

A & W Food Services of Canada Inc.

Interim Condensed Consolidated
Financial Statements
First Quarter of Fiscal 2025

For the 12-week periods ended
March 23, 2025 and March 24, 2024

A&W Food Services of Canada Inc.

Interim Condensed Consolidated Balance Sheets

(Unaudited, in thousands of Canadian dollars)

	Note	March 23, 2025 \$	December 29, 2024 \$
Assets			
Cash and cash equivalents		10,932	22,534
Accounts receivable		34,801	41,934
Leases receivable	6	32,572	32,457
Inventories		8,492	12,170
Prepaid expenses		3,779	5,376
Income taxes recoverable		4,002	-
Total Current Assets		94,578	114,471
Other receivables		3,490	3,374
Deferred tax assets		10,647	10,567
Right-of-use assets	6	21,638	22,490
Leases receivable	6	595,383	600,616
Plant and equipment		8,709	8,953
Intangible assets	7	447,220	447,192
Total assets		1,181,665	1,207,663
Liabilities			
Accounts payable and accrued liabilities		51,553	67,126
Dividends payable		11,519	-
Lease liabilities	6	35,656	35,610
Deposits on franchise and equipment sales		14,284	14,861
Deferred revenue		2,591	2,584
Income taxes payable		-	2,866
Total Current Liabilities		115,603	123,047
Deferred revenue		29,926	29,848
Operating loan facility	8	246,801	257,149
Lease liabilities	6	616,558	622,602
Supplementary retirement benefit plan		11,046	10,974
Other long-term liabilities		11	11
Total Liabilities		1,019,945	1,043,631
Shareholders' equity			
Share capital	9	417,925	417,925
Contributed surplus	10	70	-
Accumulated deficit		(256,990)	(254,246)
Total Shareholders' equity		161,005	163,679
Non-controlling interest		715	353
Total equity		161,720	164,032
Total liabilities and equity		1,181,665	1,207,663
Subsequent event	19		

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

A&W Food Services of Canada Inc.

Interim Condensed Consolidated Statements of Income

(Unaudited, in thousands of Canadian dollars)

	Note	12-week period ended March 23, 2025 \$	12-week period ended March 24, 2024 \$
Revenue			
Franchising	11	55,926	53,426
Corporate restaurants		5,207	5,355
		61,133	58,781
Expenses (income)			
Operating costs		33,926	29,547
General and administrative expenses		10,894	11,183
Royalty expense		-	11,553
Finance income	13	(5,960)	(5,548)
Finance expense	13	9,829	6,033
Amortization of deferred gain		-	(880)
Share of income from associates		-	(2,575)
		48,689	49,313
Income before income taxes		12,444	9,468
Provision for (recovery of) income taxes			
Current		3,222	2,485
Deferred		(35)	(527)
		3,187	1,958
Net income for the period		9,257	7,510
Net income attributable to			
Shareholders of A&W Food Services of Canada Inc.		8,895	4,763
Non-controlling interest		362	2,747
		9,257	7,510

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

A&W Food Services of Canada Inc.

Interim Condensed Consolidated Statements of Comprehensive Income

(Unaudited, in thousands of Canadian dollars, except for number of shares and per share amounts)

	Note	12-week period ended March 23, 2025 \$	12-week period ended March 24, 2024 \$
Net income for the period		9,257	7,510
Other comprehensive (loss) gain			
Actuarial (loss) gain on supplementary retirement benefit plan – net of tax		(120)	165
Comprehensive income		9,137	7,675
Comprehensive income attributable to			
Shareholders of A&W Food Services of Canada Inc.		8,775	4,928
Non-controlling interest		362	2,747
		9,137	7,675
Net income per share	15		
Basic		\$ 0.37	\$ 0.50
Diluted		\$ 0.37	\$ 0.50
Weighted average number of shares outstanding (thousands)	15		
Basic		23,998	9,495
Diluted		24,003	9,495

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

A&W Food Services of Canada Inc.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

For the 12-week periods ended March 23, 2025 and March 24, 2024

(Unaudited, in thousands of Canadian dollars)

	Note	Share capital \$	Contributed Surplus \$	Accumulated deficit \$	Total \$	Non- controlling interest \$	Total equity (deficiency) \$
Balance – December 31, 2023		14,043	-	(225,970)	(211,927)	89,475	(122,452)
Net income for the period		-	-	4,763	4,763	2,747	7,510
Dividends on common shares		-	-	(1,261)	(1,261)	(664)	(1,925)
Actuarial gain on supplementary retirement benefit plan – net of tax		-	-	165	165	-	165
Balance – March 24, 2024		14,043	-	(222,303)	(208,260)	91,558	(116,702)
Balance – December 29, 2024		417,925	-	(254,246)	163,679	353	164,032
Net income for the period		-	-	8,895	8,895	362	9,257
Dividends on common shares		-	-	(11,519)	(11,519)	-	(11,519)
Stock-based compensation on equity- settled plans	10	-	70	-	70	-	70
Actuarial loss on supplementary retirement benefit plan – net of tax		-	-	(120)	(120)	-	(120)
Balance – March 23, 2025		417,925	70	(256,990)	161,005	715	161,720

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

A&W Food Services of Canada Inc.

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited, in thousands of Canadian dollars)

	Note	12-week period ended March 23, 2025 \$	12-week period ended March 24, 2024 \$
Cash provided by (used in)			
Operating activities			
Net income for the period		9,257	7,510
Adjustments for			
Depreciation of plant and equipment	12	343	402
Amortization of intangibles	12	569	327
Depreciation of right-of-use assets	12	646	611
Deferred income taxes		(35)	(527)
Stock-based compensation	10	70	-
Net loss on disposal of plant and equipment		23	-
Decrease in deposits on franchise and equipment sales		(577)	(799)
Increase in other receivables		(116)	(201)
Supplementary retirement benefit plan		(205)	(203)
Increase in deferred revenue		85	65
Amortization of deferred gain		-	(880)
Use of provision for impairment of leases receivable	6	(22)	-
Share of income from associates		-	(2,575)
Current income tax expense		3,222	2,485
Income tax paid		(10,091)	(1,656)
Finance income	13	(5,960)	(5,548)
Finance expense	13	9,829	6,033
Finance interest received		73	22
Finance expense paid		(4,027)	(212)
Changes in items of non-cash working capital	14	(2,577)	6,956
		<u>507</u>	<u>11,810</u>
Investing activities			
Purchase of plant and equipment		(122)	(474)
Purchase of intangible assets	7	(446)	(385)
Transaction costs capitalized	7	(151)	-
Dividends and distributions received from associates		-	1,204
		<u>(719)</u>	<u>345</u>
Financing activities			
Repayment of principal on lease liabilities		(881)	(771)
Repayment of the Credit Facility		(10,509)	-
Repayment of the Former Credit Facility		-	(1,649)
Dividends paid to non-controlling interest		-	(332)
		<u>(11,390)</u>	<u>(2,752)</u>
(Decrease) increase in cash and cash equivalents during the period		<u>(11,602)</u>	<u>9,403</u>
Cash and cash equivalents – beginning of period		<u>22,534</u>	<u>3,855</u>
Cash and cash equivalents – end of period		<u>10,932</u>	<u>13,258</u>

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

March 23, 2025

(Unaudited, figures in tables expressed in thousands of Canadian dollars unless otherwise noted)

1 General information

A & W Food Services of Canada Inc. (formerly “A&W of Canada Inc.”) (the “Company” or “Food Services”) is in the business of developing and franchising quick service restaurants in Canada and owns the A&W trademarks used in the A&W quick service restaurant business in Canada. During the 12-week period ended March 23, 2025, the Company opened seven A&W locations and closed one A&W location, bringing the total number of A&W restaurants as at March 23, 2025 to 1,079, of which 1,069 are franchised and ten are owned and operated corporately. Food Services also holds the master franchise rights in Canada for the UK-based restaurant chain Pret A Manger (“Pret”) and owns and operates one stand-alone Pret location as of March 23, 2025. Food Services’ registered offices are located at Suite 300 – 171 West Esplanade, North Vancouver, British Columbia, Canada.

Fiscal 2024 Transaction

Prior to the completion of the Transaction (as defined and disclosed below), A&W of Canada Inc. (“A&W Canada”) held a 65.48% interest in AWFS Holdings Inc. (“AWFS Holdings”) and as a result, controlled AWFS Holdings, and AWFS Holdings controlled a predecessor of the Company, also named A & W Food Services of Canada Inc. (“predecessor A&W Food Services”). An equity interest of 34.52% in AWFS Holdings was owned by outside parties and was recorded as a non-controlling interest in the consolidated financial statements of A&W Canada. Subsequent to the Transaction, the outside parties became direct shareholders of Food Services and as such their respective ownership is presented within share capital and retained earnings on the consolidated balance sheet as at December 29, 2024 and March 23, 2025.

Prior to completion of the Transaction, predecessor A&W Food Services paid A&W Trade Marks Limited Partnership (“the Partnership”), a subsidiary of A&W Revenue Royalties Income Fund (the “Fund”) a royalty for use of the A&W trademarks in Canada. As a result of the Transaction, Food Services indirectly acquired the A&W trademarks by acquiring all of the outstanding units of the Fund (“Trust Units”) and since the Transaction, Food Services ceased recognizing the royalty expense in its consolidated statement of income.

A combination agreement in respect of the Transaction was entered into on July 21, 2024, whereby predecessor A&W Food Services agreed to amalgamate with certain of its direct and indirect holding companies to form a new publicly-traded company and acquire all of the issued and outstanding Trust Units not already owned by predecessor A&W Food Services (the “Transaction”).

Prior to the Transaction, predecessor A&W Food Services owned (i) 9.4% of the outstanding Trust Units on a fully diluted basis through its ownership of limited voting units of the Fund, with the remaining Trust Units being publicly traded, and (ii) owned 21.9% of the issued and outstanding common shares of A&W Trade Marks Inc. (“Trade Marks”), which were exchangeable for Trust Units, with the remaining common shares being owned by the Fund. Food Services accounted for its investments in the Fund and Trade Marks as investments in associates and recognized its proportionate share of the associate’s income or loss based on the associate’s net income/loss for the reporting period.

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(Unaudited, figures in tables expressed in thousands of Canadian dollars unless otherwise noted)

In preparation for the Transaction, a number of reorganization steps, including those set forth below, were undertaken:

- a shareholder of A&W Canada exchanged all of its shares of A&W Canada for (i) Class B Preferred Shares (the “Preferred Shares”) and (ii) Class E Common Shares of A&W Canada. Through a series of steps, the Preferred Shares were, directly or indirectly, later exchanged for non-interest bearing promissory notes of Buddy Holdings Inc., payable on demand with an aggregate principal amount of \$12,522,000; and
- in order to simplify the existing organizational structure of A&W Food Services of Canada Inc and its, direct and indirect, corporate shareholders, Buddy Holdings Inc., A&W Trademarks Holdings Inc. and AWFS Fund Holdings Canada Ltd. were incorporated.

The Transaction closed on October 17, 2024 and on that day, Buddy Holdings Inc., A&W Canada, AWFS Holdings, A&W Holdings I Inc., A&W Holdings II Inc. (collectively, the “Holding Companies”) and predecessor A&W Food Services amalgamated. The amalgamated entity retained the legal name A & W Food Services of Canada Inc.

On October 18, 2024, Food Services acquired all of the Trust Units that it did not already own in exchange for consideration of \$175,623,000 in cash and 9,839,091 common shares of Food Services less \$18,275,000 in cash and intercompany receivables assumed upon Trade Marks and the Fund becoming wholly owned subsidiaries of Food Services. This was accounted for as an asset acquisition in fiscal 2024. This was funded by way of a \$265,000,000 drawn down on a revolving credit facility (the “Credit Facility”) with a syndicate of banks that was entered into in conjunction with the completion of the Transaction. Proceeds from the Credit Facility were also used to repay Trade Marks’ outstanding borrowings balance, totaling \$60,167,000. Food Services incurred \$3,500,000 of borrowing costs which were capitalized against the operating loan facility. Additional information is disclosed in note 8.

In connection with the Transaction, the Trust Units were de-listed from the Toronto Stock Exchange (“TSX”) and the common shares of Food Services were listed on the TSX under the symbol AW.TO.

On October 18, 2024, Food Services repaid the non-interest bearing promissory notes payable on demand with an aggregate principal amount of \$12,522,000.

On January 3, 2025, the Fund and Trade Marks were dissolved and Food Services directly acquired the A&W trademarks.

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 29, 2024 which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”).

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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 2025 year is 52 weeks and ends December 28, 2025 (fiscal 2024 – 52 weeks ended December 29, 2024). A&W Root Beer Beverages of Canada Inc. (“A&W Beverages”), Food Services’ subsidiary, uses a fiscal year ending December 31.

Consolidation

These interim condensed consolidated financial statements include the accounts of Food Services and its 60% controlling interest in A&W Beverages.

These unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors (the “Board”) on May 1, 2025.

3 Material accounting policy information

These interim condensed consolidated financial statements have been prepared using the accounting policies as outlined in note 3 of the audited consolidated financial statements for the 52-week period ended December 29, 2024.

Equity incentive plan

Food Services adopted an Omnibus Long-Term Incentive Plan (the “Equity Incentive Plan”) in 2024 to allow for a variety of equity-based awards that provide different types of incentives to be granted to certain directors, officers, employees and/or consultants providing ongoing services to Food Services and its subsidiaries, being options (“Options”), performance share units (“PSUs”), restricted share units (“RSUs”) and deferred share units (“DSUs”). Options, PSUs, RSUs and DSUs are collectively referred to herein as “Awards”. Each Award represents the right to receive the Company’s shares or, in the case of PSUs, RSUs and DSUs, shares or cash, or a combination of shares and cash, at the Board’s sole discretion.

The expense related to Options is initially recognized based on the fair value of the option at the grant date using the Black-Scholes option-pricing model, with a corresponding increase in contributed surplus. When Options are exercised, the exercise price proceeds together with the amount initially recorded in contributed surplus are reclassified to share capital.

Compensation expense related to other equity-settled awards is measured based on an estimated fair value at the grant date, with a corresponding increase in contributed surplus. Upon settlement, the amount initially recognized in contributed surplus is reclassified to share capital.

For a share-based payment transaction in which the terms of the arrangement provide the Company with the choice to settle in cash or by issuing equity instruments, the Company determines whether it has a present obligation to settle in cash, including whether the Company has a past practice or stated policy of settling in cash. If the Company concludes that equity settlement is probable, it accounts for the Awards as equity-settled. If the Company concludes there is an obligation to cash-settle the Awards then the Company recognizes

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compensation expense that is based on the market value of the Company's shares at grant date and a corresponding liability. The liability is subsequently remeasured at each reporting date based on the market value of the Company's shares, with changes in fair value recognized as stock-based compensation expense over the vesting period. There is a cash or equity settlement option on part of the Board for the RSUs. In the Company's judgment it expects to settle the RSU awards through equity and accordingly the awards have been accounted for as equity-settled Awards.

The compensation expense related to the Awards is recognized in general and administration expenses in the consolidated statement of income.

4 Accounting policy developments

In April 2024, the International Accounting Standards Board issued IFRS 18 - *Presentation and Disclosure in the Financial Statements* ("IFRS 18") replacing IAS 1 - *Presentation of Financial Statements*. IFRS 18 introduces a specified structure for the income statement by requiring income and expenses to be presented in three main categories, operating, investing and financing, and by specifying certain defined totals and subtotals. Where company-specific measures related to the income statement are provided ("management-defined performance measures") in a note to the financial statements, IFRS 18 requires a reconciliation to the closest IFRS Accounting Standard subtotal and an accompanying explanation related to the use of the management-defined performance measure. IFRS 18 provides additional guidance on principles of aggregation and disaggregation which apply to the primary financial statements and the notes. The standard is effective for annual reporting periods beginning on or after January 1, 2027, including interim financial statements. Management is currently assessing the impact of future adoption of IFRS 18.

In May 2024, the International Accounting Standards Board published amendments to IFRS 9 - *Financial Instruments* ("IFRS 9") and IFRS 7 - *Financial Instruments: Disclosures* ("IFRS 7"). The amendments to IFRS 9 clarify de-recognition and classification of specific financial assets and liabilities respectively while the amendments to IFRS 7 clarify the disclosure requirements for investments in equity instruments designated at fair value through other comprehensive income and contractual terms that could change the timing or amount of contractual cash flows on the occurrence or non-occurrence of a contingent event. The amendments to IFRS 9 and IFRS 7 are effective for annual reporting beginning on or after January 1, 2026. Management is currently assessing the impact of future adoption of these amendments to IFRS 9 and IFRS 7.

5 Critical accounting estimates and judgments

The preparation of interim condensed consolidated financial statements in conformity with IFRS Accounting Standards requires management to make estimates and assumptions that affect the amounts reported in the interim condensed 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.

The areas of judgment that have the most significant effect on the amounts recognized in these interim condensed consolidated financial statements are disclosed in note 5 of the Company's annual consolidated financial statements for the 52-week period ended December 29, 2024.

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(Unaudited, figures in tables expressed in thousands of Canadian dollars unless otherwise noted)

6 Leases

Leases receivable

Food Services is considered an intermediate lessor on certain franchise locations. The following table presents the leases receivable for the Company:

	March 23, 2025	December 29, 2024
	\$	\$
Current leases receivable	32,572	32,457
Non-current leases receivable	595,383	600,616
	<u>627,955</u>	<u>633,073</u>

The following table outlines the annual contractual undiscounted payments for leases receivable as at March 23, 2025:

	\$
Year 1	58,117
Year 2	57,310
Year 3	56,266
Year 4	54,644
Year 5	52,566
Thereafter	<u>642,214</u>
Total undiscounted leases receivable	921,117
Unearned interest income	(291,643)
Provision for impairment	<u>(1,519)</u>
	<u>627,955</u>

Interest income on leases receivable for the 12-week period ended March 23, 2025 was \$5,887,000 (March 24, 2024 - \$5,526,000).

Leases receivable are reviewed for impairment based on expected losses at each consolidated balance sheet date in accordance with IFRS 9. An impairment loss is recorded using the simplified expected credit loss ("ECL") method. 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 ECL provision on leases receivable of \$1,519,000 as at March 23, 2025 (December 29, 2024 - \$1,541,000). During the 12-week period ended March 23, 2025 no loss or recovery on impairment of leases receivable was recognized (March 24, 2024 - \$nil).

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(Unaudited, figures in tables expressed in thousands of Canadian dollars unless otherwise noted)

The movement in the ECL on lease receivables is as follows:

	\$
Balance – December 29, 2024	1,541
Amounts written off	(22)
Balance – March 23, 2025	<u>1,519</u>

Right-of-use assets

Right-of-use assets comprise the Company's leases for corporate restaurant premises, head office space, and automobiles. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date, which is the possession date of the asset. The right-of-use asset is initially measured based on the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received, and excludes all sales taxes. Right-of-use assets are depreciated to the earlier of the end of the useful life of the asset or the lease term using the straight-line method. The lease term includes periods associated with options to extend or excludes periods associated with options to terminate the lease when it is reasonably certain that management will exercise these options. Additionally, right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

	Real estate \$	Automobiles \$	Total \$
Balance – December 29, 2024	20,665	1,825	22,490
Additions	-	41	41
Disposals	-	(7)	(7)
Remeasurement of lease liabilities	(299)	59	(240)
Depreciation	(412)	(234)	(646)
Balance – March 23, 2025	<u>19,954</u>	<u>1,684</u>	<u>21,638</u>

Lease liabilities

The Company's leases include base rent for restaurant premises and office space and automobiles. The Company is the head lessee for the majority of its franchised locations and enters into agreements whereby the Company licences the premises to the franchisee, for which the Company 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. The Company has included renewal options in the measurement of lease liability when it is reasonably certain to exercise the renewal option.

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

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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.

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

The following table presents the lease liabilities for the Company:

	March 23, 2025 \$	December 29, 2024 \$
Current lease liabilities	35,656	35,610
Non-current lease liabilities	616,558	622,602
	<u>652,214</u>	<u>658,212</u>

Costs not included in the measurement of the lease liabilities are as follows:

	12-week period ended March 23, 2025 \$	12-week period ended March 24, 2024 \$
Low-value lease costs	2	11
Variable lease costs	273	204
	<u>275</u>	<u>215</u>

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(Unaudited, figures in tables expressed in thousands of Canadian dollars unless otherwise noted)

7 Intangible assets

	Internally generated application software \$	A&W trademarks \$	Total \$
Balance – December 29, 2024			
Cost	9,012	440,893	449,905
Accumulated amortization	(2,713)	-	(2,713)
Net book value	6,299	440,893	447,192
Opening net book value	6,299	440,893	447,192
Additions	446	151	597
Amortization	(569)	-	(569)
Net book value	6,176	441,044	447,220
Balance – March 23, 2025			
Cost	9,458	441,044	450,502
Accumulated amortization	(3,282)	-	(3,282)
Net book value	6,176	441,044	447,220

On October 18, 2024, Food Services indirectly reacquired the A&W trademarks by acquiring all of the outstanding Trust Units not already owned by predecessor A&W Food Services. As part of the asset acquisition the Company derecognized the deferred gain and the investment in associates, and recognized the deferred amount of the original sales consideration on repurchase, together with the cash and share consideration, as the identifiable cost of the intangible asset.

Costs incurred to complete Food Services' acquisition of the A&W trademarks totaling \$18,784,00 were capitalized in fiscal 2024 and are included in the intangible assets balance as at December 29, 2024. Additional costs related to the acquisition of the A&W trademarks, totaling \$151,000, were capitalized in the 12-week period ended March 23, 2025 and are included in the intangible assets balances at March 23, 2025. See notes 1, 8 and 9 for further details on the Transaction.

Food Services performed its annual impairment test on the indefinite life intangible asset as at December 29, 2024, using a value-in-use model to determine the recoverable amount of the indefinite life intangible asset. The calculations were based on Food Services' internal forecasts and represent management's best estimates at a specific point in time, and, as a result, are subject to estimation uncertainty. In arriving at its estimated future cash flows, Food Services considered past experience, economic trends and forecasted industry trends. Cash flows are projected for a period of five years and then cash flows beyond that are extrapolated using an estimated terminal growth rate of 2%. Food Services assumed a pre-tax discount rate of 12.0% in order to calculate the present value of its projected cash flows. As a result of this test, it was concluded that no impairment was required. There were no indicators of impairment during the 12-week period ended March 23, 2025; therefore, no impairment testing was performed and no impairment was required.

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8 Operating loan facility

Prior to October 17, 2024, predecessor A&W Food Services had a \$40,000,000 demand operating loan facility ("Former Credit Facility") with a Canadian chartered bank (the "Bank"). The facility was used to fund working capital requirements and for general corporate purposes. On May 15, 2024, predecessor A&W Food Services extended the maturity date on the Former Credit Facility by one year to May 31, 2025. Under the Former Credit Facility account overdrafts bear interest at the Bank's prime rate plus 0.75% (at the Bank's prime rate plus 1% prior to the amendment). 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 Former Credit Facility was also amended to transition from BAs to CORRA (as defined below) loans, in which the interest rate benchmark is Canadian Overnight Repo Rate Average ("CORRA"). The remaining terms and conditions were consistent with those of the Former Credit Facility that was in place prior to the May 15, 2024 amendment.

Amounts under the Former Credit Facility could be advanced in the form of an account overdraft or in the form of CORRA loans and were repayable on demand. The Former Credit Facility contained 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 was also required to pledge 5,000,000 Trade Marks common shares.

On October 17, 2024, Food Services replaced the Former Credit Facility with a new credit facility (the "Credit Facility"). The Credit Facility is revolving and allows for Food Services to borrow up to \$325,000,000 Canadian dollar equivalent, with a \$10,000,000 sublimit for letters of credit and letters of guarantee and a \$20,000,000 sublimit for a swingline.

The Credit Facility matures on October 17, 2029 and is available on a revolving basis by way of prime rate loans, term CORRA loans and daily compounded CORRA Loans in Canadian dollars, and U.S. base rate and term Secured Overnight Financing Rate ("SOFR") loans in U.S. dollars, and letters of credit in Canadian and U.S. dollars. The marginal rate payable on the prime rate loans and U.S. base rate loans ranges from 0.75% to 2.0%, based on Food Services' ratio of Total Debt to EBITDA, as defined in the credit agreement. The marginal rate payable on the term CORRA loans, daily compounded CORRA loans, term SOFR loans and letters of credit ranges from 1.75% to 3.0%, based on Food Services' ratio of Total Debt to EBITDA. The Credit Facility is secured by a first priority lien over all of the present and future undertakings and property of Food Services.

On October 17, 2024, Food Services drew down \$265,000,000 on the Credit Facility and used the proceeds to pay off Trade Marks' \$60,000,000 term loan and the accrued interest, which totaled \$60,167,000, finance the \$175,623,000 purchase of 4,746,582 of the Trust Units and pay \$3,500,000 in financing fees associated with the Credit Facility. The Credit Facility will be used to fund working capital requirements and for general corporate purposes on an ongoing basis. Additional information on the Transaction is disclosed in notes 1 and 9.

The Credit Facility contains covenants including the requirement to meet certain debt to EBITDA and interest coverage ratios during each trailing four quarter period. Food Services was in compliance with all of its financial covenants as at March 23, 2025 and December 29, 2024.

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Financing fees of \$3,500,000 related to the Credit Facility entered into on October 17, 2024 are presented as a reduction to the carrying amount of the operating loan facility and are being amortized over the remainder of the five-year term of the Credit Facility.

The following table presents the operating loan facility for the Company:

	March 23, 2025 \$	December 29, 2024 \$
Amount of Credit Facility	325,000,000	325,000,000
Amounts drawn on Credit Facility	250,000,000	260,509,000
Less: Unamortized balance on financing fees	(3,199,000)	(3,360,000)
	<u>246,801,000</u>	<u>257,149,000</u>
Letters of guarantee issued under Credit Facility	<u>198,000</u>	<u>198,000</u>
Amount available on Credit Facility	<u>74,802,000</u>	<u>64,293,000</u>

9 Share capital

Authorized

Unlimited number of common shares

Issued

	Number of Common Shares	Share Capital \$
Balance as at December 29, 2024	<u>23,997,781</u>	<u>417,925</u>
Balance as at March 23, 2025	<u>23,997,781</u>	<u>417,925</u>

Upon completion of the Transaction Food Services issued 9,839,091 common shares to Unitholders in exchange for their Trust Units and 14,158,701 common shares of Food Services were issued to indirect shareholders of predecessor A&W Food Services as of immediately prior to closing.

Prior to the completion of the Transaction, the preferred shareholders of A&W Canada exchanged their preferred shares for non-interest bearing promissory notes payable on demand with an aggregate principal amount of \$12,522,000. On October 18, 2024, Food Services repaid the non-interest bearing promissory notes in full.

Prior to completion of the Transaction, an equity interest of 34.52% in AWFS Holdings was owned by outside parties and was recorded as a non-controlling interest in the consolidated financial statements of A&W Canada. Subsequent to the Transaction, the outside parties became direct shareholders of Food Services and as such

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their respective ownership is presented within share capital and retained earnings on the consolidated balance sheet as at March 23, 2025 and December 29, 2024.

Additional information on the Transaction is disclosed in notes 1 and 8.

10 Stock- based compensation

Deferred share units (“DSUs”)

During the 12-week period ended March 23, 2025, the Company issued 2,211 (2024-nil) DSU’s to certain directors of the Company. The DSUs vest immediately at the time of grant and are not redeemable until the director ceases to be a member of the Board. The DSUs can be settled in cash, shares of the Company, or a combination thereof at the sole discretion of the Board. The Company determined that the 2,211 DSU’s granted during the 12-week period ended March 23, 2025 are equity-settled transactions as the Company expects they will be fully settled in shares of the Company. Accordingly, an expense was recognized on the grant date equal to the fair value of the DSUs at the grant date and, with a corresponding increase in contributed surplus. During the 12-week period ended March 23, 2025, the Company recognized a stock-based compensation expense of \$70,000 (March 24, 2024 - \$nil) in relation to thee DSU’s issued.

The following table presents the outstanding DSU’s for the Company for the 12-week periods ended on the dates indicated below:

	March 23, 2025	March 24, 2024
Outstanding – beginning of period	-	-
Granted	2,211	-
Outstanding – end of period	2,211	-
Vested and exercisable – end of period	2,211	-

Restricted share units (“RSUs”)

During the 12-week period ended March 23, 2025, the Company issued 93,256 (2024-nil) RSU’s to certain employees of the Company. The RSUs vest over a period of one to five years on a graded basis are settled in shares of the Company. The RSUs are accounted for as equity-settled transactions whereby an expense is recognized equal to the fair value of the RSUs at the grant date over the vesting period, with a corresponding increase in contributed surplus. During the 12-week period ended March 23, 2025, the Company recognized a stock-based compensation expense of \$nil (March 24, 2024 - \$nil) in relation to the RSU’s issued. The fair value of the RSUs issued during the during the 12-week period ended March 23, 2025 was \$2,918,000 (2024-\$nil).

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The following table presents the outstanding RSU's for the Company for the 12-week periods ended on the dates indicated below:

	March 23, 2025	March 24, 2024
Outstanding – beginning of period	-	-
Granted	93,256	-
Outstanding – end of period	93,256	-
Vested and exercisable – end of period	-	-

11 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 March 23, 2025 \$	12-week period ended March 24, 2024 \$
At a point in time		
Advertising fund contributions	12,769	12,392
Distribution revenue and service fees	28,731	27,998
Equipment and turnkey fees	10,666	8,793
Other revenue	3,208	2,563
Over time		
Initial franchise fees and renewal fees	552	1,680
	<u>55,926</u>	<u>53,426</u>

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

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12 Expenses by nature

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

	12-week period ended March 23, 2025 \$	12-week period ended March 24, 2024 \$
Depreciation of plant and equipment	343	402
Amortization of intangible assets	569	327
Depreciation of right-of-use assets	646	611
Employee benefit costs		
Wages, salaries, bonuses and other termination benefits	8,482	8,587
Pension costs – defined contribution plan	307	290
Total employee benefit costs	<u>8,789</u>	<u>8,877</u>

13 Finance income and expense

	12-week period ended March 23, 2025 \$	12-week period ended March 24, 2024 \$
Interest on cash and cash equivalents	73	22
Interest on leases receivable	<u>5,887</u>	<u>5,526</u>
Finance income	<u>5,960</u>	<u>5,548</u>
	12-week period ended March 23, 2025 \$	12-week period ended March 24, 2024 \$
Interest on operating loan facility	3,374	200
Standby fees	65	12
Interest on supplementary retirement benefit plan	113	113
Interest on lease liabilities	6,116	5,708
Amortization of deferred financing fees	<u>161</u>	<u>-</u>
Finance expense	<u>9,829</u>	<u>6,033</u>

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	12-week period ended March 23, 2025 \$	12-week period ended March 24, 2024 \$
Finance income	(5,960)	(5,548)
Finance expense	9,829	6,033
Net finance expense	<u>3,869</u>	<u>485</u>

14 Working capital

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

	12-week period ended March 23, 2025 \$	12-week period ended March 24, 2024 \$
Accounts receivable	7,133	5,150
Inventories	3,678	3,325
Prepaid expenses	1,597	591
Accounts payable and accrued liabilities	(14,985)	(2,044)
Royalties payable	-	(66)
	<u>(2,577)</u>	<u>6,956</u>

15 Net income per share

Net income per share is calculated by dividing the net income attributable to Food Services shareholders by the weighted average number of common shares outstanding during the period. In order to improve comparability of net income per share, the number of shares used to calculate the net income per share for the comparative 12-week period ending March 24, 2024, which is prior to October 17, 2024 (the date of the Transaction), has been adjusted to reflect the equivalent number of common shares of Food Services that were outstanding after the reorganization steps described in note 1 were undertaken, excluding the common shares issued to the outside party holding a non-controlling interest in Food Services prior to the completion of the Transaction and those issued to Unitholders as consideration for the Transaction which were incorporated into the weighted average number of shares from the date of the Transaction onwards.

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Diluted net income per share for the periods indicated below were calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares as follows:

	12-week period ended March 23, 2025	12-week period ended March 24, 2024
Net income attributable to shareholders of the Company and used to determine basic and diluted net income per share	\$8,895	\$4,763
Weighted average number of shares outstanding (thousands)	23,998	9,495
Dilutive effect of RSUs and DSUs (note 10)	5	-
Weighted average number of shares for diluted net income per share (thousands)	24,003	9,495
Diluted net income per share	\$0.37	\$0.50

16 Financial instruments and financial risk management

Food Services' financial instruments consist of cash and cash equivalents, accounts receivable, leases receivable, other receivables, accounts payable and accrued liabilities and operating loan facility.

Fair values

Management estimates that the fair values of cash and cash equivalents, accounts receivable, other receivables, and accounts payable and accrued liabilities and operating loan facility approximate their carrying values given the short term maturity of these instruments. The fair value of leases receivable approximates their carrying value as the implicit interest used to discount the base value is considered to be based on an appropriate credit and risk rate pertaining to Food Services. The Credit Facility is based on the floating CORRA and Prime rates which reprice regularly. There has not been a significant change in the Company's credit standing in the period between October 17, 2024 and March 23, 2025. Accordingly, it is estimated there is not a material change in fair value of the drawn portion of the Credit Facility.

17 Related party transactions and balances

During the prior year 12-week period ended March 24, 2024, Food Services recognized a royalty expense of \$11,553,000, of which \$4,028,000 was payable to the Partnership as at March 24, 2024 and paid to the Partnership on April 18, 2024, subsequent to the period end. The royalty expense ceased upon the completion of the Transaction on October 17, 2024.

During the prior year 12-week period ended March 24, 2024, Trade Marks declared two dividends payable to Food Services totaling \$1,443,000 as a result of Food Services' ownership of Trade Marks' common shares. The second dividend amounted to \$721,000 and was declared on March 4, 2024 but paid to Food Services on March 29, 2024, subsequent to the period end, and was therefore reported as a current asset as at March 24, 2024. Trade Marks did not declare any dividends subsequent to the completion of the Transaction.

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During the prior year 12-week period ended March 24, 2024, the Fund declared two distributions totalling \$482,000 payable to Food Services as a result of Food Services' ownership of Limited Voting Units. The second distribution amounted to \$241,000 and was declared on March 4, 2024 but paid to Food Services on March 29, 2024, subsequent to the period end, and was therefore reported as a current asset. The Fund did not declare any distributions subsequent to the completion of the Transaction.

During the prior year 12-week period ended March 23, 2024, Food Services recognized \$48,000 as an offset to general and administrative expenses as a result of administrative services provided to Trade Marks and the Fund. Following the completion of the Transaction, Food Services did not receive any further payments from Trade Marks for administrative services.

Prior to completion of the Transaction there was an expense sharing agreement (the "Expense Agreement") in place that outlined an arrangement amongst Food Services, the Fund 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 Transaction incurred at or prior to the public announcement of the Transaction. Pursuant to the Expense Agreement, Food Services 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 prior year 12-week period ended March 24, 2024, Food Services paid a total of \$120,000 in costs incurred by the Fund related to the Transaction under the terms of the Expense Agreement.

Key management compensation

Key management includes the Company's directors and executive team. Compensation awarded to key management includes:

	12-week period ended March 23, 2025 \$	12-week period ended March 24, 2024 \$
Salaries, bonuses and other short-term employee benefits	928	702
Pension costs – defined contribution plan	71	49
Pension costs – supplementary retirement benefit plan	113	113
Stock-based compensation	70	-
	1,182	864

During the 12-week period ended March 23, 2025, the directors of the Company earned director's fees payable in cash totaling \$94,000 (March 24, 2024 - \$nil), all of which was in accounts payable and accrued liabilities as at March 23, 2025 (December 29, 2024 - \$165,000). The Company also granted 2,211 DSUs to the directors of the Company and granted 93,256 RSUs to executives and recognized \$70,000 in stock-based compensation expense in the 12-week period ended March 23, 2025 (March 24, 2024 - \$nil). The director fees payable in cash are reflected in salaries, bonuses and other short-term employee benefits in the table above and the stock-based compensation expense related to the RSUs and DSUs granted is included in stock-based compensation in the table above. See note 10 for further details on the RSUs and DSUs granted.

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18 Segment information

Operating segments are components of the Company that engages in business activities from which they earn revenues and incur expenses, the operations of which can be clearly distinguished, and the operating results of which are regularly reviewed by the chief operating decision maker (“CODM”) for the purposes of resource allocation and assessing its performance. The Company’s CODM has been identified as the Chief Executive Officer (“CEO”). Management has determined that the Company operates in a single reportable segment, being the business of developing and franchising quick service restaurants. The Company also has one geographic segment as all assets and operations are in Canada. Accordingly, the results of the segment and assets and liabilities are disclosed in the Consolidated Statements of Income and Consolidated Statement of Balance sheets respectively.

19 Subsequent event

On March 5, 2025, Food Services declared dividends payable to its shareholders totalling \$11,519,000. The dividends were paid to shareholders on March 28, 2025, subsequent to the period end, and were therefore presented as a payable as of March 23, 2025.