

A&W Food Services of Canada Inc.

Q3/2024

**Interim Condensed Consolidated
Financial Statements**

For the third quarter ended
September 8, 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 September 8, 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 third quarter period from June 17, 2024 to September 8, 2024 and the year to date period from January 1, 2024 to September 8, 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 third quarter and year to date period ended September 8, 2024. This report is dated October 11, 2024 and should be read in conjunction with the unaudited interim condensed consolidated financial statements of Food Services for the 12 weeks ended and 36 weeks ended September 8, 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 or www.awincomefund.ca.

Glossary

A&W	Financial and operating results of Food Services and Beverages
Beverages	A&W Root Beer Beverages of Canada Inc.
Consolidated Financial Statements	Consolidated financial statements which include the accounts of Food Services and its 60% ownership interest in Beverages
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.

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 and 36 weeks ended September 8, 2024 are compared to the 12 weeks and 36 weeks ended September 10, 2023 so that the two years are comparable. References to year to date amounts in this report are in respect of the period from January 1, 2024 to September 8, 2024.

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 Accounting Standard (“IAS”) 34, Interim Financial Reporting. 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 which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards", or "IFRS").

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 September 8, 2024	12-week period ended September 10, 2023	36-week period ended September 8, 2024	36-week period ended September 10, 2023
System Sales ⁽ⁱ⁾	\$465,104	\$463,284	\$1,291,682	\$1,275,504
System Sales Growth ⁽ⁱⁱ⁾	0.4%	2.8%	1.3%	4.8%
Same Store Sales Growth - Franchised Restaurants ⁽ⁱⁱⁱ⁾	-1.0%	1.1%	0.0%	3.0%
New A&W restaurants opened	10	2	19	10
A&W restaurants permanently closed	3	2	4	8
Number of A&W restaurants	1,069	1,048	1,069	1,048
Gross sales reported by A&W restaurants in the Royalty Pool ⁽ⁱⁱⁱ⁾	\$458,078	\$456,842	\$1,275,348	\$1,263,908
Royalty Pool Same Store Sales Growth ⁽ⁱⁱⁱ⁾	-1.0%	1.1%	0.0%	3.0%
Number of restaurants in the Royalty Pool	1,047	1,037	1,047	1,037
Revenue from franchising	\$69,940	\$59,215	\$181,986	\$180,800
Revenue from corporate restaurants	6,061	5,438	17,117	15,633
Total revenue	76,001	64,653	199,103	196,433
Operating costs and general and administrative expenses	(56,724)	(41,559)	(141,658)	(133,635)
Depreciation of plant, equipment, intangible assets and right-of-use assets	1,440	1,260	4,191	3,221
Operating Earnings ⁽ⁱ⁾	20,717	24,354	61,636	66,019
Royalty expense	(13,742)	(13,705)	(38,260)	(37,818)
Income before taxes	8,968	12,926	28,989	34,862
Net income	\$6,486	\$9,456	\$22,791	\$28,128

⁽ⁱ⁾ "System Sales" and "Operating Earnings" are non-IFRS financial measures. Refer to the tables below for reconciliations of these measures to the most comparable IFRS measures and the "Non-IFRS Measures" section of this report for further details on how these measures are used to assess Food Services' performance.

⁽ⁱⁱ⁾ "System Sales Growth" is a non-IFRS ratio and is calculated as the change in "System Sales", a non-IFRS financial measure. Refer to the table below for a reconciliation of "System Sales" to the most comparable IFRS measure and the "Non-IFRS Measures" section of this report for further details on how "System Sales Growth" is calculated and used to assess Food Services' performance.

(iii) “Same Store Sales Growth – Franchised Restaurants”, “Gross sales reported by A&W restaurants in the Royalty Pool”, “Royalty Pool Same Store Sales Growth”, are non-IFRS supplementary financial measures. Refer to the “Non-IFRS Measures” section of this report for further details on how these measures are calculated and used to assess Food Services’ performance.

The following table provides a reconciliation of “System Sales” to “Revenue from corporate restaurants”, the most comparable IFRS measure, for the periods indicated.

(dollars in thousands)	12-week period ended September 8, 2024	12-week period ended September 10, 2023	36-week period ended September 8, 2024	36-week period ended September 10, 2023
Revenue from corporate restaurants	\$6,061	\$5,438	\$17,117	\$15,633
Sales reported by franchised restaurants	459,043	457,846	1,274,565	1,259,871
System Sales	\$465,104	\$463,284	\$1,291,682	\$1,275,504

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

(dollars in thousands)	12-week period ended September 8, 2024	12-week period ended September 10, 2023	36-week period ended September 8, 2024	36-week period ended September 10, 2023
Income before income taxes	\$8,968	\$12,926	\$28,989	\$34,862
Depreciation of plant, equipment, intangible assets and right-of-use assets	1,440	1,260	4,191	3,221
Royalty expense	13,742	13,705	38,260	37,818
Finance expense - net	233	300	1,067	950
Amortization of deferred gain	(880)	(853)	(2,641)	(2,560)
Share of income from associates	(2,786)	(2,984)	(8,230)	(8,272)
Operating Earnings	\$20,717	\$24,354	\$61,636	\$66,019

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. 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 and 36-week periods ended September 8, 2024 and September 10, 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 year to date

periods and third quarters ending September 8, 2024 and September 10, 2023 and is based on an equal number of days in each reporting period. This measure is a key performance indicator for Trade Marks and the Fund, both of which Food Services has investments in, and is also a key driver of the royalty expense as it highlights the performance of the existing A&W restaurants in the Royalty Pool.

Same Store Sales Growth – Franchised Restaurants

Same Store Sales Growth – Franchised Restaurants⁽ⁱⁱⁱ⁾ for the third quarter of 2024 was -1.0% as compared to the third quarter of 2023. Same Store Sales Growth – Franchised Restaurants⁽ⁱⁱⁱ⁾ for the 36-week period ended September 8, 2024 was nil as compared to the comparable period in 2023. Same Store Sales Growth – Franchised Restaurants is a function of changes in guest counts and check size, which are impacted by party size, menu prices and menu mix and changes in consumers discretionary spending.

The Same Store Sales Growth – Franchised Restaurants⁽ⁱⁱⁱ⁾ of -1.0% for the third quarter and nil for the 36-week period is a product of a decrease in guest counts partially offset by an increase in average check size due in part to industry-wide inflation on goods, services, and labour. The decrease in guest counts reflects A&W's proportionate share of an overall decline in traffic at burger quick service restaurants ("QSR") across Canada. Food Services believes the decline in traffic at A&W restaurants and burger QSR more generally is attributable to increased interest rates and inflation, along with market uncertainty, 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.

⁽ⁱⁱⁱ⁾ "Same Store Sales Growth – Franchised Restaurants" is a non-IFRS supplementary financial measure. Refer to the "Non-IFRS Measures" section of this report for further details on how this measure is calculated and used to assess Food Services' performance.

System Sales

System Sales⁽ⁱ⁾ for the third quarter of 2024 were \$465,104,000, an increase of 0.4% or \$1,820,000 from the third quarter of 2023. System Sales⁽ⁱ⁾ for the 36-week period ended September 8, 2024 were \$1,291,682,000 an increase of 1.3% or \$16,178,000 from the comparable period in 2023. The increase in System Sales is a product the Same Store Sales Growth – Franchised Restaurants discussed and the net addition of new restaurants. See "New Restaurant Openings and Permanent Restaurant Closures" and "Financial Highlights" for further information.

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

New Restaurant Openings and Permanent Restaurant Closures

Year to date Food Services opened nineteen new A&W restaurants, ten of which were opened during the third quarter of 2024. This compares to ten new A&W restaurants opened during the year to date period ended September 10, 2023 and two openings in the third quarter of 2023. Four restaurants were permanently closed in the year to date period of 2024, three of which closed in the third quarter, versus eight permanent closures in the 2023 year to date period, two of which were in the third quarter of 2023. As at September 8, 2024, there were 1,069 A&W restaurants in Canada, of which 1,059 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 currently 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.

STRATEGIC COMBINATION WITH THE FUND

The Fund and Food Services entered into a combination agreement (the "Combination Agreement") on July 21, 2024 whereby Food Services will be amalgamated with certain holding companies to form A&W Food Services Newco, a new publicly-traded company, and will acquire all of the Fund's Trust Units (the "Transaction"). The Transaction is structured as a statutory plan of arrangement under the *Canada Business Corporations Act*.

Under the terms of the Transaction, each of the Fund's unitholders (the "Unitholders") (other than Food Services and its affiliates) could elect to receive in exchange for each Unit (i) \$37.00 in cash (the "Cash Consideration"), (ii) one common share in A&W Food Services NewCo (the "Share Consideration"), or (iii) a combination of 32.54277% of the Cash Consideration (being \$12.040825) and 67.45723% of the Share Consideration (being 0.6745723 of a share in A&W Food Services NewCo) (the "Combination Consideration"). The elections of Unitholders to receive Cash Consideration or Share Consideration were subject to proration in the event that Unitholders elected, in the aggregate, to receive more or less than \$175,600,000 in cash consideration, such that in all cases, a total of 4,746,582 Units would be purchased for cash at \$37.00 per Unit, representing approximately 32.5% of the outstanding Units (other than Units held by Food Services). Based on valid elections made prior to the election deadline on October 4, 2024, Unitholders who elected Cash Consideration and Combination Consideration will not be subject to proration and Unitholders who elected, or were deemed to elect, Share Consideration will receive Cash Consideration in respect of approximately 2.7% of their Units and Share Consideration for the balance as a result of proration. Upon completion of the Transaction, the Fund will be a wholly owned subsidiary of A&W Food Services NewCo.

In addition, Unitholders will be entitled to receive a distribution in an amount per Unit equal to \$1.92 multiplied by a fraction, the numerator of which is the number of days between (a) the payment date of the last monthly distribution in respect of the Units for which the payment date occurs prior to the closing of the Transaction and (b) the closing of the Transaction, and the denominator of which is 365, so that, in

effect, Unitholders receive the monthly distribution for the month in which the closing of the Transaction occurs, prorated for the number of days up to closing of the Transaction. Unitholders electing to receive the Combination Consideration will not be subject to further proration.

On October 8, 2024, subsequent to the quarter ended September 8, 2024, a special meeting of the Unitholders was held, and the Transaction was approved by Unitholders.

On October 11, 2024, the Ontario Superior Court of Justice (Commercial List) issued a final order approving the plan of arrangement under the Canada Business Corporations Act in respect of the Transaction.

Completion of the Transaction remains subject to the satisfaction or waiver of certain customary closing conditions. The Transaction will become effective after the close of business on October 17, 2024 (the “Effective Date”), subject to the terms and conditions of the combination agreement in respect of the Transaction, all of which have been or are expected to be satisfied by or on such date, and the filing of articles of arrangement in respect of the Transaction. It is expected that (a) the Units will be delisted from the Toronto Stock Exchange (“TSX”) after the close of business on the Effective Date, (b) the common shares of A&W Food Services Newco will be listed (but not yet posted for trading) on the TSX after the close of business on the Effective Date, and (c) the common shares of A&W Food Services Newco will be posted and begin trading on the TSX at the open of business on October 18, 2024 under the symbol “AW”.

If the Transaction is not completed for any reason, Unitholders will not receive the Share Consideration, the Cash Consideration or the Combination Consideration for any of their Units, the Fund will remain a reporting issuer and the Units will continue to be listed and traded on the TSX. If in the event of a termination of the Combination Agreement prior to consummation of the Transaction, under certain circumstances, the Fund will be required to pay to Food Services a termination fee of \$17,800,000 (the “Termination Fee”). The Combination Agreement also provides for expense reimbursement of \$4,000,000 payable by the Fund to Food Services or Food Services to the Fund, as applicable (less, in the case of reimbursement by Food Services, the amount of expenses of the Fund previously reimbursed by Food Services) in certain circumstances if the Transaction is not completed and the Combination Agreement is terminated. In certain circumstances, the Combination Agreement also requires the Fund to repay to Food Services certain expenses of the Fund previously reimbursed by Food Services pursuant to a cost sharing agreement (the “Expense Agreement”) that the Fund and Food Services entered into on February 2, 2024.

Food Services had capitalized \$8,152,000 in costs related to the Transaction as at September 8, 2024 (December 31, 2023 - \$nil) including \$1,340,000 in costs that Food Services paid on behalf of the Fund and Trade Marks in accordance with the Expense Agreement. Of the \$8,152,000 capitalized, \$1,023,000 was paid during the year to date period and quarter ended September 8, 2024 and the remaining \$7,129,000 is included in accounts payable and accrued liabilities as at September 8, 2024 (2023 - \$nil). Additional costs related to the Transaction, totaling \$292,000, are included in General and Administrative Expenses for the year to date period and quarter ended September 8, 2024 (2023 - \$nil). As at September 8, 2024, Food Services had incurred an additional \$2,500,000 in advisory fees related to the Transaction that are contingent on completion of the Transaction (December 31, 2023 - \$nil).

For further information regarding the Transaction, please refer to the Fund’s management information circular dated August 29, 2024 (the “**Circular**”) available on the Fund’s SEDAR+ profile at www.sedarplus.ca.

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 September 8, 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 ⁽¹⁾	-	-	(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 ⁽²⁾	-	-	(0.9)	436,058	6,646	0.9	436,058	6,646
Balance as at September 8, 2024	32,185,311	227,798	78.1	9,016,899	128,995	21.9	41,202,210	356,793

⁽¹⁾ 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.

⁽²⁾ The number of common shares does not include any LP units exchangeable for common shares of Trade Marks in respect of the remaining consideration payable to Food Services for the January 5, 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 September 8, 2024 and December 31, 2023 on a fully-diluted basis, where the ownership of the Fund as at September 8, 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.

	September 8, 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 ⁽¹⁾	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 ⁽²⁾	4,562,957	22.1	4,290,421	21.0
Total equivalent units	20,655,650	100.0	20,383,114	100.0

⁽¹⁾ Limited Voting Units in the Fund held by Food Services may be exchanged for Units on the basis of one Limited Voting Unit for one Unit.

⁽²⁾ Common shares of Trade Marks held by Food Services may be exchanged for Trust Units on the basis of two common shares for one Trust Unit.

Q3 2024 Operating Results

Revenue

Food Services' franchising and corporate restaurants revenue for the third quarter of 2024 was \$76,001,000 compared to franchising and corporate revenue for the third quarter of 2023 of \$64,653,000, an increase of \$11,348,000. Year to date total revenue was \$199,103,000 compared to \$196,433,000, an increase of \$2,670,000. The increase in franchising revenue is driven by the increase in the number of new A&W restaurants that were opened in the third quarter and year to date period. Food Services opened eight more restaurants in the third quarter of 2024 as compared to the third quarter of 2023 and nine more in the 2024 year to date period as compared to the comparable period in 2023. The increase in franchising revenue related to the new restaurants was partially offset by a reduction in revenue generated from equipment sales to existing restaurants.

Franchising revenue from service fees, contributions to the National Advertising Fund and revenue generated from the distribution of food and supplies, all of which increase as System Sales increase, have increased year over year. The National Advertising Fund is funded by all franchised and corporate A&W restaurants, with contributions based on a percentage of sales, and is recorded as Food Services' revenue with a corresponding offset in operating expenses as described below.

Corporate restaurant System Sales were \$6,061,000 for the third quarter of 2024 compared to \$5,438,000 for the third quarter of 2023 and \$17,117,000 in the 2024 year to date period compared to \$15,633,000 in the 2023 year to date period. The \$623,000 increase for the quarter and \$1,484,000 increase year to date reflect stronger sales performance from the corporately owned A&W restaurants and the sales from the first standalone Pret restaurant which opened in Q1 2024.

Operating costs and general and administrative expenses

Operating costs for the third quarter of 2024 were \$43,896,000 compared to \$30,737,000 for the third quarter of 2023, an increase of \$13,159,000. Year to date operating costs were \$102,257,000 compared to \$99,482,000 for 2023 year to date, an increase of \$2,775,000. In line with the increase in revenue from the new restaurants opened noted above, operating costs have increased due to an increase in the associated construction costs incurred by Food Services to build turnkey restaurants and the additional volume of equipment sold to new restaurants. An increase in advertising expenses incurred by the National Advertising Fund, which is partially attributable to a timing difference of when costs were incurred, have also contributed to the increase in operating costs in both the quarter and year to date period. These increases were partially offset by a reduction in the volume of A&W Brew Bar™ equipment purchased by Food Services and sold to franchisees, as noted above in the "Revenue" section.

™ trademark of the Partnership, used under licence.

General and administrative expenses represent costs of providing services to franchised restaurants and establishing new restaurants, and were \$12,828,000 for the third quarter of 2024 compared to \$10,822,000 for the third quarter of 2023, an increase of \$2,006,000. Year to date general and administrative expenses were \$39,401,000 compared to \$34,153,000 for 2023 year to date, an increase of \$5,248,000. General and administrative expenses include depreciation of plant, equipment, intangible assets and right-of-use assets which has collectively increased \$970,000 in the year to date period, and \$180,000 in the third quarter, as compared to comparable periods in 2023. The increase in depreciation is primarily a result of amortization on intangibles which amounted to \$1,138,000 in the 2024 year to date period (2023 – \$303,000) and \$448,000 in the third quarter of 2024 (Q3 2023 - \$303,000). The remaining year to date increase in general and administrative expenses is primarily attributable to inflationary increases as well as costs for the A&W

National Convention, which was held in the second quarter of 2024 for the first time post the COVID-19 pandemic. As normal course, the National Convention is held only every two years.

Operating Earnings

(dollars in thousands)	12-week period ended September 8, 2024	12-week period ended September 10, 2023	36-week period ended September 8, 2024	36-week period ended September 10, 2023
Operating Earnings ⁽ⁱ⁾	\$20,717	\$24,354	\$61,636	\$66,019

Operating Earnings⁽ⁱ⁾ decreased by \$3,637,000 to \$20,717,000 for the third quarter of 2024 and decreased by \$4,383,000 to \$61,636,000 on a year to date basis. The decrease in Operating Earnings for the third quarter and year to date period is primarily attributable to timing differences related to the National Advertising Fund in which the advertising expenses exceeded contributions by \$3,325,000 in the third quarter of 2024 (\$nil impact on Operating Earnings in 2023). Operating Earnings for the year to date period also decreased as a result of the National Conference which took place in the second quarter of 2024 and is only held every two years. 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 third quarter of 2024 was \$13,742,000 compared to \$13,705,000 for the third quarter of 2023. Year to date, royalty expense for 2024 was \$38,260,000 compared to \$37,818,000 for 2023. The increase in royalty expense is attributable to the increase in Gross sales reported by A&W restaurants in the Royalty Pool which is a product of the 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 the year to date period in 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 September 10, 2023 whereas the royalty expense is based on Gross sales reported by A&W restaurants in the Royalty Pool from January 2, 2023 to September 10, 2023 due to Food Services having a floating year-end. The year to date 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 September 8, 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 – Leases 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 has recorded an expected credit loss

provision on leases receivable of \$1,779,000 as at September 8, 2024 (December 31, 2023 – \$1,779,000). Food Services did not recognize an impairment loss or recovery of impairment in the third quarter or year to date period in 2024 or 2023.

Finance expense - net

(dollars in thousands)	12-week period ended September 8, 2024	12-week period ended September 10, 2023	36-week period ended September 8, 2024	36-week period ended September 10, 2023
Net interest expense (income)	\$(93)	\$(4)	\$123	\$37
Standby fees	26	24	44	61
Interest cost on supplementary retirement benefit plan	113	113	339	339
Interest income on lease receivables	(5,769)	(5,439)	(16,928)	(15,885)
Interest expense on lease liabilities	5,956	5,597	17,489	16,365
Amortization of deferred financing fees	-	9	-	33
	\$233	\$300	\$1,067	\$950

Finance expense - net for the third quarter of 2024 decreased by \$67,000 from the third quarter of 2023 and increased by \$117,000 on a year to date basis. The year to date increase in net interest expense is attributable to higher interest rates and a larger average balance on the operating loan during the first two quarters of 2024 as compared to the first two quarters of 2023. The decrease in net interest expense for the quarter is attributable to a lower average balance on the operating loan during the third quarter of 2024 as compared to the third 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 as new restaurants are opened and leases are renewed.

Food Services' share of income from associates

As a result of the annual adjustment to the Royalty Pool and the exchange rights granted under the Amended and Restated Declaration of Trust and the Amended and Restated Exchange Agreement, Food Services owns common shares of Trade Marks and as a result of Food Services exchanging common shares of Trade Marks for Limited Voting Units, Food Services also has direct ownership in the Fund. These investments are accounted for as investments in associates and are recorded using the equity method. As at September 8, 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 September 8, 2024 (28.4% as at December 31, 2023).

Food Services' share of income from associates for the third quarter of 2024 totaled \$2,786,000 compared to \$2,984,000 for the third quarter of 2023. The share of income from associates for the year to date period in 2024 totaled \$8,230,000 compared to \$8,272,000 for the year to date period in 2023. The decrease in the quarter and year to date period is attributable to a decrease in the earnings of Trade Marks and the Fund due to recognizing an unrealized loss on interest rate swaps of \$1,206,000 in the third quarter of 2024 (Q3 2023 – gain of \$116,000) and an unrealized loss on interest rate swaps of \$1,301,000 in the 2024 year to date

period (2023 – gain of \$704,000). The impact from the unrealized losses on the interest rate swaps was partially offset by higher royalty income arising from increased Gross sales reported by A&W restaurants in the Royalty Pool and the increase in Food Services’ ownership of Trade Marks as a result of the 2024 annual adjustment to the Royalty Pool that took place on January 5, 2024. See “Annual Adjustment to the Royalty Pool”.

⁽ⁱ⁾ “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)	12-week period ended September 8, 2024	12-week period ended September 10, 2023	36-week period ended September 8, 2024	36-week period ended September 10, 2023
Operating Earnings ⁽ⁱ⁾	\$20,717	\$24,354	\$61,636	\$66,019
Royalty expense	(13,742)	(13,705)	(38,260)	(37,818)
Finance expense – net	(233)	(300)	(1,067)	(950)
Depreciation of plant, equipment, intangible assets and right-of-use assets	(1,440)	(1,260)	(4,191)	(3,221)
Amortization of deferred gain	880	853	2,641	2,560
Share of income from associates	2,786	2,984	8,230	8,272
Income before income taxes	8,968	12,926	28,989	34,862
Provision for income taxes	2,482	3,470	6,198	6,734
Net income for the period	\$6,486	\$9,456	\$22,791	\$28,128

The \$3,958,000 decrease in income before income taxes for the third quarter is primarily attributable to the \$3,637,000 decrease in Operating Earnings and the \$198,000 decrease in share of income from associates. The \$5,873,000 decrease in income before income taxes for the year to date period is primarily attributable to the \$4,383,000 decrease in Operating Earnings and the \$835,000 increase in amortization of intangibles. The decrease in the provision for income taxes reflects a decrease in taxable income.

⁽ⁱ⁾ “Operating Earnings” is a non-IFRS financial measure. Refer to the tables in the “Selected Information” section for a reconciliation of this measure to the most comparable IFRS measure and the “Non-IFRS Measures” section of this report for further details on how this measure is used to assess Food Services’ performance.

Net income attributable to non-controlling interests

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

Other comprehensive income

Other comprehensive income consists of actuarial gains and losses, net of tax, on the supplementary retirement benefit plan. Actuarial gains result from an increase in the discount rate used to determine the accrued benefit obligation and actuarial losses result from a decrease in the discount rate. Year to date, there was an actuarial gain, net of tax, of \$124,000 recognized in 2024 versus an actuarial loss, net of tax,

of \$3,000 in 2023. An actuarial loss, net of tax, of \$161,000 was recognized in the third quarter of 2024 (Q3 2023 – gain of \$116,000).

Liquidity and Capital Resources

Food Services is primarily a franchise business with 1,059 of its 1,069 (as at September 8, 2024) A&W restaurants franchised. Food Services' capital requirements are related to its ten corporate A&W restaurants, one stand-alone Pret restaurant 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 and to continue development of the A&W mobile app. Food Services expects to have sufficient capital resources to fund these capital requirements and has sufficient cash on hand to meet its obligations. During the first quarter of 2024 Food Services opened its first corporately owned and operated Pret stand-alone location however, future expansion of Pret restaurants is expected to be accomplished under the franchise model where the capital obligations are taken on by the franchisee awarded the location.

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. On May 15, 2024, Food Services extended its facility for a period of one year. The operating loan facility matures on May 31, 2025. Under the amended facility account overdrafts 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 bankers acceptances ("BAs"), the 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 facility.

Amounts under the facility can be advanced in the form of an account overdraft or in the form of CORRA loans and are repayable on demand. The operating loan facility contains covenants including the requirement to meet certain debt to earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) ratios and debt to Food Services' investment in Trade Marks ratios during each trailing four quarter period. Food Services is also required to pledge 5,000,000 Trade Marks common shares. Food Services was in compliance with all of its financial covenants as at September 8, 2024 and December 31, 2023.

As at September 8, 2024, Food Services had drawn \$nil 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 \$39,802,000 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 year to period ended September 8, 2024 was \$38,260,000 (2023 - \$37,818,000), of which \$4,474,000 (December 31, 2023 - \$4,094,000) is payable to the Partnership at September 8, 2024 and was paid to the Partnership on October 3, 2024, subsequent to the period end. Royalty expense for the quarter was \$13,742,000 (2023 - \$13,705,000).

During the year to date period ended September 8, 2024, Trade Marks declared eight dividends payable to Food Services totaling \$5,771,000 (2023 - \$5,353,000) as a result of Food Services' ownership of Trade Marks' common shares. The eighth dividend amounted to \$721,000 and was declared on September 6, 2024 but paid to Food Services, subsequent to the period end, on September 27, 2024 and is therefore reported as a current asset as at September 8, 2024 (December 31, 2023 – \$nil). During the quarter Trade Marks declared three dividends payable to Food Services totaling \$2,164,000 (2023 - \$2,007,000).

During the year to date period ended September 8, 2024, the Fund declared eight distributions payable to Food Services totaling \$1,929,000 (2023 – \$1,929,000) as a result of Food Services' ownership of Limited Voting Units. The eighth distribution amounted to \$241,000 and was declared on September 6, 2024 but paid to Food Services, subsequent to the period end, on September 27, 2024 and is therefore reported as a current asset as at September 8, 2024 (December 31, 2023 – \$241,000). During the quarter the Fund declared three distributions payable to Food Services totaling \$723,000 (2023 - \$723,000).

During the period ended September 8, 2024, Food Services declared nine dividends totaling \$17,700,000 (2023 - \$16,282,000) from working capital to its shareholder. The ninth dividend amounted to \$962,000 and was declared on September 6, 2024 but paid on October 1, 2024, subsequent to the period end, and is therefore reported as a current liability as at September 8, 2024 (December 31, 2023 – \$nil). During the quarter Food Services declared three dividends totaling \$2,887,000 (2023 - \$2,370,000).

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 year to date period ended September 8, 2024, Food Services recognized \$143,000 (2023 - \$143,000) as an offset to general and administrative expenses related to administrative services provided to Trade Marks. During the quarter, Food Services recognized \$48,000 as an offset to general and administrative expenses related to administrative services provided to Trade Marks (2023 - \$48,000).

Other related party transactions and balances are referred to elsewhere in this report, including, without limitation, under the headings "Strategic Combination with the Fund", "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

The business of Food Services is subject to a number of risks and uncertainties, including, among others, the risks identified in the Circular under the headings "*Information Concerning A&W Food Services NewCo After Giving Effect to the Transaction – Risk Factors*" and "*Risk Factors*". Certain of the material risks related to Food Services' business (including those generally impacting the QSR industry) identified in the Circular are expressed from the perspective of Food Services and, consequently, their impact on the financial, condition, performance or prospects of Food Services' business and the market price or value of the shares of A&W Food Services NewCo following completion of the Transaction or the amount of any dividend paid on those shares. Prior to completion of the Transaction, Unitholders will be exposed to each of the risks related to Food Services' business, which risks could materially and adversely impact the royalty and Food Services' ability to pay such royalty to the Fund.

In addition, Food Services will continue to be exposed to certain risks and uncertainties identified in the Fund's annual information form dated February 27, 2024 (the "AIF") under the heading "*Risk Factors*". The Circular and the AIF are available on the Fund's SEDAR+ profile at www.sedarplus.ca. Additional risks and uncertainties not currently known to Food Services or that are currently not considered to be material also may impair Food Services' business.

Outlook

In 2024 A&W has experienced a continuation of the challenging general economic conditions that arose post pandemic. Changes in interest rates, rates of inflation and consumer confidence have resulted in diminishing disposable income and 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 growth of market share.

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, Food Services was very excited to be the first national burger chain in Canada to offer a 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.

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™. The A&W Brew Bar™ offers a variety of frozen beverages as well as hot and cold espresso-based beverages. The A&W Brew Bar™ is now available in over 675 A&W restaurants across the country and the roll out is substantially complete.

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™” nationwide in late 2023, an exchangeable cup program, which has a goal of saving over one million cups from landfill.

A&W also continues to innovate to serve guests even more conveniently with the launch of a new A&W mobile app in June 2023. The new app allows guests to receive exclusive offers, easily customize their order and provides various guests the choice 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. Nineteen new A&W restaurants opened in 2024, ten of which were in the third quarter of 2024, and an additional twenty restaurants were under construction as at September 8, 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 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 May 27, 2024 Food Services announced that Food Services and Pret A Manger (Europe) Limited had agreed on a long term development plan to expand the Pret brand across Canada. Under the development plan Food Services retains the exclusive master franchisor rights to Canada for the Pret brand and will continue to increase the number of physical locations offering Pret products across Canada over an initial ten-year development term. Pret's products will be introduced to Canadian consumers in a variety of carefully selected formats, beginning with the national roll out of Pret coffee in A&W restaurants.

As at September 8, 2024, Food Services was operating one standalone Pret location that was opened in January 2024 in Toronto and there was one A&W franchised location in Toronto that was offering a range of Pret products in its restaurant. As at September 8, 2024, there were another 17 A&W locations across the country offering Pret coffee and pastries. On September 23, 2024, Food Services announced that all A&W locations in Canada were now serving Pret coffee.

The royalty payable to the Fund applies to Pret products sold within A&W restaurants to the extent that such restaurants are in the Royalty Pool. 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; expectations relating to the timing and completion of the Transaction and the impact that the Transaction will have on Food Services’ operations and financial statements; the consequences to Food Services and the Unitholders if the Transaction is not completed; the de-listing of the Units from the TSX and the listing of the common shares of A&W Food Services NewCo on the TSX, including the timing thereof; 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 grow; having sufficient cash on hand to meet future obligations; statements regarding future adjustments to the Royalty Pool, including the remaining consideration payable to Food Services for the January 5, 2024 adjustment 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 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 continue to develop the mobile app 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 expansion of the Pret brand across Canada and the rollout of additional Pret products; expectations to be able to Franchise any future Pret expansion; 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:

- the Fund’s ability to consummate the Transaction on the terms and conditions and timing currently contemplated;
- 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 or Pret 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 or Pret restaurants;
- Food Services continues to pay the royalty;
- Food Services can continue to comply with its obligations under its credit arrangements;
- Trade Marks can continue to comply with its obligations and covenants under its credit arrangements;
- the Fund will receive sufficient revenue in the future (in the form of royalty payments from Food Services) to maintain the payment of monthly distributions;
- the projections for the A&W business provided by Food Services are accurate; and
- Food Services will be successful in executing on its business strategies and such strategies will achieve their intended results.

Inherent in forward-looking information are risks and uncertainties beyond management's or Food Services' ability to predict or control that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. The forward-looking information in this report is subject to risks, uncertainties and other factors including, among others, the risks identified in the Circular under the headings "*Information Concerning A&W Food Services NewCo After Giving Effect to the Transaction – Risk Factors*" and "*Risk Factors*". Certain of the material risks related to Food Services' business (including those generally impacting the QSR industry) identified in the Circular are expressed from the perspective of Food Services and, consequently, their impact on the financial, condition, performance or prospects of Food Services' business and the market price or value of the shares of A&W Food Services NewCo following completion of the Transaction or the amount of any dividend paid on those shares.

In addition, Food Services will continue to be exposed to certain risks and uncertainties identified in the AIF under the heading "*Risk Factors*". The Circular and the AIF are available on the Fund's SEDAR+ profile at www.sedarplus.ca. Additional risks and uncertainties not currently known to Food Services or that are currently not considered to be material also may impair Food Services' business.

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 36-week period ended September 8, 2024

with comparative figures

For the 36-week period ended September 10, 2023

(in thousands of dollars)

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

(in thousands of dollars)

	Note	September 8, 2024	December 31, 2023
Assets			
Current assets			
Cash and cash equivalents		\$ 19,642	\$ 3,808
Accounts receivable		39,419	40,122
Dividends and distributions receivable	12	962	241
Leases receivable	4	32,818	31,608
Inventories		19,816	14,439
Prepaid expenses		3,178	4,276
Other assets	6	1,661	-
Income taxes recoverable		472	3,945
		117,968	98,439
Non-current assets			
Investments in associates	6	177,005	169,828
Other receivables		3,765	2,051
Deferred income taxes		25,063	27,386
Right-of-use assets	4	18,819	20,085
Leases receivable	4	595,727	585,255
Plant and equipment		9,229	11,405
Intangible assets	5	5,822	6,322
Other assets	6	8,152	-
Total assets		\$ 961,550	\$ 920,771
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 58,484	\$ 44,544
Operating loan facility	7	-	15,726
Royalties payable	12	4,474	4,094
Dividends payable	12	962	-
Lease liabilities	4	35,061	33,923
Deposits on franchise and equipment sales		30,540	11,581
Deferred revenue		2,593	2,535
		132,114	112,403
Non-current liabilities			
Deferred gain	6	291,100	285,434
Deferred revenue		29,824	28,456
Lease liabilities	4	614,967	605,708
Supplementary retirement benefit plan		10,792	11,232
Other long-term liabilities		19	19
		1,078,816	1,043,252
Shareholder's Deficiency			
Share capital	14	10,129	10,129
Accumulated deficit		(128,624)	(132,902)
		(118,495)	(122,773)
Non-controlling interest			
		1,229	292
Total deficiency		(117,266)	(122,481)
Total liabilities and deficiency		\$ 961,550	\$ 920,771
Subsequent events	16		

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 Income
Unaudited

(in thousands of dollars)

	Note	12-week period ended September 8, 2024	12-week period ended September 10, 2023	36-week period ended September 8, 2024	36-week period ended September 10, 2023
Revenue					
Franchising	8	\$ 69,940	\$ 59,215	\$ 181,986	\$ 180,800
Corporate restaurants		6,061	5,438	17,117	15,633
		76,001	64,653	199,103	196,433
Expenses (income)					
Operating costs		43,896	30,737	102,257	99,482
General and administrative expenses	6	12,828	10,822	39,401	34,153
Royalty expense	12	13,742	13,705	38,260	37,818
Finance expense - net	10	233	300	1,067	950
Amortization of deferred gain	6	(880)	(853)	(2,641)	(2,560)
Share of income from associates	6	(2,786)	(2,984)	(8,230)	(8,272)
		67,033	51,727	170,114	161,571
Income before income taxes		8,968	12,926	28,989	34,862
Provision for (recovery of) income taxes					
Current		(195)	2,333	3,920	5,632
Deferred		2,677	1,137	2,278	1,102
		2,482	3,470	6,198	6,734
Net income for the period		\$ 6,486	\$ 9,456	\$ 22,791	\$ 28,128
Net income attributable to:					
Shareholders of A&W Food Services of Canada Inc.		\$ 6,122	\$ 9,071	\$ 21,854	\$ 27,143
Non-controlling interest		364	385	937	985
		\$ 6,486	\$ 9,456	\$ 22,791	\$ 28,128

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

(in thousands of dollars)

		12-week period ended September 8, 2024	12-week period ended September 10, 2023	36-week period ended September 8, 2024	36-week period ended September 10, 2023
Net income for the period		\$ 6,486	\$ 9,456	\$ 22,791	\$ 28,128
Other comprehensive income					
Items that will not be reclassified to net income					
Actuarial gain (loss) on supplementary retirement benefit plan - net of tax		(161)	116	124	(3)
Comprehensive income		\$ 6,325	\$ 9,572	\$ 22,915	\$ 28,125
Comprehensive income attributable to:					
Shareholders of A&W Food Services of Canada Inc.		\$ 5,961	\$ 9,187	\$ 21,978	\$ 27,140
Non-controlling interest		364	385	937	985
		\$ 6,325	\$ 9,572	\$ 22,915	\$ 28,125

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 Changes in Shareholder's Deficiency

Unaudited

(in thousands of dollars)

		Share capital	Accumulated deficit	Total	Non-controlling interest	Total deficiency
Balance - January 1, 2023		\$ 10,129	(140,033)	\$ (129,904)	\$ 166	\$ (129,738)
Net income for the period		-	27,143	27,143	985	28,128
Dividends on common shares	12	-	(16,282)	(16,282)	-	(16,282)
Actuarial loss on supplementary retirement benefit plan - net of tax		-	(3)	(3)	-	(3)
Balance - September 10, 2023		\$ 10,129	\$ (129,175)	\$ (119,046)	\$ 1,151	\$ (117,895)
Net income for the period		-	9,667	9,667	217	9,884
Dividends on common shares		-	(12,849)	(12,849)	(1,076)	(13,925)
Actuarial loss on supplementary retirement benefit plan - net of tax		-	(545)	(545)	-	(545)
Balance - December 31, 2023		\$ 10,129	\$ (132,902)	\$ (122,773)	\$ 292	\$ (122,481)
Net income for the period		-	21,854	21,854	937	22,791
Dividends on common shares	12	-	(17,700)	(17,700)	-	(17,700)
Actuarial gain on supplementary retirement benefit plan - net of tax		-	124	124	-	124
Balance - September 8, 2024		\$ 10,129	\$ (128,624)	\$ (118,495)	\$ 1,229	\$ (117,266)

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 September 8, 2024	12-week period ended September 10, 2023	36-week period ended September 8, 2024	36-week period ended September 10, 2023
Cash flows generated from operating activities					
Net income for the period		\$ 6,486	\$ 9,456	\$ 22,791	\$ 28,128
Adjustments for					
Depreciation of plant and equipment	9	388	381	1,205	1,195
Amortization of intangibles	9	448	303	1,138	303
Depreciation of right-of-use assets	9	604	576	1,848	1,723
Deferred income taxes		2,677	1,137	2,278	1,102
Net loss on disposal of plant and equipment		636	-	636	-
Increase (decrease) in deposits on franchise and equipment sales		9,508	1,901	18,959	(1,314)
(Increase) decrease in other receivables		(1,419)	3	(1,714)	3
Supplementary retirement benefit plan		(203)	(198)	(609)	(593)
Increase (decrease) in deferred revenue		1,172	(60)	1,426	(274)
Amortization of deferred gain	6	(880)	(853)	(2,641)	(2,560)
Share of income from associates	6	(2,786)	(2,984)	(8,230)	(8,272)
Current income tax expense (recovery)		(195)	2,333	3,920	5,632
Income tax recovered (paid)		3,668	(16)	(448)	(4,132)
Finance expense - net	10	233	300	1,067	950
Interest received		107	32	214	100
Interest paid		(42)	(55)	(381)	(201)
Changes in items of non-cash working capital	11	6,574	(4,448)	3,615	(2,433)
Net cash generated from operating activities		26,976	7,808	45,074	19,357
Cash flows generated from investing activities					
Purchase of plant and equipment		(86)	(977)	(791)	(1,901)
Purchase of intangible assets		(253)	(29)	(638)	(2,393)
Capitalized transaction fees paid	6	(1,023)	-	(1,023)	-
Dividends and distributions received from associates	12	2,888	2,731	6,979	6,613
Proceeds from disposal of plant and equipment		1,126	-	1,126	-
Net cash generated from investing activities		2,652	1,725	5,653	2,319
Cash flows used in financing activities					
Operating lease payments		(800)	(765)	(2,429)	(2,029)
Repayment of operating loan facility		(8,580)	(5,892)	(15,726)	(6,933)
Dividends paid to shareholder	12	(2,888)	(2,731)	(16,738)	(15,372)
Net cash used in financing activities		(12,268)	(9,388)	(34,893)	(24,334)
Increase (decrease) in cash and cash equivalents		17,360	145	15,834	(2,658)
Cash and cash equivalents - beginning of period		2,282	2,201	3,808	5,004
Cash and cash equivalents - end of period		\$ 19,642	\$ 2,346	\$ 19,642	\$ 2,346

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

A&W Food Services of Canada Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

September 8, 2024

(figures in tables are expressed in thousands of dollars)

1 General information

A&W Food Services of Canada Inc. (the “Company” or “Food Services”) is in the business of developing and franchising quick-service restaurants in Canada. During the year to date period ended September 8, 2024, the Company opened 19 A&W locations and permanently closed four locations, bringing the total number of A&W restaurants to 1,069, of which 1,059 are franchised and 10 are owned and operated corporately. Food Services also opened its first stand-alone Pret A Manger location during the year to date period ended September 8, 2024 which is currently 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 Accounting Standard (“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 December 31, 2023 which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards” or “IFRS”).

The accounting policies used 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 on January 1, 2024 with no impact to the classification of its liabilities or its note disclosures.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors of Food Services on October 11, 2024.

(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 third quarter ends 36 weeks after the Company’s fiscal year end. The 2024 third quarter ended September 8, 2024 and the 2023 third quarter ended September 10, 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.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

September 8, 2024

(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:

	September 8, 2024	December 31, 2023
	\$	\$
Current leases receivable	32,818	31,608
Non-current leases receivable	595,727	585,255
	<u>628,545</u>	<u>616,863</u>

A&W Food Services of Canada Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

September 8, 2024

(figures in tables are expressed in thousands of dollars)

The following table outlines the annual contractual undiscounted payments for leases receivable as at September 8, 2024:

	\$
Year 1	57,408
Year 2	56,246
Year 3	55,342
Year 4	53,935
Year 5	52,294
Thereafter	<u>645,635</u>
Total undiscounted leases receivable	920,860
Unearned interest income	(290,536)
Impairment loss	<u>(1,779)</u>
	<u>628,545</u>

Interest income on leases receivable for the year to date period ended September 8, 2024 was \$16,928,000 (2023 - \$15,885,000). Interest income on leases receivable for the quarter was \$5,769,000 (2023 - \$5,439,000).

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 September 8, 2024 (December 21, 2023 - \$1,779,000). During the year to date period ended September 8, 2024 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

A&W Food Services of Canada Inc.

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(figures in tables are expressed in thousands of dollars)

associated with options to extend or excludes periods associated with options to terminate the lease when it is reasonably certain that management will exercise these options. Additionally, right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

	Real Estate	Automobiles	Total
	\$	\$	\$
Balance – December 31, 2023	18,006	2,079	20,085
Additions	-	564	564
Disposals	-	(49)	(49)
Remeasurement of lease liability	(11)	78	67
Depreciation	(1,140)	(708)	(1,848)
Balance – September 8, 2024	<u>16,855</u>	<u>1,964</u>	<u>18,819</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.

A&W Food Services of Canada Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

September 8, 2024

(figures in tables are expressed in thousands of dollars)

The following table presents the lease liabilities for the Company:

	September 8, 2024	December 31, 2023
	\$	\$
Current lease liabilities	35,061	33,923
Non-current lease liabilities	614,967	605,708
	<u>650,028</u>	<u>639,631</u>

Interest expense on lease liabilities for the year to period ended September 8, 2024 was \$17,489,000 (2023 - \$16,365,000). Interest expense on lease liabilities for the quarter was \$5,956,000 (2023 - \$5,597,000).

Costs not included in the measurement of the lease obligation for the periods ended September 8, 2024 and September 10, 2023 are as follows:

	12-week period ended September 8, 2024	12-week period ended September 10, 2023	36-week period ended September 8, 2024	36-week period ended September 10, 2023
	\$	\$	\$	\$
Low-value lease costs	10	11	34	33
Variable lease costs	268	223	790	697
	<u>278</u>	<u>234</u>	<u>824</u>	<u>730</u>

5 Intangible assets

	Internally generated application software
	\$
Balance – December 31, 2023	6,322
Additions	638
Amortization	(1,138)
Balance – September 8, 2024	<u>5,822</u>

A&W Food Services of Canada Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

September 8, 2024

(figures in tables are expressed in thousands of dollars)

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. Amortization of the gain is recognized on the consolidated statement of income. The amortization for the year to date period ended September 8, 2024 was \$2,641,000 (2023 - \$2,560,000). Amortization for the quarter was \$880,000 (2023 - \$853,000).

The deferred gain as at September 8, 2024 is as follows:

	Number of restaurants in Royalty Pool	Deferred gain \$	Accumulated amortization \$	Net deferred gain \$
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	-	-	(2,641)	(2,641)
Balance – September 8, 2024	1,047	329,952	(38,852)	291,100

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

A&W Food Services of Canada Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

September 8, 2024

(figures in tables are expressed in thousands of dollars)

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 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 September 8, 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 September 8, 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 September 8, 2024 (28.4% as at December 31, 2023).

As at September 8, 2024 Food Services' investments in associates totaled \$177,005,000 (December 31, 2023 - \$169,828,000). Food Services' share of income from associates totaled \$8,230,000 for the year

A&W Food Services of Canada Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

September 8, 2024

(figures in tables are expressed in thousands of dollars)

to date period ended September 8, 2024 (2023 - \$8,272,000). Food Services' share of income from associates totaled \$2,786,000 for the quarter (2023 - \$2,984,000).

The investment in Trade Marks as at September 8, 2024 is as follows:

	Common shares	Cumulative equity in earnings	Cumulative dividends	Total
	\$	\$	\$	\$
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	-	6,162	-	6,162
Dividends	-	-	(5,771)	(5,771)
Balance – September 8, 2024	128,996	82,409	(82,365)	129,040

The investment in the Fund as at September 8, 2024 is as follows:

	Limited Voting Units	Cumulative equity in earnings	Cumulative distributions	Total
	\$	\$	\$	\$
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	-	2,068	-	2,068
Distributions	-	-	(1,929)	(1,929)
Balance – September 8, 2024	47,162	10,516	(9,713)	47,965

The Fund and Food Services entered into a combination agreement (the “Combination Agreement”) on July 21, 2024 whereby Food Services will be amalgamated with certain holding companies and will acquire all of the Fund’s Trust Units (the “Transaction”) and a new publicly-traded company will be

A&W Food Services of Canada Inc.

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formed (“A&W Food Services NewCo”). The Transaction is a strategic combination and is structured as a statutory plan of arrangement under the Canada Business Corporations Act.

Under the terms of the Transaction, each of the Fund’s unitholders (the “Unitholders”) (other than Food Services and its affiliates) could elect to receive in exchange for each Unit (i) \$37.00 in cash (the “Cash Consideration”), (ii) one common share in A&W Food Services NewCo (the “Share Consideration”), or (iii) a combination of 32.54277% of the Cash Consideration (being \$12.040825) and 67.45723% of the Share Consideration (being 0.6745723 of a share in A&W Food Services NewCo) (the “Combination Consideration”). The elections of Unitholders to receive Cash Consideration or Share Consideration were subject to proration in the event that Unitholders elected, in the aggregate, to receive more or less than \$175,600,000 in cash consideration, such that in all cases, a total of 4,746,582 Units would be purchased for cash at \$37.00 per Unit, representing approximately 32.5% of the outstanding Units (other than Units held by Food Services). Based on valid elections made prior to the election deadline on October 4, 2024, Unitholders who elected Cash Consideration and Combination Consideration will not be subject to proration and Unitholders who elected, or were deemed to elect, Share Consideration will receive Cash Consideration in respect of approximately 2.7% of their Units and Share Consideration for the balance as a result of proration. Upon completion of the Transaction, the Fund will be a wholly owned subsidiary of A&W Food Services NewCo.

In addition, Unitholders will be entitled to receive a distribution in an amount per Unit equal to \$1.92 multiplied by a fraction, the numerator of which is the number of days between (a) the payment date of the last monthly distribution in respect of the Units for which the payment date occurs prior to the closing of the Transaction and (b) the closing of the Transaction, and the denominator of which is 365, so that, in effect, Unitholders receive the monthly distribution for the month in which the closing of the Transaction occurs, prorated for the number of days up to closing of the Transaction.

On October 8, 2024, subsequent to the quarter ended September 8, 2024, a special meeting of the Unitholders was held, and the Transaction was approved by Unitholders.

On October 11, 2024, the Ontario Superior Court of Justice (Commercial List) issued a final order approving the plan of arrangement under the Canada Business Corporations Act in respect of the Transaction.

Completion of the Transaction remains subject to the satisfaction or waiver of certain customary closing conditions. The Transaction will become effective after the close of business on October 17, 2024 (the “Effective Date”), subject to the terms and conditions of the combination agreement in respect of the Transaction, all of which have been or are expected to be satisfied by or on such date,

A&W Food Services of Canada Inc.

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and the filing of articles of arrangement in respect of the Transaction. It is expected that (a) the Units will be delisted from the Toronto Stock Exchange (“TSX”) after the close of business on the Effective Date, (b) the common shares of A&W Food Services Newco will be listed (but not yet posted for trading) on the TSX after the close of business on the Effective Date, and (c) the common shares of A&W Food Services Newco will be posted and begin trading on the TSX at the open of business on October 18, 2024 under the symbol “AW”.

If the Transaction is not completed for any reason, Unitholders will not receive the Share Consideration, the Cash Consideration or the Combination Consideration for any of their Units, the Fund will remain a reporting issuer and the Units will continue to be listed and traded on the TSX. If in the event of a termination of the Combination Agreement prior to consummation of the Transaction, under certain circumstances, the Fund will be required to pay to Food Services a termination fee of \$17,800,000 (the “Termination Fee”). The Combination Agreement also provides for expense reimbursement of \$4,000,000 payable by the Fund to Food Services or Food Services to the Fund, as applicable (less, in the case of reimbursement by Food Services, the amount of expenses of the Fund previously reimbursed by Food Services) in certain circumstances if the Transaction is not completed and the Combination Agreement is terminated. In certain circumstances, the Combination Agreement also requires the Fund to repay to Food Services certain expenses of the Fund previously reimbursed by Food Services pursuant to a cost sharing agreement (the “Expense Agreement”) that the Fund and Food Services entered into on February 2, 2024.

The Expense Agreement outlines the arrangement among the Fund, Food Services and Trade Marks in respect of the payment of certain costs, fees, expenses and disbursements incurred or to be incurred by the Fund and Trade Marks in connection with their consideration, evaluation and negotiation of the Combination Arrangement incurred at or prior to the public announcement of the Transaction. Pursuant to the Expense Agreement, Food Services has agreed to (a) reimburse the Fund and Trade Marks for certain expenses paid by the Fund or Trade Marks, (b) advance funds to the Fund and/or Trade Marks to permit the Fund and/or Trade Marks, as applicable, to pay such expenses or (c) pay such expenses directly, in each case, subject to certain caps as set forth therein. During the year to date period and quarter ended September 8, 2024, Food Services paid a total of \$1,340,000 in costs incurred by the Fund related to the Transaction under the terms of the Expense Agreement.

The non-current other assets balance of \$8,152,000 as at September 8, 2024 (December 31, 2023 - \$nil) is comprised of costs related to the Transaction that have been capitalized and include the \$1,340,000 in costs that Food Services paid on behalf of the Fund and Trade Marks in accordance with the Expense Agreement. Of the \$8,152,000, \$1,023,000 was paid during the year to date period and quarter ended September 8, 2024 and the remaining \$7,129,000 is included in accounts payable and accrued liabilities as at September 8, 2024 (2023 - \$nil). Additional costs related to the Transaction,

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totaling \$292,000, are included in General and Administrative Expenses for the year to date period and quarter ended September 8, 2024 (2023 - \$nil). As at September 8, 2024, Food Services had incurred an additional \$2,500,000 in advisory fees related to the Transaction that are contingent on completion of the Transaction (December 31, 2023 - \$nil).

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. On May 15, 2024, Food Services extended its facility for a period of one year. The operating loan facility matures on May 31, 2025. Under the amended facility account overdrafts 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 cessation of Canadian Dollar Offered Rate which is the benchmark interest rate on bankers acceptances (“BAs”), the 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 facility.

Amounts under the facility can be advanced in the form of an account overdraft or in the form of CORRA loans and are repayable on demand. The operating loan facility contains covenants including the requirement to meet certain debt to earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) ratios and debt to Food Services’ investment in Trade Marks ratios during each trailing four quarter period. Food Services is also required to pledge 5,000,000 Trade Marks common shares. Food Services was in compliance with all of its financial covenants as at September 8, 2024 and December 31, 2023.

As at September 8, 2024, Food Services had drawn \$nil 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 \$39,802,000 of the facility available (December 31, 2023 – \$24,076,000).

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8 Franchising revenue

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

	12-week period ended September 8, 2024	12-week period ended September 10, 2023	36-week period ended September 8, 2024	36-week period ended September 10, 2023
	\$	\$	\$	\$
At a point in time:				
Advertising fund contributions	14,749	14,008	40,994	37,571
Distribution revenue and service fees	32,793	31,729	92,345	89,483
Equipment and turnkey revenue	19,256	10,807	37,496	46,074
Other revenue	2,992	2,298	8,899	5,975
Over time:				
Initial franchise fees and renewal fees	150	373	2,252	1,697
	<u>69,940</u>	<u>59,215</u>	<u>181,986</u>	<u>180,800</u>

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

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9 Expenses by nature

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

	12-week period ended September 8, 2024	12-week period ended September 10, 2023	36-week period ended September 8, 2024	36-week period ended September 10, 2023
	\$	\$	\$	\$
Depreciation of plant and equipment	388	381	1,205	1,195
Amortization of intangible assets	448	303	1,138	303
Depreciation of right-of-use asset	604	576	1,848	1,723
Employee benefit costs				
Wages and salaries and other termination benefits	8,550	8,359	26,172	24,638
Pension costs - defined contribution plan	253	240	803	788
	8,803	8,599	26,975	25,426

10 Finance expense – net

	12-week period ended September 8, 2024	12-week period ended September 10, 2023	36-week period ended September 8, 2024	36-week period ended September 10, 2023
	\$	\$	\$	\$
Net interest expense (income)	(93)	(4)	123	37
Standby fees	26	24	44	61
Interest cost on supplementary retirement benefit plan	113	113	339	339
Interest on leases receivable	(5,769)	(5,439)	(16,928)	(15,885)
Interest on lease liabilities	5,956	5,597	17,489	16,365
Amortization of deferred financing fees	-	9	-	33
	233	300	1,067	950

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11 Working capital

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

	12-week period ended September 8, 2024	12-week period ended September 10, 2023	36-week period ended September 8, 2024	36-week period ended September 10, 2023
	\$	\$	\$	\$
Accounts receivable	3,518	2,711	703	8,342
Inventories	(4,737)	(2,303)	(5,377)	(994)
Prepaid expenses	1,371	(1,427)	1,098	(2,051)
Accounts payable and accrued liabilities	6,418	(3,585)	6,811	(8,351)
Royalties payable	4	156	380	621
	<u>6,574</u>	<u>(4,448)</u>	<u>3,615</u>	<u>(2,433)</u>

12 Related party transactions and balances

Royalty expense for the year to period ended September 8, 2024 was \$38,260,000 (2023 - \$37,818,000), of which \$4,474,000 (December 31, 2023- \$4,094,000) is payable to the Partnership at September 8, 2024 and was paid to the Partnership on October 3, 2024, subsequent to the period end. Royalty expense for the quarter was \$13,742,000 (2023 - \$13,705,000).

During the year to date period ended September 8, 2024, Trade Marks declared eight dividends payable to Food Services totaling \$5,771,000 (2023 - \$5,353,000) as a result of Food Services' ownership of Trade Marks' common shares. The eighth dividend amounted to \$721,000 and was declared on September 6, 2024 but paid to Food Services, subsequent to the period end, on September 27, 2024 and is therefore reported as a current asset as at September 8, 2024 (December 31, 2023 – \$nil). During the quarter Trade Marks declared three dividends payable to Food Services totaling \$2,164,000 (2023 - \$2,007,000).

During the year to date period ended September 8, 2024, the Fund declared eight distributions payable to Food Services totaling \$1,929,000 (2023 – \$1,929,000) as a result of Food Services' ownership of Limited Voting Units. The eighth distribution amounted to \$241,000 and was declared on September 6, 2024 but paid to Food Services, subsequent to the period end, on September 27, 2024 and is therefore reported as a current asset as at September 8, 2024 (December 31, 2023 – \$241,000). During the quarter the Fund declared three distributions payable to Food Services totaling \$723,000 (2023 - \$723,000).

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During the period ended September 8, 2024, Food Services declared nine dividends totaling \$17,700,000 (2023 - \$16,282,000) to its shareholder. The ninth dividend amounted to \$962,000 and was declared on September 6, 2024 but paid on October 1, 2024, subsequent to the period end, and is therefore reported as a current liability as at September 8, 2024 (December 31, 2023 – \$nil). During the quarter Food Services declared three dividends totaling \$2,888,000 (2023 - \$2,370,000).

During the year to date period ended September 8, 2024, Food Services recognized \$143,000 (2023 - \$143,000) as an offset to general and administrative expenses related to administrative services provided to Trade Marks. During the quarter, Food Services recognized \$48,000 as an offset to general and administrative expenses related to administrative services provided to Trade Marks (2023 - \$48,000).

Other related party transactions are disclosed in notes 6 and 12.

13 Key management compensation

Key management includes the Company's executive team. The compensation awarded to key management and retired employees that are beneficiaries of the Company's defined benefit plan includes:

	12-week period ended September 8, 2024	12-week period ended September 10, 2023	36-week period ended September 8, 2024	36-week period ended September 10, 2023
	\$	\$	\$	\$
Salaries, bonuses and other short-term employee benefits	782	749	2,265	2,289
Pension costs - defined contribution plan	36	32	127	151
Pension costs - supplementary retirement benefit plan	113	113	339	339
Total	<u>931</u>	<u>894</u>	<u>2,731</u>	<u>2,779</u>

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14 Share capital

Authorized

Unlimited number of common shares

Unlimited number of preferred shares

Issued

	Sep 8, 2024	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, royalties payable and the operating loan facility.

Fair values

The fair values of cash and cash equivalents, accounts receivable, other assets, dividends and distributions receivable, accounts payable and accrued liabilities, royalties payable, dividends payable and operating loan facility 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, dividends and distributions receivable, other receivables and leases receivable. Receivables are due from Food Services, franchisees and distributors. The Company assesses the credit quality of its customers, taking into account its financial position, past experience and other factors. The Company does not believe it has a significant exposure to any individual franchisee. As at September 8, 2024, \$10,004,000 (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

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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 Company's interest rate risk arises from its operating loan facility which bears a floating rate of interest as disclosed in note 7. All of the Company's other financial instruments are non-interest bearing.

16 Subsequent events

On September 25, 2024, Food Services declared a dividend of \$10,000,000 to its shareholder.

On October 1, 2024 Trade Marks declared dividends of \$721,000 on the common shares held by Food Services.

On October 1, 2024, the Fund declared distributions of \$241,000 on the Limited Voting Units held by Food Services.

On October 1, 2024, Food Services declared a dividend of \$962,000 to its shareholder.

Other subsequent events are referred to in note 6.



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