



**A&W Food Services of Canada Inc.
Report to Unitholders of A&W Revenue Royalties Income Fund
January 1, 2023 to December 31, 2023**

This report and the annual consolidated financial statements of A&W Food Services of Canada Inc. (“A&W” or “Food Services”) for the 52 weeks ended December 31, 2023 are provided as a supplement to the audited annual consolidated financial statements and Management Discussion and Analysis of the A&W Revenue Royalties Income Fund (the “Fund”) for the year ended December 31, 2023. This report is dated February 27, 2024 and should be read in conjunction with 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. and A&W Trade Marks Limited Partnership

To align its financial reporting with the business cycle of its operations, Food Services uses a fiscal year comprising a 52 or 53 week period ending on the Sunday nearest December 31. The fiscal 2023 year was 52 weeks and ended December 31, 2023 (2022 – 52 weeks ended January 1, 2023). System Sales, System Sales Growth and Same Store Sales Growth – Franchised Restaurants for the 16 weeks and 52 weeks ended December 31, 2023 are compared to the 16 weeks and 52 weeks ended December 31, 2022 so that the two years are comparable.

The financial results reported in this report are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IFRS Accounting Standards”). The accounting policies applied in the audited annual consolidated financial statements and this report have been consistently applied to all years presented unless otherwise stated.

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)	52-week period ended Dec 31, 2023	52-week period ended Jan 1, 2023
System Sales ⁽ⁱ⁾	\$1,853,119	\$1,776,205
System Sales Growth ⁽ⁱⁱ⁾	4.3%	10.4%
Same Store Sales Growth - Franchised Restaurants ⁽ⁱⁱⁱ⁾	2.7%	7.4%
New restaurants opened	19	23
Restaurants permanently closed	11	6
Number of restaurants	1,054	1,046
Gross sales reported by A&W restaurants in the Royalty Pool ⁽ⁱⁱⁱ⁾	\$1,832,069	\$1,739,377
Royalty Pool Same Store Sales Growth ⁽ⁱⁱⁱ⁾	2.7%	7.4%
Number of restaurants in the Royalty Pool	1,037	1,015
Revenue from franchising	\$276,121	\$277,895
Revenue from corporate restaurants	23,193	21,467
Total revenue	299,314	299,362
Operating costs and general and administrative expenses	(211,056)	(215,545)
Depreciation of plant, equipment intangible asset and right-of-use assets	5,010	4,461
Operating Earnings ⁽ⁱ⁾	93,268	88,278
Royalty expense	(54,863)	(52,100)
Income before taxes	47,083	45,308
Net income	\$38,012	\$36,402

⁽ⁱ⁾ “System Sales” and “Operating Earnings” are a 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)	52-week period ended Dec 31, 2023	52-week period ended Jan 1, 2023
Revenue from corporate restaurants	\$23,193	\$21,467
Sales reported by franchised restaurants	1,829,926	1,754,738
System Sales	\$1,853,119	\$1,776,205

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)	52-week period ended Dec 31, 2023	53-week period ended Jan 1, 2023
Income before taxes	\$47,083	\$45,308
Depreciation of plant, equipment, intangible asset and right-of-use assets	5,010	4,461
Royalty expense	54,863	52,100
Impairment (recovery) of leases receivable	43	(521)
Finance expense - net	1,387	1,190
Amortization of deferred gain	(3,703)	(3,495)
Share of income from associates	(11,415)	(10,765)
Operating Earnings	\$93,268	\$88,278

Non-IFRS Measures

Food Services believes that disclosing certain non-IFRS financial measures provides readers of this report with important information regarding Food Services’ financial performance and its ability to pay the royalty to the Partnership. By considering these measures in combination with IFRS measures, Food Services believes that readers are provided with additional and more useful information about Food Services than readers would have if they simply considered IFRS measures alone. These measures do not have a standardized meaning prescribed by IFRS and Food Services’ method of calculating these measures may differ from those of other issuers or companies and may not be comparable to similar measures used by other companies.

Non-IFRS financial measures

The following non-IFRS financial measures are disclosed in this report:

System Sales. System Sales is a non-IFRS financial measure and is calculated in respect of all A&W restaurants in Canada as the sum of (1) gross sales reported to Food Services by franchisees of such A&W restaurants without audit, verification or other form of independent assurance and (2) revenue from corporate restaurants. System Sales reflect sales after deducting amounts for discounts for coupons and other promotional offerings and applicable sales taxes. Food Services believes System Sales is a key performance indicator as it is the main driver of Food Services’ revenues and provides an indication of the growth of the overall A&W restaurant chain. See “System Sales”. Refer to the “Selected Information”

section for a reconciliation of System Sales to revenue from corporate restaurants, the most comparable IFRS measure, for the current and comparable reporting period.

Operating Earnings. Operating Earnings is a non-IFRS financial measure and is calculated by taking income before taxes and adding back the depreciation on plant, equipment and right-of-use assets, royalty expense, recovery of 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 A&W restaurant chain. See “System Sales”.

Non-IFRS supplementary financial measures:

The following non-IFRS supplementary financial measures are disclosed in this report:

Same Store Sales Growth – Franchised Restaurants. Same Store Sales Growth – Franchised Restaurants in 2023 versus 2022 reflects the change in gross sales of franchised A&W restaurants that operated during the entire 52-week periods ended December 31, 2023 and January 1, 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 entire 52-week periods ended December 31, 2023 and January 1, 2023 and is based on an equal number of days in each 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 fourth quarter of 2023 was +2.1% as compared to the fourth quarter of 2022. Same Store Sales Growth – Franchised Restaurants⁽ⁱⁱⁱ⁾ for the 52-week period ended December 31, 2023 was +2.7% as compared to the 52-week period ended January 1, 2023. Same Store Sales Growth – Franchised Restaurants is a function of changes in guest counts and check size, both of which are impacted by sales mix and menu price changes.

The Q4 2023 Same Store Sales Growth – Franchised Restaurants⁽ⁱⁱⁱ⁾ of +2.1% and year to date Same Store Sales Growth – Franchised Restaurants⁽ⁱⁱⁱ⁾ of +2.7% was mainly a product of an increase in average check size due to industry-wide inflation on goods, services, and labour, a rebound in sales at shopping center and urban locations and innovative new menu items such as the A&W Brew BarTM.

⁽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 fourth quarter of 2023 were \$577,615,000, an increase of 3.4% or \$18,873,000 from the fourth quarter of 2022. System Sales⁽ⁱ⁾ for the 52-week period ended December 31, 2023 were \$1,853,119,000, an increase of 4.3% or \$76,914,000 from the 52-week period ended January 1, 2023. The increase in System Sales was driven by the increase in Same Store Sales Growth – Franchised Restaurants discussed above as well as the net addition of new restaurants. See “New Restaurant Openings and Permanent Restaurant Closures” and “Financial Highlights” for further information.

⁽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

Food Services opened 19 new A&W restaurants, 9 of which were opened during the fourth quarter. This compares to 23 restaurants opened during the year ended January 1, 2023 and 9 openings in the fourth quarter of 2022. Eleven restaurants were permanently closed in the 2023 year, 3 of which closed during the fourth quarter, versus 6 permanent closures in the 2022 year, 1 of which was in the fourth quarter of 2022. As at December 31, 2023, there were 1,054 A&W restaurants in Canada, of which 1,044 were operated by franchisees and 10 were corporately owned and operated.

Overview

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

Food Services’ operating costs include the cost of materials, supplies and equipment sold either directly to franchisees or to distributors that service the restaurants or that are sold to the licenced bottlers, and costs of sales and other expenses of the restaurants operated corporately by Food Services. General and

administrative expenses are expenses associated with providing services to the franchised A&W restaurants and establishing new A&W restaurants.

The A&W trade-marks used in the A&W quick service restaurant business in Canada are owned by the Partnership. The Partnership has granted Food Services a licence (the “Amended and Restated Licence and Royalty Agreement”) to use the A&W trade-marks in Canada for a term expiring December 30, 2100, for which Food Services is required to pay a royalty of 3% of the gross sales reported by those A&W restaurants in the Royalty Pool which are identified in the Amended and Restated Licence and Royalty Agreement, as amended from time to time.

Annual Adjustment to the Royalty Pool

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

The 2023 annual adjustment to the Royalty Pool took place on January 5, 2023. The number of A&W restaurants in the Royalty Pool was increased by 29 new restaurants less 7 restaurants that permanently closed during 2022. The Partnership paid Food Services \$12,895,000 by issuance of 380,368 LP units to Food Services, representing 80% of the initial consideration based on the estimated annual sales of the net new restaurants. The LP units were subsequently exchanged for 760,736 non-voting common shares of Trade Marks.

The final adjustment to the number of LP units issued was made on December 7, 2023, based on the actual annual sales reported by the new restaurants. The actual annual sales of the 29 new A&W restaurants were \$45,565,000, compared to the original estimate of \$44,339,000, resulting in total consideration of \$16,600,000 payable to Food Services. The remaining consideration of \$3,705,000 was paid to Food Services by issuance of 109,332 additional LP units, which were exchanged for 218,664 non-voting common shares of Trade Marks.

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 initial consideration for the estimated royalty revenue from the net 10 restaurants added to the Royalty Pool is \$8,307,000. The Partnership paid Food Services \$6,646,000 by issuance of 218,029 LP units, representing 80% of the initial consideration. The LP units were exchanged for 436,058 non-voting common shares of Trade Marks. The remaining 20% or \$1,661,000 and a final adjustment to the consideration based on the actual annual sales reported by the new

restaurants will be paid in December 2024 by issuance of additional LP units, which may be exchanged for non voting common shares of Trade Marks.

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 (28.1% as of January 1, 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 three most recently completed financial years:

(dollars in thousands)	Fund			Food Services			Total	
	Number of shares	Trade Marks' book value	%	Number of shares	Trade Marks' book value	%	Number of shares	Trade Marks' book value
		\$			\$			\$
Balance as at January 2, 2022	32,185,311	227,798	83.5	6,330,981	81,191	16.5	38,516,292	308,989
January 5, 2022 adjustment to the Royalty Pool ⁽¹⁾	-	-	(2.6)	1,270,460	24,558	2.6	1,270,460	24,558
Balance as at January 1, 2023	32,185,311	227,798	80.9	7,601,441	105,749	19.1	39,786,752	333,547
January 5, 2023 adjustment to the Royalty Pool ⁽³⁾	-	-	(1.9)	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

⁽¹⁾ The number of common shares includes the 190,903 LP units exchanged for 381,806 common shares of Trade Marks representing the remaining consideration paid in December 2022 for the January 5, 2022 adjustment to the Royalty Pool.

⁽²⁾ The number of common shares 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.

Ownership of the Fund

The table below shows the ownership of the Fund as of December 31, 2023 and January 1, 2023 on a fully-diluted basis, where the ownership of the Fund as at December 31, 2023 includes the issuance of the excess exchangeable LP units that represent the remaining 20% of the initial consideration for the January 5, 2023 adjustment to the Royalty Pool that are payable to Food Services in December 2023.

	December 31, 2023		January 1, 2023	
	Number of units	%	Number of units	%
Units held by public unitholders	14,585,673	71.6	14,585,673	73.3
Limited Voting Units held by Food Services ⁽¹⁾	1,507,020	7.4	1,507,020	7.6
Number of Trust Units issuable upon exchange of securities of Trade Marks held by Food Services ⁽²⁾	4,290,421	21.0	3,800,721	19.1
Total equivalent units	20,383,114	100.0	19,893,414	100.0

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

The chart below shows the ownership of the Fund, on a fully-diluted basis, 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.

	Number of units	%
Units held by public unitholders	14,585,673	70.8
Limited Voting Units held by Food Services ⁽¹⁾	1,507,020	7.3
Number of Trust Units issuable upon exchange of securities of Trade Marks held by Food Services ⁽²⁾	4,508,450	21.9
Total equivalent units	20,601,143	100.0

- (3) 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.
- (4) 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.

2023 Operating Results

Revenue

Food Services' franchising and corporate restaurants revenue for 2023 was \$299,314,000 consistent with franchising and corporate revenue in 2022 of \$299,362,000. This was a result of higher service fees, contributions to the National Advertising Fund and revenue related to the distribution of food and supplies as a result of the increase in Same Store Sales Growth – Franchised Restaurants. This was offset by a decrease in revenue related to equipment sales as a result of a larger proportion of the A&W Brew Bar roll out being in 2022 and a slight reduction in revenue related to the sale of equipment for new restaurants due to Food Services opening fewer restaurants in 2023 as compared to 2022. See the "Overview" section of this report for a discussion on the A&W Brew Bar program and its roll out.

TM trademark of the Partnership, used under licence.

Corporate restaurant System Sales were \$23,193,000 for 2023 compared to \$21,467,000 for 2022. The increase of \$1,726,000 was primarily due to stronger sales performance in shopping centre corporate locations.

Operating costs and general and administrative expenses

Operating costs for 2023 were \$157,311,000 compared to \$167,840,000 for 2022, an decrease of \$10,529,000. In line with the decreases in revenue noted above, operating costs decreased due to decreases in the cost and volume of equipment that was sold to existing restaurants, partially offset by an increase in advertising expenses incurred by the National Advertising Fund.

General and administrative expenses represent costs of providing services to franchised restaurants and establishing new restaurants, and were \$53,745,000 for 2023 compared to \$47,705,000 for 2022, an increase of \$6,040,000. The increase in general and administrative expenses is largely attributable to travel and other business activities which have resumed to a normal pace, post pandemic.

Operating Earnings

(dollars in thousands)	52-week period ended Dec 31, 2023	52 -week period ended Jan 1, 2023
Operating Earnings ⁽ⁱ⁾	\$93,268	\$88,278

Operating Earnings⁽ⁱ⁾ increased by \$4,990,000 to \$93,268,000 in 2023 as compared to \$88,278,000 for 2022. The increase in Operating Earnings is attributable to the decrease in operating costs partially offset by an increase in general and administrative expenses.

⁽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 2023 was \$54,863,000 compared to \$52,100,000 for 2022. The increase in royalty expense is attributable to the increase in Gross sales reported by A&W restaurants in the Royalty Pool which was driven by the increase in Royalty Pool Same Store Sales Growth and the gross sales from the additional net 22 new restaurants added to the Royalty Pool on January 5, 2023. See "Annual Adjustment to the Royalty Pool". It is important to note that the royalty expense for 2023 and 2022 reported by Food Services differ in the amounts of the royalty income reported by the Fund as the Fund's royalty income is based on Gross sales reported by A&W restaurants in the Royalty Pool from January 1, 2023 to December 31, 2023 (2022 – January 1, 2022 to December 31, 2022) whereas the royalty expense reported by Food Services is based on Gross sales reported by A&W restaurants in the Royalty Pool from January 2, 2023 to December 31, 2023 (2022 – January 3, 2022 to January 1, 2023) resulting in the Fund reporting one additional day of royalty income in 2023.

Impairment of lease receivables

Food Services is the head lessee for the majority of its franchised locations and enters into agreements whereby Food Services licences the premises to the franchisee, for which Food Services receives a premises licence fee. Under the licence agreement, the franchisee is responsible for the obligations under the lease. IFRS 16 requires Food Services, where it acts as the intermediate lessor, to recognize a lease receivable. Lease receivables are reviewed for impairment based on expected losses at each balance sheet date in accordance with IFRS 9 – Financial Instruments. An impairment loss is recorded when the credit risk is assessed to have increased for the lease receivables. Food Services has developed a risk matrix used to assess the credit risk of all head leases. Food Services recorded an expected credit loss provision on leases receivable of \$1,779,000 as at December 31, 2023 (January 1, 2023 – \$1,736,000). A \$43,000 increase in the provision has been recognized on leases receivable in 2023 (2022 – recovery of \$521,000).

Finance expense - net

(dollars in thousands)	52-week period ended Dec 31, 2023	52-week period ended Jan 1, 2023
Net interest (income) expense	\$75	\$(76)
Standby fees	93	98
Interest cost on supplementary retirement benefit plan	490	406
Interest on lease receivables	(22,709)	(22,816)
Interest on lease liabilities	23,414	23,522
Amortization of deferred financing fees	23	56
	\$1,387	\$1,190

Finance expense - net was consistent in 2023 as compared to 2022.

Food Services' share of income from associates

As a result of the annual adjustment to the Royalty Pool and the exchange rights granted under the Amended and Restated Declaration of Trust and the Amended and Restated Exchange Agreement, Food Services owns common shares of Trade Marks and as a result of Food Services exchanging common shares of Trade Marks for Limited Voting Units, Food Services also has direct ownership in the Fund. These investments are accounted for as investments in associates and are recorded using the equity method. As at December 31, 2023 Food Services had a 21.0% investment in Trade Marks (January 1, 2023 – 19.1%) and a 9.4% investment in the Fund (January 1, 2023 – 9.4%). Taken together, Food Services' ownership of exchangeable common shares of Trade Marks and Limited Voting Units equated to Food Services owning 28.4% of the total equivalent units of the Fund on a fully diluted basis as at December 31, 2023 (26.7% as at January 1, 2023). Subsequent to year end, with the adjustment to the Royalty Pool on January 5, 2024, as previously discussed, Food Services' indirect interest in the Fund increased to 29.4% on a fully diluted basis.

Food Services' share of income from associates for 2023 totaled \$11,415,000 compared to \$10,765,000 for 2022. The increase is attributable to an increase in the earnings of Trade Marks and the Fund which was largely driven by higher royalty income due to the 22 net new restaurants added to the Royalty Pool on January 5, 2023 and an increase in Gross sales reported by A&W restaurants in the Royalty Pool.

Net income

(dollars in thousands)	52-week period ended Dec 31, 2023	52-week period ended Jan 1, 2023
Operating Earnings ⁽ⁱ⁾	\$93,268	\$88,278
Royalty expense	(54,863)	(52,100)
(Impairment) recovery of lease receivables	(43)	521
Finance expense – net	(1,387)	(1,190)
Depreciation of plant, equipment, intangible asset and right-of-use assets	(5,010)	(4,461)
Amortization of deferred gain	3,703	3,495
Share of income from associates	11,415	10,765
Income before income taxes	47,083	45,308
Provision for income taxes	9,071	8,906
Net income for the period	\$38,012	\$36,402

Income before income taxes for 2023 increased by \$1,775,000 to \$47,083,000 in 2023 from \$45,308,000 in 2022. The \$4,990,000 increase in Operating Earnings⁽ⁱ⁾ and \$650,000 increase in income from associates is offset by a \$2,763,000 increase in royalty expense, a reduction in the recovery of impairment of lease receivables and an increase in depreciation as a result of the intangible asset.

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

Net income attributable to non-controlling interests

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

Other comprehensive income

Other comprehensive income consists of actuarial gains and losses, net of tax, on the supplementary retirement benefit plan. Actuarial gains result from an increase in the discount rate used to determine the accrued benefit obligation and actuarial losses result from a decrease in the discount rate. There was an actuarial loss, net of tax, of \$548,000 recognized in 2023 (2022 – gain, net of tax, of \$1,662,000).

Liquidity and Capital Resources

Food Services is primarily a franchise business with 1,044 of its 1,054 (as at December 31, 2023) restaurants franchised. Food Services’ capital requirements are related to its corporate restaurants and head office and investments in technology and information systems. Future restaurant growth is expected to continue to be funded by franchisees although from time to time, Food Services expects to incur capital expenditures to open new corporate restaurants in the Ottawa market. Food Services expects to have sufficient capital resources to fund these capital requirements and has sufficient cash on hand to meet its obligations.

Food Services has a \$40,000,000 demand operating loan facility with a Canadian chartered bank (the “Bank”). On May 4, 2023, Food Services extended its operating loan facility on terms and conditions substantially consistent with those of the previous operating loan facility in place with the Bank. The operating loan facility is set to mature on May 31, 2024.

The \$40,000,000 facility is used to fund working capital requirements and for general corporate purposes. Amounts advanced under the \$40,000,000 facility bear interest at the Bank prime rate plus 1.0% and are repayable on demand. The operating loan facility contains covenants including the requirement to meet certain debt to earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) ratios and debt to Food Services’ investment in Trade Marks ratios during each trailing four quarter period. Food Services is also required to pledge 5,000,000 Trade Marks common shares. Food Services was in compliance with all of its financial covenants as February 27, 2024 and December 31, 2023.

As at December 31, 2023, Food Services had drawn \$15,726,000 on the credit facility (\$8,149,000 – January 1, 2023), of which \$3,366,000 was repaid by January 28, 2024, and had issued \$198,000 in letters of guarantee (January 1, 2023 – \$198,000), leaving \$24,076,000 of the facility available (January 1, 2023 – \$31,653,000).

In 2020, Food Services’ shareholder invested \$10,000,000 of common equity in the Company to ensure sufficient liquidity during the period of uncertainty caused by COVID-19. During the second quarter of 2022, Food Services returned the \$10,000,000 of capital to its shareholder. \$5,000,000 was paid out of Food Services’ available working capital in the second quarter of 2022 and the remaining \$5,000,000 was paid out of Food Services’ available working capital in the fourth quarter of 2022.

Off-Balance Sheet Arrangements

Food Services has no off-balance sheet arrangements.

Related Party Transactions and Balances

Royalty expense for 2023 was \$54,863,000 (2022 - \$52,100,000), of which \$4,094,000 (January 1, 2023 - \$3,891,000) is payable to the Partnership at December 31, 2023.

In 2023, Trade Marks declared and paid dividends of \$8,237,000 (2022 - \$7,126,000) to Food Services as a result of Food Services’ ownership of Trade Marks’ common shares.

In 2023, the Fund declared distributions of \$2,893,000 (2022 – \$2,826,000) payable to Food Services as a result of Food Services’ ownership of Limited Voting Units. The \$241,000 distribution declared on December 7, 2023 was paid to Food Services subsequent to the period end on January 31, 2024 and is reported as a current asset as at December 31, 2023 (January 1, 2023 – \$241,000).

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 2023, Food

Services recognized \$190,000 (2022 - \$175,000) as an offset to general and administrative expenses related to administrative services provided to Trade Marks, all of which was paid as at December 31, 2023 (January 1, 2023 - \$nil).

In 2023, Food Services paid \$90,000 (2022 – \$nil) to a professional baseball club, of which a director of Food Services is a part owner, in exchange for advertising the A&W brand at the ballpark and tickets to the baseball games. At December 31, 2023, \$nil (January 1, 2023 – \$nil) is payable to the baseball club by Food Services.

Other related party transactions and balances are referred to elsewhere in this report, including, without limitation, under the headings “Annual Adjustment to the Royalty Pool”, “Common Shares of A&W Trade Marks Inc.”, “Ownership of the Fund” and “Liquidity and Capital Resources”.

Critical Accounting Estimates

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

Risks and Uncertainties

Economic Conditions

Food Services’ profitability and correspondingly, the funds available to be paid as dividends by Trade Marks to Food Services and the Fund and available to distribute to unitholders of the Fund, are indirectly impacted by consumer discretionary spending which is influenced by general economic conditions. These economic conditions could include economic recession or changes in the rate of inflation or deflation, unemployment rates and household debt, political uncertainty, interest rates currency exchange rates or derivative or commodity prices, such as fuel and energy costs. A number of these conditions could impact consumer spending and, as a result, payment patterns could deteriorate or remain unpredictable due to global, national, regional or local economic volatility. Uncertain economic conditions may adversely impact demand for A&W’s products and services which could adversely affect the Fund’s financial performance.

International Conflict

International conflict and other geopolitical tensions and events, including war, military action, terrorism, trade disputes, and international responses thereto have historically led to, and may in the future lead to, uncertainty or volatility in the global supply chain and financial markets. Currently, there are various factors that impact geopolitical risk and uncertainty, including but not limited to the elevated geopolitical risk exemplified by ongoing active conflicts in the Middle East, between Israel and Palestine, and

in Europe, between Russia and Ukraine, as well as risks associated with China-Taiwan tensions. The imposition of strict economic sanctions by Canada, the United States, the European Union, the United Kingdom and others in response to such conflict may have a destabilizing effect on commodity prices, supply chain and global economies more broadly. Supply chain disruptions may adversely affect the business, financial condition, and results of operations for Food Services, its franchisees and the Fund. The extent and duration of international conflicts, geopolitical tensions and related international action cannot be accurately predicted and the effects of such conflicts may magnify the impact of the other risks identified herein and in the Fund's most recent Annual Information Form, available on the Fund's SEDAR+ profile at www.sedarplus.ca.

Outlook

2023 has yielded a continuation of the challenging general economic conditions that arose post pandemic. Interest rate increases, rates of inflation, consumer confidence and diminishing disposable income are all impactful on consumer discretionary spending.

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

A&W is proud to be a Canadian company, 100% Canadian owned and operated, and a leader in sourcing simple, great-tasting ingredients, farmed with care. In 2013, Food Services launched an initiative to focus on natural ingredients and became the first and only national burger chain in Canada to serve beef raised without artificial hormones or steroids. This was then followed by the introduction of countless other natural ingredient firsts.

In 2018, A&W further strengthened its positioning as a leader in food and innovation with the introduction of the Beyond Meat⁽¹⁾ branded plant-based burger. Food Services was very excited to be the first national burger chain in Canada to offer this plant-based burger patty and A&W continues to enhance its position as a leader in great tasting plant-based options with regular introductions of new recipes and products to its plant-based line-up.

⁽¹⁾ Trademark of Beyond Meat, Inc., used under licence.

In 2020, A&W announced that all of its beef is grass-fed and grass-finished, from cattle that graze on grass and other forage, like hay.

In 2021, Food Services announced that it was expanding the beverage offerings at A&W restaurants with the phased rollout of the A&W Brew Bar. 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 620 A&W restaurants across the country.

TMtrademark of A&W Trade Marks Limited Partnership, used under licence.

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 CupTM” nationwide in late 2023, an exchangeable cup program.

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

Food Services has continued to grow new A&W restaurants, particularly in the key Ontario and Quebec markets. Nineteen new A&W restaurants opened in 2023, nine of which were opened during the fourth quarter of 2023, and an additional eleven restaurants were under construction as at December 31, 2023.

A&W’s brand positioning is strong. Growth of new locations, industry leading innovation, a safe and stable supply chain, and continued efforts to consistently deliver great food and a better guest experience are all expected to contribute to building loyalty and enhancing performance over the long term. Food Services remains committed to the long-term health and success of its franchise network and the Fund.

On June 2, 2022 Food Services announced that it had signed a Country Agreement (the "Country Agreement") with UK-based Pret A Manger (Europe) Limited ("Pret"), which sets forth the general terms and conditions granting Food Services master franchisor rights to Canada for Pret.

Pursuant to the Country Agreement, Food Services has the exclusive right to use the Pret brand in Canada for a two-year pilot (the “Trial Phase”). If the Trial Phase is successful, Food Services will have the exclusive right to expand the Pret brand across Canada pursuant to an agreed development plan. As at December 31, 2023, five A&W locations (three in Vancouver and two in Toronto) were offering a range of Pret products in their restaurants with another 20 locations across the country offering Pret coffee and pastries.

The royalty payable to the Fund applies to Pret products sold within A&W restaurants during the Trial Phase to the extent that such restaurants are in the Royalty Pool. Should the Trial Phase prove successful, the Royalty will also be earned by the Fund on the sales of any Pret products made within A&W restaurants thereafter.

FORWARD LOOKING INFORMATION

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

The forward-looking information in this report includes, but is not limited to; the expectation that the Trustees will continue to review distribution levels on a regular basis and that any change in monthly distributions will be implemented with a view to maintain the continuity of uniform monthly distributions;

timing for the payout of distributions; estimates regarding annual sales; expectations regarding improvements in sales trends at A&W restaurants; Food Services' expectation that the food service industry, and more particularly the QSR segment, will continue to recover and grow; statements regarding future adjustments to the Royalty Pool; statements regarding the potential impact of international conflicts; Food Service's objectives with respect to the A&W restaurants and its planned strategies to achieve those objectives; the expectation that Trade Marks will remain in compliance with all covenants related to its term debt based on current projections; the expectation that Food Services will remain in compliance with all covenants related to its operating loan facility based on current projections; timing for the maturity of the operating loan facility; Food Services' expectation that future restaurant growth will be funded by franchisees; Food Services' expectation that it will incur capital expenditures to open new corporate restaurants in the Ottawa market and that it will have sufficient capital resources to fund these capital requirements; Food Services' ability to continue to grow and better position it to withstand the risks associated with the current economic conditions; delivering strong results and improved market share as the quick service restaurant industry and the quick service restaurant burger market continue to grow; future introductions of new recipes and products to its plant-based line-up; a reduction in environmental impact through conscious use of packaging, waste, energy and water, and high-efficiency equipment resulting in a reduction in energy usage; Food Services' commitment to the long-term health and success of its franchise network and the Fund; expectations for increased loyalty and enhancing performance over the long term; the potential expansion of the Pret brand across Canada; success of the Trial Phase and the Royalty being earned by the Fund on the sales of any Pret products made within A&W restaurants; and Food Services remaining committed to the long-term health and success of its franchise network and the Fund.

The forward-looking information is based on various assumptions that include, but are not limited to:

- there are no changes in availability of experienced management and hourly employees;
- there are no material changes in government regulations concerning menu labelling and disclosure and drive-thru restrictions;
- no publicity from any food borne illness;
- no material changes in competition;
- no material increases in food and labour costs;
- the continued availability of quality raw materials;
- continued additional franchise sales and maintenance of franchise operations;
- Food Services is able to maintain and grow the current system of franchises;
- Food Services is able to locate new retail sites in desirable locations;
- Food Services is able to obtain qualified operators to become A&W franchisees;
- existing franchisees are able to successfully operate and grow their businesses and maintain profitability;
- no material impact from new or increased sales taxes upon gross sales;
- continued availability of key personnel;
- continued ability to preserve intellectual property;
- no material litigation from guests at A&W restaurants;
- Food Services continues to pay the royalty;
- Food Services can continue to comply with its obligations under its credit arrangements;
- Trade Marks can continue to comply with its obligations and covenants under its credit arrangements;

- the Fund will receive sufficient revenue in the future (in the form of royalty payments from Food Services) to maintain the payment of monthly distributions;
- the projections for the A&W business provided by Food Services are accurate; and
- Food Services will be successful in executing on its business strategies and such strategies will achieve their intended results.

The forward-looking information is subject to risks, uncertainties and other factors related to the quick service restaurant industry that include, but are not limited to:

- the general risks that affect the restaurant industry in general and the quick service segment in particular, including competition with other well-capitalized franchisors and operators of quick service restaurants;
- changes in consumer preferences that adversely affect the consumption of quick service restaurant hamburgers, chicken, fries, breakfast items or soft drinks;
- failure to anticipate and address industry trends;
- the impacts of fluctuations in consumer discretionary spending;
- negative publicity, litigation or complaints from perceived or actual food safety events or other events involving the foodservice industry in general or A&W restaurants in particular;
- changes in the availability and quality of raw materials, including A&W's natural ingredients;
- the possible lack of success of new products and advertising campaigns;
- changes in climate or increases in environmental regulation;
- changes in Food Services' ability to continue to grow same store sales, locate new retail sites in desirable locations and obtain qualified operators to become A&W franchisees;
- increases in closures of A&W restaurants adversely affecting the royalty;
- decreases in traffic at shopping centres and other retail modes;
- changes in Food Services' ability to pay the royalty due to changes in A&W franchisees' ability to generate sales and pay franchise fees and other amounts to Food Services;
- changes in government regulation that affect the restaurant industry in general or the quick service restaurant industry in particular, including franchise legislation and sales tax legislation;
- changes in the availability of key personnel, including qualified franchise operators;
- changes in the ability to enforce or maintain intellectual property;
- technological breakdowns, cybersecurity breaches and the security of consumer and personal information;
- the amplificatory effects of media and social media;
- risks related to global health crises, disease outbreaks, and other unexpected events which could affect Food Services' and A&W franchisees' supply chains, business continuity, and financial results;
- risks related to international conflicts;
- risks related to inflation;
- the availability and adequacy of insurance coverage;
- occurrence of catastrophic events; and
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates and household debt, political uncertainty, interest rates, currency exchange rates or derivative and commodity prices.

The forward-looking information is subject to risks, uncertainties and other factors related to the structure of the Fund that include, but are not limited to:

- dependence of the Fund on Trade Marks, Partnership and Food Services;
- dependence of the Partnership on Food Services;
- risks related to leverage and restrictive covenants;
- the risk that cash distributions are not guaranteed and will fluctuate with the Partnership's performance and could be reduced or suspended at any time;
- risks related to the unpredictability and volatility of Unit prices;
- risks related to the nature of Units;
- risks related to the distribution of securities on redemption or termination of the Fund;
- risks related to the Fund issuing additional Units diluting existing unitholders' interests;
- risks related to income tax matters and investment eligibility;
- risks related to the limitations of internal controls over financial reporting;
- risks related to international conflicts set forth in this report under the heading "Risks and Uncertainties – International Conflicts"; and
- risks related to economic conditions set forth in this report under the heading "Risks and Uncertainties – Economic Conditions"; and
- risks related to Food Services not meeting its objectives, and the possibility that its strategies to meet its objectives may not be successful.

These risks, uncertainties and other factors are more particularly described in the Fund's most recent Annual Information Form under the heading "Risk Factors".

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