September 10, 2023, Food Services recognized \$143,000 (2022 - \$131,000) 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 Sep 10, 2023 \$	12-week period ended Sep 11, 2022 \$	36-week period ended Sep 10, 2023 \$	36-week period ended Sep 11, 2022 \$
Salaries, bonuses and other short-term employee benefits	749	706	2,289	2,147
Pension costs - defined contribution plan	32	29	151	150
Pension costs - supplementary retirement benefit plan	113	113	339	339
Total	894	848	2,779	2,636

A&W Food Services of Canada Inc.

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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

	Sep 10, 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 a significant exposure to any individual franchisee. As at September 10, 2023, \$6,178,000 (January 1, 2023 – \$7,285,000) is receivable from one distributor.

Liquidity risk

The primary sources of liquidity risk are the royalty payment to the Partnership and dividends on the common shares. The primary sources of funds to pay the royalty and dividends are the fees from franchised restaurants and revenues from the development of franchised restaurants, the sale of food and supplies to franchisees and distributors, revenue from Company-owned restaurants and the sale of A&W Root Beer concentrate. 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 has limited exposure to interest rate risk. The operating loan facility 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 October 6, 2023 Trade Marks declared dividends of \$669,000 on the common shares held by Food Services.

On October 6, 2023, the Fund declared distributions of \$241,000 on the Limited Voting Units held by Food Services.



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