

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

## **Q2/2016**

### **Consolidated Financial Statements**

For the second quarter ended  
June 19, 2016

Provided as a supplement to the financial  
statements of A&W Revenue Royalties Income  
Fund





**A&W Food Services of Canada Inc.  
Report to Unitholders of A&W Revenue Royalties Income Fund  
January 4, 2016 to June 19, 2016**

This report and the interim condensed consolidated financial statements of A&W Food Services of Canada Inc. (A&W or Food Services) for the 12 weeks and 24 weeks ended June 19, 2016 are provided as a supplement to the interim condensed consolidated financial statements and Management Discussion and Analysis of the A&W Revenue Royalties Income Fund (the Fund) for the period ended June 19, 2016. This report is dated July 26, 2016 and should be read in conjunction with the interim condensed consolidated financial statements of Food Services for the 12 weeks and 24 weeks ended June 19, 2016 and the audited annual consolidated financial statements of Food Services for the 53 weeks ended January 3, 2016. Such financial statements and additional information about the Fund and Food Services are available at [www.sedar.com](http://www.sedar.com) or [www.awincomefund.ca](http://www.awincomefund.ca).

**Glossary**

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

To align its financial reporting with the business cycle of its operations, Food Services uses a fiscal year comprising a 52 or 53 week period ending on the Sunday nearest December 31. The fiscal 2015 year was 53 weeks and ended January 3, 2016 (2014 – 52 weeks ended December 28, 2014). Food Services' second quarter ends 24 weeks after its fiscal year end.

The financial results reported in this MD&A are in accordance with International Financial Reporting Standards (IFRS) as applicable to interim financial reports including International Accounting Standards (IAS) 34, Interim Financial Reporting. The accounting policies applied in the interim condensed consolidated financial statements and this report are consistent with those followed in the preparation of Food Services' annual consolidated financial statements for the year ended January 3, 2016.

## Financial Highlights

(dollars in thousands)	12 week period ended Jun 19, 2016	12 week period ended Jun 14, 2015	24 week period ended Jun 19, 2016	24 week period ended Jun 14, 2015
System sales	<b>\$269,673</b>	\$255,558	<b>\$511,454</b>	\$472,182
System sales growth	<b>5.5%</b>	12.4%	<b>8.3%</b>	12.5%
Same store sales growth <sup>(1)</sup>	<b>+2.7%</b>	+8.9%	<b>+5.4%</b>	+9.0%
New restaurants opened	<b>5</b>	5	<b>7</b>	8
Restaurants closed	<b>2</b>	1	<b>3</b>	2
Number of restaurants	<b>858</b>	837	<b>858</b>	837
Franchising & corporate restaurant revenue	<b>\$26,820</b>	\$25,000	<b>\$51,857</b>	\$44,975
Operating costs and general and administrative expenses	<b>(16,845)</b>	(15,095)	<b>(33,943)</b>	(27,989)
Depreciation of plant and equipment	<b>432</b>	420	<b>862</b>	829
Earnings before royalty expense, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	<b>\$10,407</b>	\$10,325	<b>\$18,776</b>	\$17,815
Royalty expense	<b>(7,922)</b>	(7,474)	<b>(15,046)</b>	(13,780)
Net income	<b>\$2,772</b>	\$3,228	<b>\$4,608</b>	\$4,551

<sup>(1)</sup> Same store sales growth does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

### Same Store Sales

Same store sales growth is the change in sales of A&W restaurants that operated during the entire 26 4-week periods ending June 19, 2016.

Same store sales for the second quarter of 2016 grew by 2.7% as compared to the same quarter of 2015. Year to date same store sales growth was +5.4%. These results reflect the continued positive guest response to A&W's ingredients guarantee of beef raised without the use of hormones or steroids, eggs from hens fed a diet without animal by-products, chicken raised without the use of antibiotics, organic and Fair Trade coffee and bacon from pork raised without the use of antibiotics. Same store sales growth has been positive for 13 consecutive quarters.

### System Sales

Total system sales for all A&W restaurants in Canada for the 12 weeks ended June 19, 2016 were \$269,673,000, an increase of 5.5% from the 12 weeks ended June 14, 2015. Year to date system sales were \$511,454,000, an increase of 8.3% from 2015 year to date. The increase in system sales was due to the same store sales growth plus the increase in the number of restaurants from 837 at the end of the second quarter of 2015 to 858 at the end of the second quarter of 2016.

### New Restaurant Openings and Restaurant Closures

Food Services opened five new A&W restaurants during the quarter and seven year to date in 2016 compared to five new restaurants in the same quarter of 2015 and eight in 2015 year to date. Twenty-three additional new restaurants are under construction or in varying stages of

permitting and are expected to open in the coming months. Two restaurants closed in the quarter and three year to date compared to two closures in 2015 year to date. As at June 19, 2016, there were 858 A&W restaurants in Canada, of which 849 were operated by franchisees and nine were corporately owned and operated.

## **Overview**

Food Services is the franchisor of the A&W restaurant chain in Canada. Food Services' revenue consists of fees from franchised restaurants, revenue from the sale of food and supplies to franchisees and distributors, revenue from the opening of new franchised restaurants, revenue from company-owned restaurants, and revenue from sales of A&W Root Beer concentrate to licensed bottlers who produce and distribute A&W Root Beer for sale in retail grocery stores.

Food Services' operating costs include the cost of materials, supplies and equipment sold either directly to franchisees or to distributors that service the restaurants or that are sold to the licensed bottlers, and costs of sales and other expenses of the restaurants operated corporately by Food Services. General and administrative expenses are expenses associated with providing services to the franchised A&W restaurants and establishing new A&W restaurants.

The A&W trade-marks used in the A&W quick service restaurant business in Canada are owned by the Partnership. The Partnership has granted Food Services a licence (the Amended and Restated Licence and Royalty Agreement) to use the A&W trade-marks in Canada for a term expiring December 30, 2100, for which Food Services pays a royalty of 3% of the sales reported by specific A&W restaurants in Canada (the Royalty Pool).

## **Annual Adjustment to the Royalty Pool**

The Royalty Pool is adjusted annually to reflect sales from new A&W restaurants added to the Royalty Pool, net of the sales of any A&W restaurants that have permanently closed. Food Services is paid for the additional royalty stream related to the sales of the net new A&W restaurants, based on a formula set out in the Amended and Restated Licence and Royalty Agreement. The formula provides for a payment to Food Services based on 92.5% of the amount of estimated sales from the net new A&W restaurants and the current yield on the units of the Fund, adjusted for income taxes payable by Trade Marks. The consideration is paid to Food Services in the form of additional limited partnership units (LP units). The additional LP units are, at the option of Food Services, exchangeable for additional common shares of Trade Marks which are in turn exchangeable for units of the Fund on the basis of two common shares for one unit of the Fund. The consideration paid for the annual adjustment to the Royalty Pool is recorded by Food Services as an increase in its investment in Trade Marks, and an increase in the deferred gain.

The 2016 annual adjustment to the Royalty Pool took place on January 5, 2016. The number of A&W restaurants in the Royalty Pool was increased by 32 new restaurants less eight restaurants that permanently closed during 2015. The addition of these 24 net new restaurants brings the total number of A&W restaurants in the Royalty Pool to 838. The estimated annual sales of the 32 new A&W restaurants are \$41,502,000 and annual sales for the eight permanently closed restaurants were \$3,905,000. The initial consideration for the estimated additional royalty stream was \$16,079,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on units of the Fund for the 20 trading days ending October 26, 2015. The yield was adjusted to reflect income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$12,863,000 by issuance of

489,847 LP units which were subsequently exchanged for 979,694 non-voting common shares of Trade Marks. The remaining 20% of the consideration or \$3,216,000 will be paid in December 2016 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks. The actual amount of the consideration paid in December 2016 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

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

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

The ownership of common shares of Trade Marks is as follows:

(dollars in thousands)	Fund				Food Services				Total
	Number of shares	Trade Marks' book value	%	Number of shares	Trade Marks' book value	%	Number of shares	Trade Marks' book value	
		\$			\$			\$	
Balance as at December 28, 2014	24,262,671	114,680	84.7	4,376,669	35,498	15.3	28,639,340	150,178	
January 5, 2015 adjustment to the Royalty Pool	-	-	(3.1)	1,101,318	13,595	3.1	1,101,318	13,595	
Balance as at January 3, 2016	24,262,671	114,680	81.6	5,477,987	49,093	18.4	29,740,658	163,773	
January 5, 2016 adjustment to the Royalty Pool <sup>(1)</sup>	-	-	(2.6)	979,694	12,863	2.6	979,694	12,863	
Balance as at June 19, 2016	24,262,671	114,680	79.0	6,457,681	61,956	21.0	30,720,352	176,636	

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

### Ownership of the Fund

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

	June 19, 2016		January 3, 2016	
	Number of units	%	Number of units	%
Fund units held by public unitholders	12,131,373	79.0	12,131,373	81.6
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services <sup>(1)</sup>	3,228,841	21.0	2,738,994	18.4
Total equivalent units	15,360,214	100.0	14,870,367	100.0

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

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

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

## 2016 Operating Results

### **Revenue**

Food Services' franchising and corporate revenue for the second quarter of 2016 was \$26,820,000 compared to \$25,000,000 for the second quarter of 2015. Year to date total revenue was \$51,857,000 compared to \$44,975,000 for 2015 year to date.

Franchising revenue for the second quarter was \$23,537,000 compared to \$21,842,000 for the same quarter of the prior year. Year to date franchising revenue was \$45,505,000, compared to \$38,987,000 for 2015 year to date, an increase of \$6,518,000. Revenue generated by the system sales growth increased by \$2,346,000 and revenue from equipment sales increased by \$2,815,000. Turnkey revenue also increased by \$1,357,000 as more of the new restaurants opened in 2016 were constructed by Food Services and then sold to franchisees, as compared to 2015. Corporate restaurant sales in the second quarter of 2016 were \$3,283,000 compared to \$3,158,000 in the same quarter of 2015. Year to date corporate restaurant sales were \$6,352,000 compared to \$5,988,000 in 2015 year to date. Same store sales growth in the corporately owned and operated restaurants was in line with national same store sales growth.

### **Operating costs and general and administrative expenses**

Operating costs for the second quarter of 2016 were \$8,689,000 compared to \$8,685,000 in the same quarter of 2015. Year to date operating costs were \$18,092,000 compared to \$14,965,000 in 2015 year to date, an increase of \$3,127,000. Costs of sales of food, packaging, equipment and turnkey construction costs increased in line with the increase in revenue noted above.

General and administrative expenses represent costs of providing services to franchised restaurants and establishing new restaurants, and were \$8,156,000 in the second quarter of 2016 compared to \$6,410,000 for the second quarter of 2015, and \$15,851,000 for 2016 year to date compared to \$13,024,000 for 2015 year to date. The increase in the quarter and year to date was due to inflationary increases, investments in strategic initiatives and the growth in the number of restaurants and system sales.

### ***Operating earnings***

<b>(dollars in thousands)</b>	<b>12 week period ended Jun 19, 2016</b>	12 week period ended Jun 14, 2015	<b>24 week period ended Jun 19, 2016</b>	24 week period ended Jun 14, 2015
Franchising & corporate restaurant revenue	<b>\$26,820</b>	\$25,000	<b>\$51,857</b>	\$44,975
Operating costs and general and administrative expenses	<b>(16,845)</b>	(15,095)	<b>(33,943)</b>	(27,989)
Depreciation of plant and equipment	<b>432</b>	420	<b>862</b>	829
Operating earnings (earnings before royalty expense, share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	<b>\$10,407</b>	\$10,325	<b>\$18,776</b>	\$17,815

Operating earnings (earnings before royalty expense, Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) increased by \$82,000 to \$10,407,000 for the second quarter of 2016 compared to \$10,325,000 for the second quarter of 2015. Year to date operating earnings increased by \$961,000 to \$18,776,000 for 2016 as compared to \$17,815,000 for 2015 year to date. The year to date operating margin was 36.2% compared to 39.6% for 2015 year to date.

### ***Royalty expense***

Royalty expense for the second quarter of 2016 increased by \$448,000 to \$7,922,000 compared to \$7,474,000 for the second quarter of 2015. Year to date royalty expense increased by \$1,266,000 to \$15,046,000 compared to \$13,780,000 for 2015 year to date. The increase in royalty expense resulted from the additional net 24 restaurants in the Royalty Pool and the same store sales growth of restaurants in the Royalty Pool.

### ***Earnings after royalty expense***

<b>(dollars in thousands)</b>	<b>12 week period ended Jun 19, 2016</b>	12 week period ended Jun 14, 2015	<b>24 week period ended Jun 19, 2016</b>	24 week period ended Jun 14, 2015
Operating earnings	<b>\$10,407</b>	\$10,325	<b>\$18,776</b>	\$17,815
Royalty expense	<b>(7,922)</b>	(7,474)	<b>(15,046)</b>	(13,780)
Earnings after royalty expense (before share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	<b>\$2,485</b>	\$2,851	<b>\$3,730</b>	\$4,035

Earnings after royalty expense (but before Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) decreased by \$366,000 to \$2,485,000 for the second quarter of 2016 compared to \$2,851,000 for the second quarter of 2015. Year to date earnings after royalty expense (but before Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) decreased by \$305,000 to \$3,730,000 for 2016 as compared to \$4,035,000 for 2015. The \$305,000 decrease was comprised of the \$961,000 increase in operating earnings, offset by the \$1,266,000 increase in royalty expense related to same store sales growth of restaurants in the Royalty Pool.

**Finance expense - net**

(dollars in thousands)	12 week period ended Jun 19, 2016	12 week period ended Jun 14, 2015	24 week period ended Jun 19, 2016	24 week period ended Jun 14, 2015
Interest income	<b>(\$11)</b>	(\$22)	<b>(\$23)</b>	(\$45)
Interest cost on supplementary retirement benefit plan	<b>126</b>	122	<b>252</b>	247
Finance leases	<b>38</b>	40	<b>72</b>	77
	<b>\$153</b>	\$140	<b>\$301</b>	\$279

**Food Services' share of Trade Marks' income**

Food Services' share of Trade Marks' income for the second quarter of 2016 decreased by \$43,000 to \$1,209,000 compared to \$1,252,000 for the second quarter of 2015. Food Services' year to date share of Trade Marks' income increased by \$303,000 to \$1,908,000 compared to \$1,605,000 for 2015 year to date. Trade Marks' net income for the quarter was lower than the prior year due to lower non-cash gain on the interest rate swap in the second quarter of 2016 as compared to the second quarter of 2015. Trade Marks' year to date net income was slightly lower than the prior year due to higher income tax expense in 2016 as compared to 2015 year to date. However, the increase in Food Services' ownership in Trade Marks from 17.4% as at the end of the second quarter of 2015 to 21.0% as at the end of the second quarter of 2016 resulted in an increase in Food Services' year to date share of Trade Marks' income.

**Net income**

(dollars in thousands)	12 week period ended Jun 19, 2016	12 week period ended Jun 14, 2015	24 week period ended Jun 19, 2016	24 week period ended Jun 14, 2015
Earnings after royalty expense (before share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	<b>\$2,485</b>	\$2,851	<b>\$3,730</b>	\$4,035
Finance expense	<b>(153)</b>	(140)	<b>(301)</b>	(279)
Depreciation of plant and equipment	<b>(432)</b>	(420)	<b>(862)</b>	(829)
Amortization of deferred gain	<b>370</b>	322	<b>740</b>	642
Share of income from A&W Trade Marks Inc.	<b>1,209</b>	1,252	<b>1,908</b>	1,605
Earnings before income taxes	<b>3,479</b>	3,865	<b>5,215</b>	5,174
Provision for income taxes	<b>(707)</b>	(637)	<b>(607)</b>	(623)
Net income	<b>\$2,772</b>	\$3,228	<b>\$4,608</b>	\$4,551

**Net income attributable to non-controlling interests**

The non-controlling interest in Beverages represents the 40% interest of Beverages owned by Unilever Canada Inc.

**Other comprehensive income**

Other comprehensive income (loss) consists of actuarial gains or losses, net of tax, on the supplementary retirement benefit plan. Actuarial gains result from an increase in the discount rate used to determine the accrued benefit obligation; actuarial losses results from a decrease in the discount rate. The actuarial loss, net of tax, for the second quarter of 2016 was \$280,000

compared to a gain of \$349,000 for the second quarter of 2015. Year to date, the actuarial loss was \$550,000 for 2016 compared to \$290,000 for 2015.

### **Liquidity and Capital Resources**

Food Services is primarily a franchise business with 849 of its 858 restaurants franchised. Food Services has minimal capital requirements related to its corporate restaurants and head office. Future restaurant growth will continue to be funded by franchisees although from time to time, Food Services expects to incur capital expenditures to open new corporate restaurants in the Ottawa market. Food Services expects to have sufficient capital resources to fund the expansion of corporate restaurants and has no long term debt obligations. Food Services has sufficient cash on hand to meet its obligations and has a \$5,000,000 demand operating loan facility with HSBC Bank Canada (the Bank) to fund its working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the bank prime rate plus 0.5% and are repayable on demand. Food Services has provided 2,000,000 common shares of Trade Marks as collateral. As at June 19, 2016, letters of credit totalling \$25,000 (January 3, 2016 - \$25,000) have been issued by the Bank on behalf of Food Services to landlords and cities for development of new restaurants, leaving \$4,975,000 (January 3, 2016 - \$4,975,000) of the facility available.

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

Food Services has no off-balance sheet arrangements.

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

Royalty expense for the year to date period was \$15,046,000 (2015 - \$13,780,000), of which \$2,658,000 (January 3, 2016 - \$3,062,000) is payable to the Partnership at June 19, 2016. Royalty expense for the quarter was \$7,922,000 (2015 - \$7,474,000).

During the year to date period, Trade Marks declared dividends on common shares held by Food Services of \$2,034,000 (2015 - \$1,496,000), of which \$420,000 (January 3, 2016 - \$nil) is receivable at June 19, 2016. Dividends declared payable to Food Services during the quarter were \$1,226,000 (2015 - \$898,000).

During the period, Food Services contracted with a private company controlled by certain shareholders and directors of Food Services, for rental of a private plane and crew for business travel. The cost of the services provided under the contract during the period were \$129,000 (2015 - \$279,000). At June 19, 2016, \$nil (January 3, 2016 - \$nil) is payable to the private company by Food Services. The cost of services provided during the quarter were \$64,000 (2015 - \$192,000).

During the year to date period, Food Services paid \$125,000 (2015 - \$100,000) to a professional baseball club, of which a shareholder, director and officer of Food Services is a part owner, in exchange for advertising the A&W brand at the ballpark. At June 19, 2016, \$nil (January 3, 2016 - \$nil) is payable to the baseball club by Food Services. The amount paid during the quarter was \$125,000 (2015 - \$nil).

Food Services maintains an advertising fund that is supported by prescribed contributions from corporate and franchise restaurants. The advertising fund paid \$218,000 (2015 - \$293,000) to Food Services during the year to date period for marketing, promotional and administrative

services provided to the advertising fund. The amount paid by the advertising fund to Food Services during the quarter was \$110,000 (2015 - \$147,000). At June 19, 2016, the advertising fund had a deficit balance of \$1,557,000 which is included in accounts receivable (January 3, 2016 – surplus balance of \$85,000 included in accounts payable). The advertising fund’s contributions from restaurants are based on sales which fluctuate seasonally. In freestanding A&W restaurants, weather impacts sales. In A&W restaurants in shopping centres, sales fluctuate due to higher traffic during the back-to-school and Christmas shopping seasons. The advertising fund balance is also affected by timing of expenditures for advertising and promotional programs.

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

### **Critical Accounting Estimates**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. It is reasonably possible that circumstances may arise that would cause actual results to differ from management estimates; however, management does not believe it is likely that such differences will materially affect Food Services’ financial position. Significant areas requiring the use of management estimates are investment in Trade Marks, supplementary retirement benefit plan and deferred income taxes. However, such estimates are not “critical accounting estimates” as (i) they do not require Food Services to make assumptions about matters that are highly uncertain at the time the estimate is made, and (ii) different estimates that could have been used, or changes in the accounting estimates that are reasonably likely to occur from period to period, would not have had a material impact on Food Services’ financial condition, changes in financial condition or financial performance.

### **Risks and Uncertainties**

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

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

Food Services competes with other companies, including other well-capitalized franchisors with

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

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

Certain of the products that Food Services provides to A&W franchisees are sourced from a single or a limited number of suppliers. An interruption in the supply of such products could materially adversely affect sales in A&W restaurants.

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

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

## **Outlook**

The continued positive sales performance is a result of A&W's strategy to grow market share in the quick service restaurant (QSR) burger market through the launch of "better ingredients". A&W's mission is "to delight time-crunched Canadian burger lovers with the joy of great tasting natural food, made by people they trust."

Work on differentiating A&W through the use of "better ingredients" began in 2013, when Food Services became the first major QSR chain to use only beef raised without the use of hormones and steroids. The following year, Food Services began to serve only chicken raised without the use of antibiotics. As chicken is one of the fastest growing segments of the QSR industry, this move was a key element in Food Services' strategy to accelerate growth. Also in 2014, Food Services enhanced its breakfast menu by moving to eggs from hens fed a diet without animal by-

products. Breakfast was further supported by the launch in January 2015 of organic and Fair Trade coffee, another first for a major chain. In 2016, Food Services introduced bacon from pork raised without the use of antibiotics, naturally smoked and farmed locally in Canada. Also in 2016, Food Services announced that A&W restaurants are switching to French's ketchup and mustard, made with 100 per cent Canadian tomatoes and 100 per cent Canadian mustard seeds.

Menu innovation continued in 2016 with the launch of a new Chicken Menu featuring the Chicken Buddy Burger and the Spicy Habanero Chicken Burger. The new chicken menu also features a new all-natural 7-grain bun made without preservatives and additives. The second quarter of 2016 also saw the introduction of the limited time offers Smoky BBQ Teen Burger & Smoky BBQ Double Teen Burger. All of these menu items continue to be very well received by Food Services' guests.

Food Services' strategic initiatives also include accelerating the pace of growth of new A&W restaurants, particularly in the key Ontario and Quebec markets. Seven new A&W restaurants were opened across the country in 2016 year to date, and twenty-three additional new restaurants are under construction or in varying stages of permitting and are expected to open in the coming months.

A third strategic initiative of Food Services is to deliver a great guest experience. This initiative includes the ongoing re-imaging and modernizing of our existing restaurants, and innovation in equipment, operating systems and technology. Including the new restaurants opened in the new design since the beginning of the re-image program, over 75% of A&W's restaurants now have the new design. Costs of re-imaging A&W restaurants are borne by the franchisees and there is no cost to the Fund.

### **FORWARD LOOKING INFORMATION**

Certain statements in this report contain forward-looking information within the meaning of applicable securities laws in Canada (forward-looking information). The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words.

The forward-looking information in this report includes, but is not limited to: expected future consideration receivable on adjustments to the Royalty Pool; Food Services' plans to reposition and differentiate A&W in the QSR industry through its use of natural ingredients, accelerating new restaurant growth, and delivering an industry leading guest experience; Food Services expects to have sufficient capital resources to fund the expansion of corporate restaurants.

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

amounts; no impact from new or increased sales taxes on gross sales; continued availability of key personnel; continued ability to preserve intellectual property; no material litigation from guests alleging food-related illness, injuries suffered on the premises or other food quality, health or operations concerns; Food Services continues to pay the Royalty; the Partnership continues to make distributions on its units; Trade Marks continues to pay dividends on the common shares; Trade Marks can continue to comply with its obligations under its credit arrangements; Trade Marks performance does not fluctuate such that cash distributions are affected.

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

All forward-looking information in this report is qualified in its entirety by this cautionary statement and, except as required by law, Food Services undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

**A&W Food Services of Canada Inc.**  
**Interim Condensed Consolidated Balance Sheet**  
**Unaudited**

(in thousands of dollars)

	Note	June 19 2016	January 3 2016
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 10,736	\$ 11,403
Accounts receivable		14,832	14,080
Dividends receivable	8	420	-
Inventories		4,221	4,778
Prepaid expenses		166	328
Income taxes recoverable		171	65
		<b>30,546</b>	<b>30,654</b>
<b>Non-current assets</b>			
Investment in A&W Trade Marks Inc.	4	58,082	45,345
Deferred income taxes		12,555	12,229
Plant and equipment		7,768	7,883
Other non-current assets	4	3,216	-
<b>Total assets</b>		<b>\$ 112,167</b>	<b>\$ 96,111</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 21,281	\$ 25,394
Royalties payable	8	2,658	3,062
Deposits on franchise and equipment sales		6,763	2,637
		<b>30,702</b>	<b>31,093</b>
<b>Non-current liabilities</b>			
Deferred gain	4	135,847	120,508
Supplementary retirement benefit plan		14,625	13,702
Other long-term liabilities		88	105
Obligations under finance leases		1,102	958
		<b>182,364</b>	<b>166,366</b>
<b>Shareholders' Deficiency</b>			
Share capital		10,500	10,500
Accumulated deficit		(81,299)	(80,971)
		<b>(70,799)</b>	<b>(70,471)</b>
<b>Non-controlling interest</b>			
		602	216
<b>Total deficiency</b>		<b>(70,197)</b>	<b>(70,255)</b>
<b>Total liabilities and deficiency</b>		<b>\$ 112,167</b>	<b>\$ 96,111</b>

These interim condensed financial statements have been prepared by and are the responsibility of management. As A&W Food Services of Canada Inc. is a private entity, the company's auditors have not performed a review of these financial statements.

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

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

(in thousands of dollars)

	12 week period ended Note Jun 19, 2016	12 week period ended Jun 14, 2015	24 week period ended Jun 19, 2016	24 week period ended Jun 14, 2015
<b>Revenue</b>				
Franchising	\$ 23,537	\$ 21,842	\$ 45,505	\$ 38,987
Corporate restaurants	3,283	3,158	6,352	5,988
	<b>26,820</b>	25,000	<b>51,857</b>	44,975
<b>Expenses (income)</b>				
Operating costs	8,689	8,685	18,092	14,965
General and administrative expenses	8,156	6,410	15,851	13,024
Royalty expense	8 7,922	7,474	15,046	13,780
Finance expense - net	6 153	140	301	279
Amortization of deferred gain	4 (370)	(322)	(740)	(642)
Share of income from A&W Trade Marks Inc.	4 (1,209)	(1,252)	(1,908)	(1,605)
	<b>23,341</b>	21,135	<b>46,642</b>	39,801
<b>Income before income taxes</b>	<b>3,479</b>	3,865	<b>5,215</b>	5,174
<b>Provision for (recovery of) income taxes</b>				
Current	540	625	736	793
Deferred	167	12	(129)	(170)
	<b>707</b>	637	<b>607</b>	623
<b>Net income for the period</b>	<b>\$ 2,772</b>	\$ 3,228	<b>\$ 4,608</b>	\$ 4,551
<b>Net income attributable to:</b>				
Shareholders of A&W Food Services of Canada Inc.	\$ 2,558	\$ 3,038	\$ 4,222	\$ 4,219
Non-controlling interest	214	190	386	332
	<b>\$ 2,772</b>	\$ 3,228	<b>\$ 4,608</b>	\$ 4,551

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

(in thousands of dollars)

	12 week period ended Jun 19, 2016	12 week period ended Jun 14, 2015	24 week period ended Jun 19, 2016	24 week period ended Jun 14, 2015
<b>Net income for the period</b>	<b>\$ 2,772</b>	\$ 3,228	<b>\$ 4,608</b>	\$ 4,551
<b>Other comprehensive income (loss)</b>				
<b>Items that will not be reclassified to net income</b>				
Actuarial gain (loss) on supplementary retirement benefit plan - net of tax	(280)	349	(550)	(290)
<b>Comprehensive income</b>	<b>\$ 2,492</b>	\$ 3,577	<b>\$ 4,058</b>	\$ 4,261
<b>Comprehensive income attributable to:</b>				
Shareholders of A&W Food Services of Canada Inc.	\$ 2,278	\$ 3,387	\$ 3,672	\$ 3,929
Non-controlling interest	214	190	386	332
	<b>\$ 2,492</b>	\$ 3,577	<b>\$ 4,058</b>	\$ 4,261

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

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

(in thousands of dollars)

	<b>Share capital</b>	<b>Accumulated deficit</b>	<b>Total</b>	<b>Non- controlling interest</b>	<b>Total deficiency</b>
<b>Balance - December 28, 2014</b>	\$ 10,500	\$ (82,295)	\$ (71,795)	\$ 204	\$ (71,591)
Net income for the period	-	4,219	4,219	332	4,551
Dividends on common shares	-	(3,500)	(3,500)	-	(3,500)
Actuarial loss on supplementary retirement benefit plan - net of tax	-	(290)	(290)	-	(290)
<b>Balance - June 14, 2015</b>	10,500	(81,866)	(71,366)	536	(70,830)
Net income for the period	-	6,262	6,262	440	6,702
Dividends on common shares	-	(5,500)	(5,500)	(760)	(6,260)
Actuarial gain on supplementary retirement benefit plan - net of tax	-	133	133	-	133
<b>Balance - January 3, 2016</b>	10,500	(80,971)	(70,471)	216	(70,255)
Net income for the period	-	4,222	4,222	386	4,608
Dividends on common shares	-	(4,000)	(4,000)	-	(4,000)
Actuarial loss on supplementary retirement benefit plan - net of tax	-	(550)	(550)	-	(550)
<b>Balance - June 19, 2016</b>	\$ 10,500	\$ (81,299)	\$ (70,799)	\$ 602	\$ (70,197)

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

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

**Unaudited**

(in thousands of dollars)

	<b>12 week period ended</b>	12 week	<b>24 week period ended</b>	24 week
<b>Note</b>	<b>Jun 19, 2016</b>	period ended Jun 14, 2015	<b>Jun 19, 2016</b>	period ended Jun 14, 2015
<b>Cash flows from operating activities</b>				
Net income for the period	\$ 2,772	\$ 3,228	\$ 4,608	\$ 4,551
Adjustments for				
Depreciation of plant and equipment	432	420	862	829
Deferred income taxes	167	12	(129)	(170)
Gain on disposal of plant and equipment	(13)	(39)	(22)	(51)
Supplementary retirement benefit plan	(38)	(41)	(76)	(91)
Decrease in other long-term liabilities	(9)	(6)	(17)	(15)
Amortization of deferred gain	4 (370)	(322)	(740)	(642)
Share of income of A&W Trade Marks Inc.	4 (1,209)	(1,252)	(1,908)	(1,605)
Current income tax expense	540	625	736	793
Income tax paid	(319)	(522)	(842)	(1,051)
Finance expense - net	153	140	301	279
Finance expense paid	(27)	(18)	(49)	(32)
Changes in items of non-cash working capital	7 898	1,172	(490)	(257)
<b>Net cash generated from operating activities</b>	<b>2,977</b>	<b>3,397</b>	<b>2,234</b>	<b>2,538</b>
<b>Cash flows from investing activities</b>				
Purchase of plant and equipment	(82)	(29)	(209)	(92)
Dividends from A&W Trade Marks Inc.	1,210	898	1,614	1,197
<b>Net cash generated from investing activities</b>	<b>1,128</b>	<b>869</b>	<b>1,405</b>	<b>1,105</b>
<b>Cash flows used in financing activities</b>				
Decrease in obligations under finance leases	(160)	(138)	(306)	(289)
Dividends paid to shareholder	(4,000)	(3,500)	(4,000)	(3,500)
<b>Net cash used in financing activities</b>	<b>(4,160)</b>	<b>(3,638)</b>	<b>(4,306)</b>	<b>(3,789)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(55)</b>	<b>628</b>	<b>(667)</b>	<b>(146)</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>10,791</b>	<b>9,714</b>	<b>11,403</b>	<b>10,488</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$ 10,736</b>	<b>\$ 10,342</b>	<b>\$ 10,736</b>	<b>\$ 10,342</b>
<b>Non-cash investing activities</b>				
Non-cash acquisition of automobiles through finance leases	\$ 371	\$ 307	\$ 613	\$ 411

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

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

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

June 19, 2016

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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 year to date period ended June 19, 2016, the Company opened seven locations and closed three locations, bringing the total number of A&W restaurants to 858, of which 849 are franchised and nine are owned and operated corporately. Food Services' registered offices are located at Suite 300 - 171 West Esplanade, North Vancouver, British Columbia, Canada.

## **2 Basis of preparation**

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as applicable to interim financial reports including International Accounting Standards (IAS) 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with Food Services' audited annual consolidated financial statements as at January 3, 2016.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of Food Services' annual consolidated financial statements for the year ended January 3, 2016.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors of Food Services on July 26, 2016.

## **3 Significant accounting policies**

### **Consolidation**

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

### **Fiscal year**

To align its financial reporting with the business cycle of its operations, the Company uses a fiscal year comprising a 52- or 53-week period ending the Sunday nearest December 31. The fiscal 2015 year was 53 weeks and ended January 3, 2016 (2014 - 52 weeks ended December 28, 2014). Beverages uses a fiscal year ending December 31. The second quarter ends 24 weeks after the fiscal year end.

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

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

June 19, 2016

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(figures in tables are expressed in thousands of dollars)

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

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

The Royalty Pool is adjusted annually to reflect sales from new A&W restaurants added to the Royalty Pool, net of the sales of any A&W restaurants that have permanently closed. Food Services is paid for the additional royalty stream related to the sales of the net new restaurants, based on a formula set out in the Amended and Restated Licence and Royalty Agreement. The formula provides for a payment to Food Services based on 92.5% of the amount of estimated sales from the net new restaurants and the current yield on the Units of the A&W Revenue Royalties Income Fund (the Fund), adjusted for income taxes payable by Trade Marks. The consideration is paid to Food Services in the form of additional partnership units (LP units). The additional LP units are, at the option of Food Services, exchangeable for additional common shares of Trade Marks which are in turn exchangeable for Units of the Fund on the basis of two common shares for one unit of the Fund. The consideration paid for the annual adjustment to the Royalty Pool is recorded by Food Services as an increase in its investment in Trade Marks, and an increase in the deferred gain. These additions to the deferred gain are amortized over the remaining term of the Amended and Restated Licence and Royalty Agreement from the date of addition.

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

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

## Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

June 19, 2016

(figures in tables are expressed in thousands of dollars)

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

	Common shares \$	Cumulative equity in earnings \$	Cumulative dividend \$	Total \$
Balance – December 28, 2014	35,498	14,387	(18,114)	31,771
January 5, 2015 adjustment to Royalty Pool	13,595	-	-	13,595
Equity in earnings	-	3,923	-	3,923
Dividends	-	-	(3,944)	(3,944)
Balance – January 3, 2016	49,093	18,310	(22,058)	45,345
January 5, 2016 adjustment to Royalty Pool	12,863	-	-	12,863
Equity in earnings	-	1,908	-	1,908
Dividends	-	-	(2,034)	(2,034)
Balance – June 19, 2016	<u>61,956</u>	<u>20,218</u>	<u>(24,092)</u>	<u>58,082</u>

The deferred gain as at June 19, 2016 is as follows:

	Number of restaurants in Royalty Pool	Deferred gain \$	Accumulated amortization \$	Net deferred gain \$
Balance – December 28, 2014	790	121,675	(13,346)	108,329
January 5, 2015 adjustment to Royalty Pool	24	13,595	-	13,595
Amortization of deferred gain	-	-	(1,416)	(1,416)
Balance – January 3, 2016	814	135,270	(14,762)	120,508
January 5, 2016 adjustment to Royalty Pool	24	16,079	-	16,079
Amortization of deferred gain	-	-	(740)	(740)
Balance – June 19, 2016	<u>838</u>	<u>151,349</u>	<u>(15,502)</u>	<u>135,847</u>

(figures in tables are expressed in thousands of dollars)

## 5 Expenses by nature

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

	<b>12 week period ended Jun 19, 2016</b>	12 week period ended Jun 14, 2015	<b>24 week period ended Jun 19, 2016</b>	24 week period ended Jun 14, 2015
	\$	\$	\$	\$
Depreciation of plant and equipment	432	420	862	829
Employee benefit costs				
Wages and salaries and other termination benefits	4,866	4,638	9,574	9,204
Pension costs - defined contribution plan	149	138	369	342
Pension costs - supplementary retirement benefit plan	54	52	108	94
Total employee benefit costs	5,069	4,828	10,051	9,639

## 6 Finance (income) expense

	<b>12 week period ended Jun 19, 2016</b>	12 week period ended Jun 14, 2015	<b>24 week period ended Jun 19, 2016</b>	24 week period ended Jun 14, 2015
	\$	\$	\$	\$
Interest income	(11)	(22)	(23)	(45)
Interest cost on supplementary retirement benefit plan	126	122	252	247
Finance leases	38	40	72	77
	153	140	301	279

## 7 Working capital

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

	<b>12 week period ended Jun 19, 2016</b>	12 week period ended Jun 14, 2015	<b>24 week period ended Jun 19, 2016</b>	24 week period ended Jun 14, 2015
	\$	\$	\$	\$
Accounts receivable	(240)	(2,800)	(752)	(66)
Inventories	(666)	(478)	557	(1,059)
Prepaid expenses	12	(171)	162	(170)
Accounts payable and accrued liabilities	(470)	1,659	(4,179)	(2,831)
Royalties payable	217	251	(404)	108
Deposits on franchise and equipment sales	2,045	2,711	4,126	3,761
	898	1,172	(490)	(257)

(figures in tables are expressed in thousands of dollars)

## 8 Related party transactions and balances

Royalty expense for the year to date period was \$15,046,000 (2015 - \$13,780,000), of which \$2,658,000 (January 3, 2016 - \$3,062,000) is payable to the Partnership at June 19, 2016. Royalty expense for the quarter was \$7,922,000 (2015 - \$7,474,000).

During the year to date period, Trade Marks declared dividends on common shares held by Food Services of \$2,034,000 (2015 - \$1,496,000), of which \$420,000 (January 3, 2016 - \$nil) is receivable at June 19, 2016. Dividends declared payable to Food Services during the quarter were \$1,226,000 (2015 - \$898,000).

During the year to date period, Food Services contracted with a private company controlled by certain shareholders and directors of Food Services, for rental of a private plane and crew for business travel. The cost of the services provided under the contract during the period were \$129,000 (2015 - \$279,000). At June 19, 2016, \$nil (January 3, 2016 - \$nil) is payable to the private company by Food Services. The cost of services provided during the quarter were \$64,000 (2015 - \$192,000).

During the year to date period, Food Services paid \$125,000 (2015 - \$100,000) to a professional baseball club, of which a shareholder, director and officer of Food Services is a part owner, in exchange for advertising the A&W brand at the ballpark. At June 19, 2016, \$nil (January 3, 2016 - \$nil) is payable to the baseball club by Food Services. The amount paid during the quarter was \$125,000 (2015 - \$nil).

Food Services maintains an advertising fund that is supported by prescribed contributions from corporate and franchise restaurants. The advertising fund paid \$218,000 (2015 - \$293,000) to Food Services during the year to date period for marketing, promotional and administrative services provided to the advertising fund. The amount paid by the advertising fund to Food Services during the quarter was \$110,000 (2015 - \$147,000). At June 19, 2016, the advertising fund had a deficit balance of \$1,557,000 which is included in accounts receivable (January 3, 2016 – surplus balance of \$85,000 included in accounts payable).

### Key management compensation

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

	<b>12 week period ended Jun 19, 2016</b>	12 week period ended Jun 14, 2015	<b>24 week period ended Jun 19, 2016</b>	24 week period ended Jun 14, 2015
	\$	\$	\$	\$
Salaries, bonuses and other short-term employee benefits	675	642	1,366	1,305
Pension costs - defined contribution plan	38	53	119	106
Pension costs - supplementary retirement benefit plan	180	173	360	340
Total	<u>893</u>	<u>868</u>	<u>1,845</u>	<u>1,751</u>

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



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