

**A&W Food Services of Canada Inc.**

**Q1/2024**

**Interim Condensed Consolidated  
Financial Statements**

For the first quarter ended  
March 24, 2024

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 1, 2024 to March 24, 2024**

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 12 weeks ended March 24, 2024 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 quarter ended March 24, 2024. This report is dated May 8, 2024 and should be read in conjunction with the unaudited interim condensed consolidated financial statements of Food Services for the 12 weeks ended March 24, 2024 and the audited annual consolidated financial statements of Food Services for the 52 weeks ended December 31, 2023. Such financial statements and additional information about the Fund and Food Services are available at [www.sedarplus.ca](http://www.sedarplus.ca) or [www.awincomefund.ca](http://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
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 2023 year was 52 weeks and ended December 31, 2023 (2022 – 52 weeks ended January 1, 2023). System Sales, System Sales Growth and Same Store Sales Growth – Franchised Restaurants for the 12 weeks ended March 24, 2024 are compared to the 12 weeks ended March 26, 2023 so that the two periods are comparable.

The financial results reported in this report are derived from the unaudited interim condensed consolidated financial statements of the Food Services, which are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS” or “IFRS Accounting Standards”). The accounting policies applied in the unaudited 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 December 31, 2023.

## Selected Information

The following selected information, other than “System Sales”, “System Sales Growth”, “Same Store Sales Growth – Franchised Restaurants”, “Gross sales reported by A&W restaurants in the Royalty Pool”, “Royalty Pool Same Store Sales Growth”, “Operating Earnings” and information with respect to numbers of restaurants has been derived from financial statements prepared in accordance with IFRS and all dollar amounts are reported in Canadian currency. See “Non-IFRS Measures”.

(dollars in thousands)	12-week period ended Mar 24, 2024	12-week period ended Mar 26, 2023
System Sales <sup>(i)</sup>	<b>\$389,269</b>	\$381,810
System Sales Growth <sup>(ii)</sup>	<b>2.0%</b>	8.3%
Same Store Sales Growth - Franchised Restaurants <sup>(iii)</sup>	<b>0.6%</b>	6.1%
New A&W restaurants opened	<b>6</b>	3
A&W restaurants permanently closed	-	3
Number of A&W restaurants	<b>1,060</b>	1,046
Gross sales reported by A&W restaurants in the Royalty Pool <sup>(iii)</sup>	<b>\$385,097</b>	\$381,298
Royalty Pool Same Store Sales Growth <sup>(iii)</sup>	<b>0.6%</b>	6.1%
Number of restaurants in the Royalty Pool	<b>1,047</b>	1,037
Revenue from franchising	<b>\$53,426</b>	\$54,168
Revenue from corporate restaurants	<b>5,355</b>	5,051
Total revenue	<b>58,781</b>	59,219
Operating costs and general and administrative expenses	<b>(40,730)</b>	(41,212)
Depreciation of plant, equipment, intangible assets and right-of-use assets	<b>1,340</b>	975
Operating Earnings <sup>(i)</sup>	<b>19,391</b>	18,982
Royalty expense	<b>(11,553)</b>	(11,340)
Income before taxes	<b>9,468</b>	9,377
Net income	<b>\$7,510</b>	\$7,715

<sup>(i)</sup> “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.

<sup>(ii)</sup> “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.

<sup>(iii)</sup> “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.

<b>(dollars in thousands)</b>	<b>12-week period ended Mar 24, 2024</b>	12-week period ended Mar 26, 2023
Revenue from corporate restaurants	<b>\$5,355</b>	\$5,051
Sales reported by franchised restaurants	<b>383,914</b>	376,759
System Sales	<b>\$389,269</b>	\$381,810

The following table provides a reconciliation of “Operating Earnings” to “Income before income taxes”, the most comparable IFRS measure, for the periods indicated.

<b>(dollars in thousands)</b>	<b>12-week period ended Mar 24, 2024</b>	12-week period ended Mar 26, 2023
Income before taxes	<b>\$9,468</b>	\$9,377
Depreciation of plant, equipment, intangible assets and right-of-use assets	<b>1,340</b>	975
Royalty expense	<b>11,553</b>	11,340
Finance expense - net	<b>485</b>	308
Amortization of deferred gain	<b>(880)</b>	(900)
Share of income from associates	<b>(2,575)</b>	(2,118)
Operating Earnings	<b>\$19,391</b>	\$18,982

## **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 and Pret A Manger (“Pret”) restaurants in Canada as the sum of (1) gross sales reported to Food Services by franchisees of such 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 network of restaurants. 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 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 uses 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 network of restaurants. 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 entirety of the 12-week periods ended March 24, 2024 and March 26, 2023 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 first quarters ending March 24, 2024 and March 26, 2023 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<sup>(iii)</sup> for the first quarter of 2024 was +0.6% as compared to the first quarter of 2023. Same Store Sales Growth – Franchised Restaurants is a function of changes in guest counts and check size, both of which are impacted by sales mix and menu price changes.

The Q1 2024 Same Store Sales Growth – Franchised Restaurants<sup>(iii)</sup> of +0.6% was a product of an increase in average check size due to industry-wide inflation on goods, services, and labour, partially offset by a decline in guest traffic. Food Services believes that the decline in guest traffic is primarily attributable to increased interest rates and inflation, which have impacted consumer discretionary spending. In response to these economic conditions, Food Services continues to seek new and innovative ways to offer A&W's guests a delicious and affordable experience and in turn increase guest traffic.

<sup>(iii)</sup> "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<sup>(i)</sup> for the first quarter of 2024 were \$389,269,000, an increase of 2.0% or \$7,459,000 from the first quarter of 2023. 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.

<sup>(i)</sup> "System Sales" is a non-IFRS financial measure. Refer to the table in the "Selected Information" section for a reconciliation of this measure to the most comparable IFRS measure and the "Non-IFRS Measures" section of this report for further details on how this measure is used to assess Food Services' performance.

## **New Restaurant Openings and Permanent Restaurant Closures**

Food Services opened six new A&W restaurants during the first quarter of 2024, compared to three openings during the first quarter of 2023. No restaurants were permanently closed during the first quarter of 2024 versus three in the first quarter of 2023. As at March 24, 2024, there were 1,060 A&W restaurants in Canada, of which 1,050 were operated by franchisees and 10 were corporately owned and operated. Food Services also opened its first stand-alone Pret location during the first quarter of 2024 which is owned and operated corporately.

## **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 A&W restaurants and one Pret restaurant, 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 2024 annual adjustment to the Royalty Pool took place on January 5, 2024. The number of A&W restaurants in the Royalty Pool was increased by 19 new restaurants less nine restaurants that permanently closed. The estimated annual sales of the 19 new A&W restaurants were \$28,626,000 at the time they were added to the Royalty Pool and annual sales for the 9 permanently closed restaurants were \$5,144,000 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 \$8,307,000, 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 ended October 31, 2023. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$6,646,000, by issuance of 218,029 LP units which were subsequently exchanged for 436,058 non-voting common shares of Trade Marks. The remaining consideration payable to Food Services for the January 5, 2024 adjustment to the Royalty Pool of \$1,661,000 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 2024 based on the actual annual sales reported by the new restaurants. Food Services has recorded the \$1,661,000 as a current asset as at March 24, 2024 (December 31, 2023 - \$nil). The actual amount of the consideration paid in December 2024 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, 2024 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, 2024 adjustment to the Royalty Pool that are payable in December 2024, Food Services’ indirect interest in the Fund increased to 29.2% on a fully diluted basis (28.4% as of December 31, 2023).

## Common Shares of A&W Trade Marks Inc.

The common shares of Trade Marks are owned by the Fund and Food Services, with their respective ownership as at the end of the two most recently completed financial years and the current quarter being as follows:

(dollars in thousands)	Fund			Food Services			Total	
	Number of shares	Trade Marks' book value \$	%	Number of shares	Trade Marks' book value \$	%	Number of shares	Trade Marks' book value \$
Balance as at January 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 <sup>(1)</sup>	-	-	(1.9)	979,400	16,600	1.9	979,400	16,600
Balance as at December 31, 2023	32,185,311	227,798	79.0	8,580,841	122,349	21.0	40,766,152	350,147
January 5, 2024 adjustment to the Royalty Pool <sup>(2)</sup>	-	-	(0.9)	436,058	6,646	0.9	436,058	6,646
Balance as at March 24, 2024	32,185,311	227,798	78.1	9,016,899	128,995	21.9	41,202,210	356,793

<sup>(1)</sup> The number of common shares includes the 109,332 LP units exchanged for 218,664 common shares of Trade Marks representing the remaining consideration paid in December 2023 for the January 5, 2023 adjustment to the Royalty Pool.

<sup>(2)</sup> 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, 2024 adjustment to the Royalty Pool, which LP units, if any, are held back until the number of LP units is determined in December 2024 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 March 24, 2024 and December 31, 2023 on a fully-diluted basis, where the ownership of the Fund as at March 24, 2024 includes the issuance of the excess exchangeable LP units that represent the remaining 20% of the initial consideration for the January 5, 2024 adjustment to the Royalty Pool that are payable to Food Services in December 2024.

	March 24, 2024		December 31, 2023	
	Number of units	%	Number of units	%
Units held by public unitholders	14,585,673	70.6	14,585,673	71.6
Limited Voting Units held by Food Services <sup>(1)</sup>	1,507,020	7.3	1,507,020	7.4
Number of Trust Units issuable upon exchange of securities of Trade Marks held by Food Services <sup>(2)</sup>	4,562,957	22.1	4,290,421	21.0
Total equivalent units	20,655,650	100.0	20,383,114	100.0

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.



## Q1 2024 Operating Results

### Revenue

Food Services' franchising and corporate restaurants revenue for the first quarter of 2024 was \$58,781,000 compared to franchising and corporate revenue for the first quarter of 2023 of \$59,219,000. The \$438,000 decrease is primarily attributable to a decline in revenue related to equipment sales as a result of a larger proportion of the A&W Brew Bar™ roll out being in 2023. See the "Outlook" section of this report for a discussion on the A&W Brew Bar™ program and its roll out. The decrease in revenue from equipment sales was partially offset by increased service fees, contributions to the National Advertising Fund and revenue generated from the distribution of food and supplies, all of which increased as a result of the increase in System Sales<sup>(i)</sup>.

Corporate restaurant System Sales were \$5,355,000 for the first quarter of 2024 compared to \$5,051,000 for the first quarter of 2023. The increase of \$304,000 was primarily due to stronger sales performance from the corporately owned A&W restaurants located in shopping centres.

™ trademark of the Partnership, used under licence.

<sup>(i)</sup> "System Sales" is a non-IFRS financial measure. Refer to the table in the "Selected Information" section for a reconciliation of this measure to the most comparable IFRS measure and the "Non-IFRS Measures" section of this report for further details on how this measure is used to assess Food Services' performance.

### Operating costs and general and administrative expenses

Operating costs for the first quarter of 2024 were \$27,853,000 compared to \$29,909,000 for the first quarter of 2023, a decrease of \$2,056,000. In line with the decrease in revenue from equipment sales noted above, operating costs decreased due to decreases in the cost and volume of equipment that was sold to restaurants. The decrease was partially offset by increased costs related to the distribution of food and supplies and increased advertising expenses incurred by the National Advertising Fund, both of which correspond to the increases in revenue discussed in the "Revenue" section above.

General and administrative expenses represent costs of providing services to franchised restaurants and establishing new restaurants, and were \$12,877,000 for the first quarter of 2024 compared to \$11,303,000 for the first quarter of 2023, an increase of \$1,574,000. The increase in general and administrative expenses is largely attributable to inflationary increases in wages as well as costs for large, in person conferences that have now resumed post pandemic.

### Operating Earnings

(dollars in thousands)	12-week period ended Mar 24, 2024	12 -week period ended Mar 26, 2023
Operating Earnings <sup>(i)</sup>	\$19,391	\$18,982

Operating Earnings<sup>(i)</sup> increased by \$409,000 to \$19,391,000 for the first quarter of 2024 as compared to \$18,982,000 for the first quarter of 2023. The increase in Operating Earnings is attributable to the decrease in operating costs partially offset by an increase in general and administrative expenses and decrease in revenue. See "Operating costs and general and administrative expenses" and "Revenue".

(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 first quarter of 2024 was \$11,553,000 compared to \$11,340,000 for the first quarter of 2023. The increase in royalty expense 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 10 new restaurants added to the Royalty Pool on January 5, 2024. See “Annual Adjustment to the Royalty Pool”. It is important to note that the royalty expense for Q1 of 2023 reported by Food Services differs in amount from 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 March 26, 2023 whereas the royalty expense is based on Gross sales reported by A&W restaurants in the Royalty Pool from January 2, 2023 to March 26, 2023 due to Food Services having a floating year-end. The Q1 2024 royalty income reported by the Fund and royalty expense reported by Food Services are both based on Gross sales reported by A&W restaurants in the Royalty Pool from January 1, 2024 to March 24, 2024 and are therefore equal.

### **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 \$1,779,000 as at March 24, 2024 (December 31, 2023 – \$1,779,000). Food Services did not recognize an impairment loss or recovery of impairment in the first quarter of 2024 or 2023.

### **Finance expense - net**

(dollars in thousands)	<b>12-week period ended Mar 24, 2024</b>	12 -week period ended Mar 26, 2023
Net interest expense	<b>\$178</b>	\$7
Standby fees	<b>12</b>	14
Interest cost on supplementary retirement benefit plan	<b>113</b>	113
Interest on lease receivables	<b>(5,526)</b>	(5,310)
Interest on lease liabilities	<b>5,708</b>	5,471
Amortization of deferred financing fees	<b>-</b>	13
	<b>\$485</b>	\$308

Interest expense - net for the first quarter of 2024 increased by \$177,000 from the first quarter of 2023. The increase in the interest expense-net is attributable to having a higher average balance on the operating loan

during the first quarter of 2024 as compared to the first quarter of 2023. The increase in interest income on leases receivable and in interest expense on lease liabilities is driven by a year over year increase in the corresponding leases receivable and lease liabilities balances.

### **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 March 24, 2024 Food Services had a 21.9% investment in Trade Marks (December 31, 2023 – 21.0%) and a 9.4% investment in the Fund (December 31, 2023 – 9.4%). Taken together, Food Services' ownership of exchangeable common shares of Trade Marks and Limited Voting Units equated to Food Services owning 29.2% of the total equivalent units of the Fund on a fully diluted basis as at March 24, 2024 (28.4% as at December 31, 2023).

Food Services' share of income from associates for the first quarter of 2024 totaled \$2,575,000 compared to \$2,118,000 for the first quarter of 2023. 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 10 net new restaurants added to the Royalty Pool on January 5, 2024 and the +0.6% Royalty Pool Same Store Sales Growth<sup>(i)</sup>.

<sup>(i)</sup> "Royalty Pool Same Store Sales Growth" 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.

### **Net income**

(dollars in thousands)	<b>12-week period ended Mar 24, 2024</b>	12 -week period ended Mar 26, 2023
Operating Earnings <sup>(i)</sup>	<b>\$19,391</b>	\$18,982
Royalty expense	<b>(11,553)</b>	(11,340)
Finance expense – net	<b>(485)</b>	(308)
Depreciation of plant, equipment, intangible assets and right-of-use assets	<b>(1,340)</b>	(975)
Amortization of deferred gain	<b>880</b>	900
Share of income from associates	<b>2,575</b>	2,118
Income before income taxes	<b>9,468</b>	9,377
Provision for income taxes	<b>(1,958)</b>	(1,662)
Net income for the period	<b>\$7,510</b>	\$7,715

The \$91,000 increase in income before income taxes is primarily attributable to the \$409,000 increase in Operating Earnings and the \$457,000 increase in share of income from associates. These increases were partially offset by \$327,000 in depreciation for intangible assets (nil in Q1 2023), the \$213,000 increase in royalty expense and \$177,000 increase in interest expense - net. The \$296,000 increase in the provision for income taxes reflects an increase in taxable income which increased primarily for the reasons discussed

above.

<sup>(i)</sup> “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 \$165,000 recognized in the first quarter of 2024 versus an actuarial loss, net of tax, of \$119,000 recognized in the first quarter of 2023.

### **Liquidity and Capital Resources**

Food Services is primarily a franchise business with 1,050 of its 1,060 (as at March 24, 2024) A&W 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. 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”). The facility is used to fund working capital requirements and for general corporate purposes. Amounts under the operating loan facility can be advanced in the form of an account overdraft, which bears interest at the Bank’s prime rate plus 1.0% or in the form of 30 to 90 day banker’s acceptances (“BA’s”) 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 May 8, 2024, March 24, 2024 and December 31, 2023. The operating loan facility matures on May 31, 2024.

On May 8, 2024, Food Services received approval from its Board of Directors and has reached an agreement with the Bank to extend its \$40,000,000 demand operating loan facility (the “Credit Facility”) for a period of one year. Under the amended agreement account overdrafts will bear interest at the Bank’s prime rate plus 0.75% (previously the Bank’s prime rate plus 1%). As part of the amendment, and in response to the pending cessation of Canadian Dollar Offered Rate which is the benchmark interest rate on BAs, the Credit Facility was also amended to transition from BAs to CORRA (as defined below) loans, in which the interest rate benchmark is Canadian Overnight Repo Rate Average (“CORRA”). The remaining terms and conditions are consistent with those of the previous Credit Facility in place with the Bank.

As at March 24, 2024, Food Services had drawn \$14,077,000 on the Credit Facility (December 31, 2023 – \$15,726,000) and had issued \$198,000 in letters of guarantee (December 31, 2023 – \$198,000), leaving \$25,725,000 of the facility available (December 31, 2023 – \$24,076,000).

### **Off-Balance Sheet Arrangements**

Food Services has no off-balance sheet arrangements.

### **Related Party Transactions and Balances**

Royalty expense for the first quarter ended March 24, 2024 was \$11,553,000 (2023 - \$11,340,000), of which \$4,028,000 (December 31, 2023- \$4,094,000) is payable to the Partnership at March 24, 2024 and was paid, subsequent to the end of the quarter, on April 18, 2024.

During the first quarter ended March 24, 2024, Trade Marks declared two dividends payable to Food Services totaling \$1,443,000 (2023 - \$1,338,000) as a result of Food Services' ownership of Trade Marks' common shares. The second dividend amounted to \$721,000 and was declared on March 4, 2024 but paid to Food Services on March 29, 2024, subsequent to the quarter end, and is therefore reported as a current asset as at March 24, 2024 (December 31, 2023 – \$nil).

During the first quarter ended March 24, 2024, the Fund declared two distributions payable to Food Services totaling \$482,000 (2023 – \$482,000) as a result of Food Services' ownership of Limited Voting Units. The second distribution amounted to \$241,000 and was declared on March 4, 2024 but paid to Food Services on March 29, 2024, subsequent to the quarter end, and is therefore reported as a current asset as at March 24, 2024 (December 31, 2023 – \$241,000).

During the first quarter ended March 24, 2024, Food Services declared two dividends totaling \$1,925,000 (2023 - \$1,820,000) from working capital to its shareholder. The second dividend amounted to \$962,000 and was declared on March 4, 2024 but paid on April 1, 2024, subsequent to the period end, and is therefore reported as a current liability as at March 24, 2024 (December 31, 2023 – \$nil).

On April 8, 2022, Trade Marks and Food Services entered into an agreement for Food Services to provide administrative services to Trade Marks (the "Services Agreement"). Under the terms of the Services Agreement, Food Services is entitled to be paid an annual fee, on a quarterly basis, for the services provided in each fiscal year in an amount approved by the board of directors of Trade Marks that is based on a prescribed time and effort computation. The Services Agreement will remain in effect for the duration of the Administration Agreement dated February 15, 2002 between Trade Marks and the Fund, unless terminated by either party by giving 5 years advance written notice to the other party. During the first quarter ended March 24, 2024, Food Services recognized \$48,000 (2023 - \$48,000) as an offset to general and administrative expenses related to administrative services provided to Trade Marks, all of which is reported in accounts receivable as at March 24, 2024 (December 31, 2023 - \$nil).

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. Currently, there are various factors that impact geopolitical risk and uncertainty, including but not limited to the elevated geopolitical risk exemplified by ongoing active conflicts in the Middle East, between Israel and Palestine, and in Europe, between Russia and Ukraine, as well as risks associated with China-Taiwan tensions. The imposition of strict economic sanctions by Canada, the United States, the European Union, the United Kingdom and others in response to such conflict 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 international conflicts, geopolitical tensions and related international action cannot be accurately predicted and the effects of such conflicts may magnify the impact of the other risks identified herein and in the Fund's most recent Annual Information Form, available on the Fund's SEDAR+ profile at [www.sedarplus.ca](http://www.sedarplus.ca).

## **Outlook**

During the first quarter of 2024 A&W experienced a continuation of the challenging general economic conditions that arose post pandemic. Interest rate increases, rates of inflation, consumer confidence and diminishing disposable income continue to impact consumer discretionary spending.

Food Services believes that its mission “Together, to excite Canada’s most avid burger lovers, wherever they are, with the best tasting burgers they crave, earning even more of their visits and making A&W restaurants even more successful” will help it to continue to grow and better position it to withstand the risks associated with the current economic conditions. Strategic initiatives, including creating “can’t wait to come back” appeal and guest experience; being highly convenient for our guests both with continued new restaurant growth and through growing a successful mobile app business and making it easier for franchisees and their teams to operate successful restaurants, have all contributed to A&W’s strong appeal and the trust it has built with Canadian consumers and franchisees over many years. These strengths will be key to delivering strong results and improved market share as the quick service restaurant (“QSR”) industry and the QSR burger market continue to grow.

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.

In 2018, A&W further strengthened its positioning as a leader in food and innovation with the introduction of the Beyond Meat<sup>(1)</sup> branded plant-based burger. Food Services was very excited to be the first national burger chain in Canada to offer this plant-based burger patty and 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.

<sup>(1)</sup> Trademark of Beyond Meat, Inc., used under licence.

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 was expanding the beverage offerings at A&W restaurants with the phased rollout of the A&W Brew Bar<sup>TM</sup>. The A&W Brew Bar<sup>TM</sup> offers a variety of frozen beverages as well as hot and cold espresso-based beverages. The A&W Brew Bar<sup>TM</sup> is now available in over 645 A&W restaurants across the country.

A&W is committed to reducing its environmental impact through conscious use of packaging, waste, energy and water. For example, high-efficiency equipment has been introduced into A&W restaurants to use less energy and A&W was the first Canadian QSR national chain to switch to the use of all paper straws in its restaurants. A&W also launched the “A&W One Cup<sup>TM</sup>” nationwide in late 2023, an exchangeable cup program, which has a goal of saving one million cups from landfill.

A&W also continues to innovate to serve guests that are mobile app users with the launch of a new A&W mobile app in June 2023. The new app allows users to receive exclusive offers, easily customize their order and provides various options allowing guests to choose between pick-up, delivery and dine-in.

Food Services has continued to grow new A&W restaurants, particularly in the key Ontario and Quebec markets. Six new A&W restaurants opened during the first quarter of 2024 and an additional ten restaurants were under construction as at March 24, 2024.

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, which sets forth the general terms and conditions granting Food Services master franchisor rights to Canada for Pret. On January 26, 2024 Pret and Food Services agreed to supplement the Country Agreement with a plan to roll out Pret coffee to all A&W restaurants and a select menu of Pret pastry products to a subset of A&W restaurants under the same terms and conditions as outlined in the Country Agreement.

Pursuant to the Country Agreement, Food Services has the exclusive right to use the Pret brand in Canada for a two-year pilot (the "Trial Phase"). If the Trial Phase is successful, Food Services will have the exclusive right to expand the Pret brand across Canada pursuant to an agreed development plan. As at March 24, 2024, Food Services was operating one standalone Pret location that was opened in January 2024 in Toronto and there were four A&W franchised locations (three in Vancouver and one in Toronto) offering a range of Pret products in their restaurants. As at March 24, 2024 there were another 21 A&W locations across the country offering Pret coffee and pastries.

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. The royalty payable to the Fund does not apply to products sold within standalone Pret restaurants.

## **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; expectations regarding improvements in sales trends at A&W restaurants; plans to increase guest traffic; Food Services' expectation that the food service industry, and more particularly the QSR segment, will continue to recover and grow; having sufficient cash on hand to meet future obligations; statements regarding future adjustments to the Royalty Pool; statements regarding the potential impact of international conflicts; Food Service's 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; timing for the maturity of the operating loan facility; 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 and that it will have sufficient capital resources to fund these capital requirements; Food Services' ability to continue to grow and better position it to withstand the risks associated with the current economic conditions; delivering strong results and improved market share as the quick service restaurant industry and the quick service restaurant burger market continue to grow; future introductions of new recipes and products to its plant-based line-up; a reduction in environmental impact through conscious use of packaging, waste, energy and water, and high-efficiency equipment resulting in a reduction in energy usage; Food Services' commitment to the long-term health and success of its franchise network and the Fund; expectations for increased loyalty and enhancing performance over the long term; the potential expansion of the Pret brand across Canada; the rollout of additional Pret products under the Country Agreement; success of the Trial Phase and the Royalty being earned by the Fund on the sales of any Pret products made within A&W restaurants; 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 or the one Pret restaurant;
- 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 quick service restaurant 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 quick service restaurants;
- changes in consumer preferences that adversely affect the consumption of quick service restaurant hamburgers, chicken, fries, breakfast items, soft drinks or coffee based 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 or the one Pret restaurant 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 quick service restaurant 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, 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 and 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"; and
- risks related to economic conditions set forth in this report under the heading "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 First Quarter ended March 24, 2024**

with comparative figures

For the First Quarter ended March 26, 2023

(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	March 24, 2024	December 31, 2023
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 12,580	\$ 3,808
Accounts receivable		34,972	40,122
Dividends and distributions receivable	12	962	241
Leases receivable	4	32,023	31,608
Inventories		11,114	14,439
Prepaid expenses		3,685	4,276
Other assets	6	1,661	-
Income taxes recoverable		3,116	3,945
		<b>100,113</b>	<b>98,439</b>
<b>Non-current assets</b>			
Investments in associates	6	177,125	169,828
Other receivables		2,252	2,051
Deferred income taxes		27,853	27,386
Right-of-use assets	4	19,621	20,085
Leases receivable	4	591,388	585,255
Plant and equipment		11,477	11,405
Intangible assets	5	6,380	6,322
<b>Total assets</b>		<b>\$ 936,209</b>	<b>\$ 920,771</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 42,500	\$ 44,544
Operating loan facility	7	14,077	15,726
Royalties payable	12	4,028	4,094
Dividends payable	12	962	-
Lease liabilities	4	34,348	33,923
Deposits on franchise and equipment sales		10,782	11,581
Deferred revenue		2,526	2,535
		<b>109,223</b>	<b>112,403</b>
<b>Non-current liabilities</b>			
Deferred gain	6	292,861	285,434
Deferred revenue		28,530	28,456
Lease liabilities	4	611,390	605,708
Supplementary retirement benefit plan		10,917	11,232
Other long-term liabilities		19	19
		<b>1,052,940</b>	<b>1,043,252</b>
<b>Shareholder's Deficiency</b>			
Share capital	14	10,129	10,129
Accumulated deficit		(127,388)	(132,902)
		<b>(117,259)</b>	<b>(122,773)</b>
<b>Non-controlling interest</b>			
		528	292
<b>Total deficiency</b>		<b>(116,731)</b>	<b>(122,481)</b>
<b>Total liabilities and deficiency</b>		<b>\$ 936,209</b>	<b>\$ 920,771</b>

**Subsequent events**

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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 Mar 24, 2024	12 week period ended Mar 26, 2023
<b>Revenue</b>			
Franchising	8	\$ 53,426	\$ 54,168
Corporate restaurants		5,355	5,051
		<b>58,781</b>	<b>59,219</b>
<b>Expenses (income)</b>			
Operating costs		27,853	29,909
General and administrative expenses		12,877	11,303
Royalty expense	12	11,553	11,340
Finance expense - net	10	485	308
Amortization of deferred gain	6	(880)	(900)
Share of income from associates	6	(2,575)	(2,118)
		<b>49,313</b>	<b>49,842</b>
<b>Income before income taxes</b>		<b>9,468</b>	<b>9,377</b>
<b>Provision for (recovery of) income taxes</b>			
Current		2,485	1,773
Deferred		(527)	(111)
		<b>1,958</b>	<b>1,662</b>
<b>Net income for the period</b>		<b>\$ 7,510</b>	<b>\$ 7,715</b>
<b>Net income attributable to:</b>			
Shareholders of A&W Food Services of Canada Inc.		\$ 7,274	\$ 7,424
Non-controlling interest		236	291
		<b>\$ 7,510</b>	<b>\$ 7,715</b>

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

(in thousands of dollars)

	12 week period ended Mar 24, 2024	12 week period ended Mar 26, 2023
<b>Net income for the period</b>	<b>\$ 7,510</b>	<b>\$ 7,715</b>
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to net income</b>		
Actuarial gain (loss) on supplementary retirement benefit plan - net of tax	165	(119)
<b>Comprehensive income</b>	<b>\$ 7,675</b>	<b>\$ 7,596</b>
<b>Comprehensive income attributable to:</b>		
Shareholders of A&W Food Services of Canada Inc.	\$ 7,439	\$ 7,305
Non-controlling interest	236	291
	<b>\$ 7,675</b>	<b>\$ 7,596</b>

**A&W Food Services of Canada Inc.**

**Interim Condensed Consolidated Statement of Changes in Shareholder's Deficiency**

**Unaudited**

(in thousands of dollars)

		Share capital	Accumulated deficit	Total	Non-controlling interest	Total deficiency
<b>Balance - January 1, 2023</b>	<b>\$</b>	<b>10,129</b>	<b>(140,033)</b>	<b>\$ (129,904)</b>	<b>\$ 166</b>	<b>\$ (129,738)</b>
Net income for the period		-	7,424	7,424	291	7,715
Dividends on common shares	12	-	(1,820)	(1,820)	-	(1,820)
Actuarial loss on supplementary retirement benefit plan - net of tax		-	(119)	(119)	-	(119)
<b>Balance - March 26, 2023</b>	<b>\$</b>	<b>10,129</b>	<b>\$ (134,548)</b>	<b>\$ (124,419)</b>	<b>\$ 457</b>	<b>\$ (123,962)</b>
Net income for the period		-	29,386	29,386	911	30,297
Dividends on common shares		-	(27,311)	(27,311)	(1,076)	(28,387)
Actuarial loss on supplementary retirement benefit plan - net of tax		-	(429)	(429)	-	(429)
<b>Balance - December 31, 2023</b>	<b>\$</b>	<b>10,129</b>	<b>\$ (132,902)</b>	<b>\$ (122,773)</b>	<b>\$ 292</b>	<b>\$ (122,481)</b>
Net income for the period		-	7,274	7,274	236	7,510
Dividends on common shares	12	-	(1,925)	(1,925)	-	(1,925)
Actuarial gain on supplementary retirement benefit plan - net of tax		-	165	165	-	165
<b>Balance - March 24, 2024</b>	<b>\$</b>	<b>10,129</b>	<b>\$ (127,388)</b>	<b>\$ (117,259)</b>	<b>\$ 528</b>	<b>\$ (116,731)</b>

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 Mar 24, 2024	12 week period ended Mar 26, 2023
<b>Cash flows generated from operating activities</b>			
Net income for the period		\$ 7,510	\$ 7,715
Adjustments for			
Depreciation of plant and equipment	9	402	410
Amortization of intangibles	9	327	-
Depreciation of right-of-use assets	9	611	565
Deferred income taxes		(527)	(111)
(Decrease) increase in deposits on franchise and equipment sales		(799)	3,596
Decrease in other receivables		(201)	-
Supplementary retirement benefit plan		(203)	(198)
Increase (decrease) in deferred revenue		65	(233)
Amortization of deferred gain	6	(880)	(900)
Share of income from associates	6	(2,575)	(2,118)
Current income tax expense		2,485	1,773
Income tax paid		(1,656)	(1,856)
Finance expense - net	10	485	308
Interest received		22	23
Interest paid		(212)	(44)
Changes in items of non-cash working capital	11	6,956	(4,534)
<b>Net cash generated from operating activities</b>		<b>11,810</b>	<b>4,396</b>
<b>Cash flows generated from investing activities</b>			
Purchase of plant and equipment		(474)	(321)
Purchase of intangible assets		(385)	(801)
Dividends and distributions received from associates	12	1,204	1,151
<b>Net cash generated from investing activities</b>		<b>345</b>	<b>29</b>
<b>Cash flows used in financing activities</b>			
Operating lease payments		(771)	(497)
Repayment of operating loan facility		(1,649)	(5,452)
Dividends paid to shareholder	12	(963)	(910)
<b>Net cash used in financing activities</b>		<b>(3,383)</b>	<b>(6,859)</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>8,772</b>	<b>(2,434)</b>
<b>Cash and cash equivalents - beginning of period</b>		<b>3,808</b>	<b>5,004</b>
<b>Cash and cash equivalents - end of period</b>		<b>\$ 12,580</b>	<b>\$ 2,570</b>



**A&W Food Services of Canada Inc.**

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 24, 2024

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(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 March 24, 2024, the Company opened six A&W locations, bringing the total number of A&W restaurants to 1,060, of which 1,050 are franchised and 10 are owned and operated corporately. Food Services also opened its first stand-alone Pret A Manger (“Pret”) location during the period which is owned and operated corporately. No restaurants were permanently closed during the period. 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 as issued by the International Accounting Standards Board (“IFRS Accounting Standards”), and 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 December 31, 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 December 31, 2023.

In 2020 the International Accounting Standards Board IASB published amendments to IAS 1 Presentation of Financial Statements that clarify the criteria for classifying liabilities with covenants as current or non-current. The amendments also require companies to provide additional note disclosure on non-current liabilities with covenants. The effective date is for annual periods beginning on or after January 1, 2024, with early adoption permissible. The Company adopted this amendment effective the 2024 fiscal period with no impact on the disclosure of its accounting policies.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors of Food Services on May 8, 2024.

**A&W Food Services of Canada Inc.**

Notes to Interim Condensed Consolidated Financial Statements

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(figures in tables are expressed in thousands of dollars)

**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 2023 year was 52 weeks and ended December 31, 2023 (2022 - 52 weeks ended January 1, 2023). A&W Root Beer Beverages of Canada Inc. (“Beverages”) uses a fiscal year ending December 31. The first quarter ends 12 weeks after the Company’s fiscal year end. The 2024 first quarter ended March 24, 2024 and the 2023 first quarter ended March 26, 2023.

**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 that are neither subsidiaries nor interests in joint ventures, are associates. Investments in associates are accounted for using the equity method, except when classified as held for sale. The equity method involves the recording of the initial investment at cost and the subsequent adjusting of the carrying value of the investment for the proportionate share of the income or loss and any other changes in the associate’s net assets such as dividends.

Food Services’ proportionate share of the associate’s income or loss is based on the associate’s net income/loss for the reporting period. Adjustments are made to account for any impairment losses recognized by the associate. If Food Services’ share of the associate’s losses equals or exceeds its investment in the associate, recognition of further losses is discontinued. After Food Services’ interest is reduced to zero, additional losses will be provided for and a liability recognized, only to the extent that Food Services has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports income, Food Services resumes recognizing its share of that income only after Food Services’ share of the income equals the share of losses not recognized. At each consolidated balance sheet date, Food Services assesses its investments in associates from indicators of impairment. Food Services accounts for its investment in A&W Trade Marks Inc. (“Trade Marks”) and its investment in A&W Revenue Royalties Income Fund (“the Fund”) as investments in associates.

**A&W Food Services of Canada Inc.**

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(figures in tables are expressed in thousands of dollars)

**Intangible assets**

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

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

**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:

	<b>Mar 24, 2024</b>	Dec 31, 2023
	\$	\$
Current leases receivable	32,023	31,608
Non-current leases receivable	591,388	585,255
	<u>623,411</u>	<u>616,863</u>

The following table outlines the annual contractual undiscounted payments for leases receivable as at March 24, 2024:

	\$
Year 1	55,971
Year 2	54,775
Year 3	53,837
Year 4	52,546
Year 5	50,546
Thereafter	<u>647,950</u>
Total undiscounted leases receivable	915,625
Unearned interest income	(290,435)
Impairment loss	<u>(1,779)</u>
	<u>623,411</u>

**A&W Food Services of Canada Inc.**

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(figures in tables are expressed in thousands of dollars)

Interest income on leases receivable for the period ended March 24, 2024 was \$5,526,000 (2023 - \$5,310,000).

Leases receivable are reviewed for impairment based on expected losses at each consolidated balance sheets date in accordance with IFRS 9, Financial Instruments. An impairment loss is recorded when the credit risk is assessed to have increased for leases receivable. Food Services has developed a risk matrix used to assess the credit risk of leases receivable where Food Services are guarantors for head leases and has included the ongoing uncertainty in its credit risk assumptions. Factors taken into consideration include restaurant concept, payment performance and future expectations for the restaurant operations. Food Services recorded an expected credit loss provision on leases receivable of \$1,779,000 as at March 24, 2024 (December 21, 2023 - \$1,779,000). During the period ended March 24, 2024 there were no additional indicators of impairment therefore no loss or recovery on impairment of leases receivable was recognized (2023 - \$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.

**A&W Food Services of Canada Inc.**

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

	<b>Real Estate</b>	<b>Automobiles</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance – December 31, 2023	18,006	2,079	20,085
Additions	-	149	149
Remeasurement of lease liability	(11)	9	(2)
Depreciation	(383)	(228)	(611)
Balance – March 24, 2024	<u>17,612</u>	<u>2,009</u>	<u>19,621</u>

**Lease liabilities**

Lease liabilities are initially measured at the present value of the lease payments over the lease term. The lease term includes periods associated with options to extend or excludes periods associated with options to terminate the lease when it is reasonably certain that management will exercise these options. The lease payments are discounted using the interest rate implicit in the leases; if that cannot be readily determined, the Company uses its incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

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

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:

	<b>Mar 24,</b>	Dec 31,
	<b>2024</b>	2023
	<b>\$</b>	<b>\$</b>
Current lease liabilities	34,348	33,923
Non-current lease liabilities	611,390	605,708
	<u>645,738</u>	<u>639,631</u>

**A&W Food Services of Canada Inc.**

Notes to Interim Condensed Consolidated Financial Statements

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(figures in tables are expressed in thousands of dollars)

Interest expense on lease liabilities for the period ended March 24, 2024 was \$5,708,000 (2023 - \$5,471,000).

Costs not included in the measurement of the lease obligation for the periods ended March 24, 2024 and March 26, 2023 are as follows:

	<b>12-week period ended Mar 24, 2024</b>	12-week period ended Mar 26, 2023
	\$	\$
Low-value lease costs	11	13
Variable lease costs	204	239
	<u>215</u>	<u>252</u>

**5 Intangible assets**

	<b>Internally generated application software</b>
	\$
Balance – December 31, 2023	6,322
Additions	385
Amortization	<u>(327)</u>
Balance – March 24, 2024	<u>6,380</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

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Royalty Agreement. Amortization of the gain is recognized on the consolidated statement of income. The amortization for the period ended March 24, 2024 was \$880,000 (2023 - \$900,000).

The deferred gain as at March 24, 2024 is as follows:

	<b>Number of restaurants in Royalty Pool</b>	<b>Deferred gain \$</b>	<b>Accumulated amortization \$</b>	<b>Net deferred gain \$</b>
Balance – January 1, 2023	1,015	305,045	(32,508)	272,537
January 5, 2023 adjustment to Royalty Pool	22	16,600	-	16,600
Amortization of deferred gain	-	-	(3,703)	(3,703)
Balance – December 31, 2023	1,037	321,645	(36,211)	285,434
January 5, 2024 adjustment to Royalty Pool	10	8,307	-	8,307
Amortization of deferred gain	-	-	(880)	(880)
Balance – March 24, 2024	1,047	329,952	(37,091)	292,861

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 2024 annual adjustment to the Royalty Pool took place on January 5, 2024. The number of A&W restaurants in the Royalty Pool was increased by 19 new restaurants less 9 restaurants that permanently closed. The estimated annual sales of the 19 new A&W restaurants were \$28,626,000 at the time they were added to the Royalty Pool and annual sales for the 9 permanently closed restaurants were \$5,144,000 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 \$8,307,000, calculated

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by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the Units for the 20 trading days ended October 31, 2023. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$6,646,000, by issuance of 218,029 LP units which were subsequently exchanged for 436,058 non-voting common shares of Trade Marks. The remaining consideration payable to Food Services for the January 5, 2024 adjustment to the Royalty Pool of \$1,661,000 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 2024 based on the actual annual sales reported by the new restaurants. Food Services has recorded the \$1,661,000 receivable as a current asset as at March 24, 2024 (December 31, 2023 - \$nil). The actual amount of the consideration paid in December 2024 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 March 24, 2024 Food Services had a 21.9% investment in Trade Marks (December 31, 2023 – 21.0%) and a 9.4% investment in the Fund (December 31, 2023 – 9.4%). Taken together, Food Services' ownership of exchangeable common shares of Trade Marks and Limited Voting Units equated to Food Services owning 29.2% of the total equivalent units of the Fund on a fully diluted basis as at March 24, 2024 (28.4% as at December 31, 2023).

As at March 24, 2024 Food Services' investments in associates totaled \$177,125,000 (December 31, 2023 - \$169,828,000). Food Services' share of income from associates totaled \$2,575,000 for the period ended March 24, 2024 (2023 - \$2,118,000).



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The investment in Trade Marks as at March 24, 2024 is as follows:

	<b>Common shares \$</b>	<b>Cumulative equity in earnings \$</b>	<b>Cumulative dividends \$</b>	<b>Total \$</b>
Balance– January 1, 2023	105,750	67,867	(68,357)	105,260
January 5, 2023 adjustment to Royalty Pool	16,600	-	-	16,600
Equity in earnings	-	8,380	-	8,380
Dividends	-	-	(8,237)	(8,237)
Balance – December 31, 2023	122,350	76,247	(76,594)	122,003
January 5, 2024 adjustment to Royalty Pool	6,646	-	-	6,646
Equity in earnings	-	1,926	-	1,926
Dividends	-	-	(1,443)	(1,443)
Balance – March 24, 2024	128,996	78,173	(78,037)	129,132

The investment in the Fund as at March 24, 2024 is as follows:

	<b>Limited Voting Units \$</b>	<b>Cumulative equity in earnings \$</b>	<b>Cumulative distributions \$</b>	<b>Total \$</b>
Balance – January 1, 2023	47,162	5,413	(4,891)	47,684
Equity in earnings	-	3,035	-	3,035
Distributions	-	-	(2,893)	(2,893)
Balance – December 31, 2023	47,162	8,448	(7,784)	47,826
Equity in earnings	-	649	-	649
Distributions	-	-	(482)	(482)
Balance – March 24, 2024	47,162	9,097	(8,266)	47,993

**7 Operating loan facility**

Food Services has a \$40,000,000 demand operating loan facility with a Canadian chartered bank (the “Bank”). The facility is used to fund working capital requirements and for general corporate purposes. Amounts under the operating loan facility can be advanced in the form of an account overdraft, which bears interest at the Bank’s prime rate plus 1.0% or in the form of 30 to 90 day banker’s acceptances (“BA’s”) and are repayable on demand. The operating loan facility contains covenants including the

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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 May 8, 2024, March 24, 2024 and December 31, 2023. The operating loan facility matures on May 31, 2024.

On May 8, 2024, Food Services received approval from its Board of Directors and has reached an agreement with the Bank to extend its \$40,000,000 demand operating loan facility for a period of one year. Under the amended agreement account overdrafts will bear interest at the Bank's prime rate plus 0.75% (previously the Bank's prime rate plus 1%). As part of the amendment, and in response to the pending cessation of Canadian Dollar Offered Rate which is the benchmark interest rate on BAs, the Credit Facility was also amended to transition from BAs to CORRA (as defined below) loans, in which the interest rate benchmark is Canadian Overnight Repo Rate Average ("CORRA"). The remaining terms and conditions are consistent with those of the previous Credit Facility in place with the Bank.

As at March 24, 2024, Food Services had drawn \$14,077,000 on the credit facility (December 31, 2023 – \$15,726,000) and had issued \$198,000 in letters of guarantee (December 31, 2023 – \$198,000), leaving \$25,725,000 of the facility available (December 31, 2023 – \$24,076,000).

**8 Franchising revenue**

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

	<b>12-week period ended Mar 24, 2024</b>	12-week period ended Mar 26, 2023
	\$	\$
At a point in time:		
Advertising fund contributions	12,392	11,058
Distribution revenue and service fees	27,729	26,541
Equipment and turnkey revenue	8,793	14,307
Other revenue	2,832	1,660
Over time:		
Initial franchise fees and renewal fees	1,680	602
	<u>53,426</u>	<u>54,168</u>

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(figures in tables are expressed in thousands of dollars)

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

**9 Expenses by nature**

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

	<b>12-week period ended Mar 24, 2024</b>	12-week period ended Mar 26, 2023
	\$	\$
Depreciation of plant and equipment	402	410
Amortization of intangible assets	327	-
Depreciation of right-of-use assets	611	565
<hr/>		
Employee benefit costs		
Wages and salaries and other termination benefits	8,587	7,809
Pension costs - defined contribution plan	290	306
	<hr/>	<hr/>
	8,877	8,115
	<hr/>	<hr/>

**10 Finance expense – net**

	<b>12-week period ended Mar 24, 2024</b>	12-week period ended Mar 26, 2023
	\$	\$
Net interest expense	178	7
Standby fees	12	14
Interest cost on supplementary retirement benefit plan	113	113
Interest on leases receivable	(5,526)	(5,310)
Interest on lease liabilities	5,708	5,471
Amortization of deferred financing fees	-	13
	<hr/>	<hr/>
	485	308
	<hr/>	<hr/>

**A&W Food Services of Canada Inc.**

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**11 Working capital**

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

	<b>12-week period ended Mar 24, 2024</b>	12-week period ended Mar 26, 2023
	\$	\$
Accounts receivable	5,150	6,901
Inventories	3,325	(3,559)
Prepaid expenses	591	(2,075)
Accounts payable and accrued liabilities	(2,044)	(5,813)
Royalties payable	(66)	12
	<u>6,956</u>	<u>(4,534)</u>

**12 Related party transactions and balances**

Royalty expense for the period ended March 24, 2024 was \$11,553,000 (2023 - \$11,340,000), of which \$4,028,000 (December 31, 2023- \$4,094,000) is payable to the Partnership at March 24, 2024 and was paid to the Partnership on April 18, 2024, subsequent to the period end.

During the period ended March 24, 2024, Trade Marks declared two dividends payable to Food Services totaling \$1,443,000 (2023 - \$1,338,000) as a result of Food Services' ownership of Trade Marks' common shares. The second dividend amounted to \$721,000 and was declared on March 4, 2024 but paid to Food Services on March 29, 2024, subsequent to the period end, and is therefore reported as a current asset as at March 24, 2024 (December 31, 2023 – \$nil).

During the period ended March 24, 2024, the Fund declared two distributions payable to Food Services totaling \$482,000 (2023 – \$482,000) as a result of Food Services' ownership of Limited Voting Units. The second distribution amounted to \$241,000 and was declared on March 4, 2024 but paid to Food Services on March 29, 2024, subsequent to the period end, and is therefore reported as a current asset as at March 24, 2024 (December 31, 2023 – \$241,000).

During the period ended March 24, 2024, Food Services declared two dividends totaling \$1,925,000 (2023 - \$1,820,000) from working capital to its shareholder. The second dividend amounted to \$962,000 and was declared on March 4, 2024 but paid on April 1, 2024, subsequent to the period end, and is therefore reported as a current liability as at March 24, 2024 (December 31, 2023 – \$nil).

During the period ended March 24, 2024, Food Services recognized \$48,000 (2023 - \$48,000) as an

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offset to general and administrative expenses related to administrative services provided to Trade Marks, all of which is reported in accounts receivable as at March 24, 2024 (December 31, 2023 – \$nil).

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:

	<b>12-week period ended Mar 24, 2024</b>	12-week period ended Mar 26, 2023
	\$	\$
Salaries, bonuses and other short-term employee benefits	702	788
Pension costs - defined contribution plan	49	82
Pension costs - supplementary retirement benefit plan	113	113
Total	<u>864</u>	<u>983</u>

**14 Share capital**

Authorized

Unlimited number of common shares

Unlimited number of preferred shares

Issued

	<b>Mar 24, 2024</b>	Dec 31, 2023
	\$	\$
4,781,250 common shares	<u>10,129</u>	<u>10,129</u>

**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.

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**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, other receivables and leases receivable. Receivables are due from franchisees and distributors. The Company does not believe it has a significant exposure to any individual franchisee. As at March 24, 2024, \$8,353,000 (December 31, 2023 – \$7,775,000) 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.

**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 April 3, 2024 Trade Marks declared dividends of \$721,000 on the common shares held by Food Services.

On April 3, 2024, the Fund declared distributions of \$241,000 on the Limited Voting Units held by Food Services.

Other subsequent events are referred to in note 7.



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