



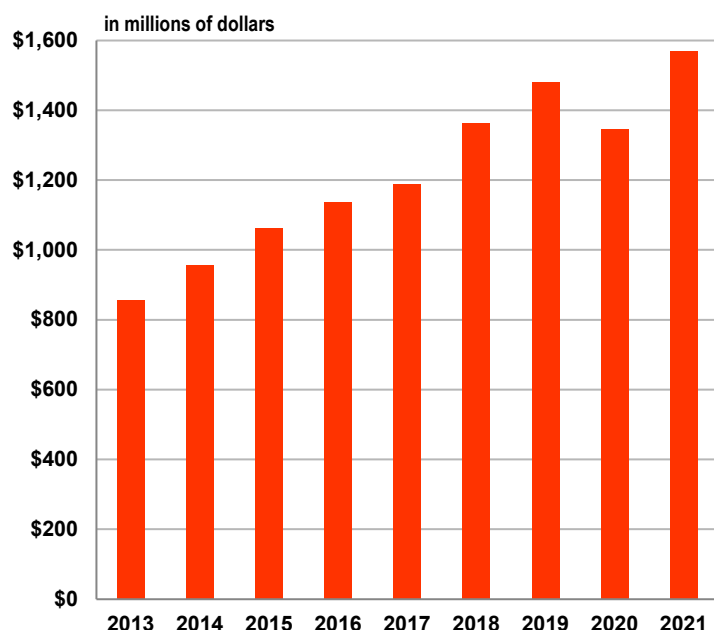
A&W REVENUE ROYALTIES INCOME FUND

ANNUAL REPORT

2021

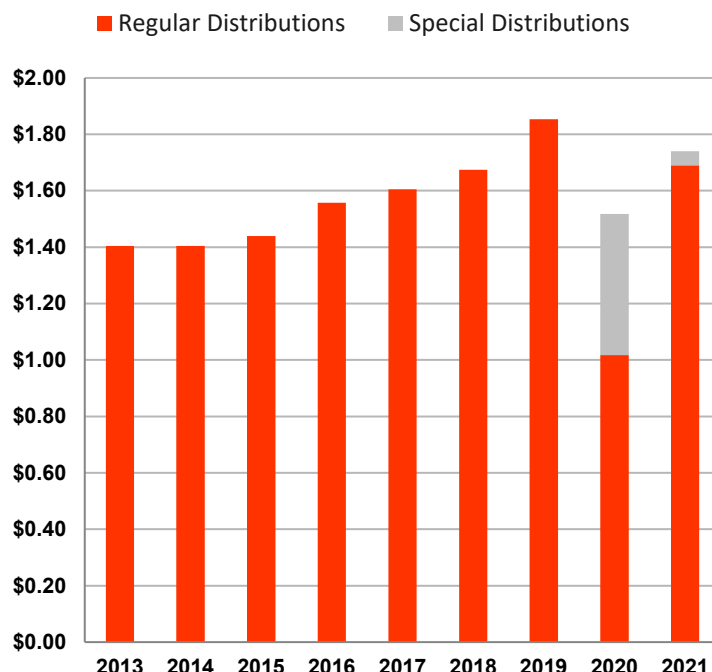


Gross Sales reported by A&W restaurants in the Royalty Pool ⁽¹⁾

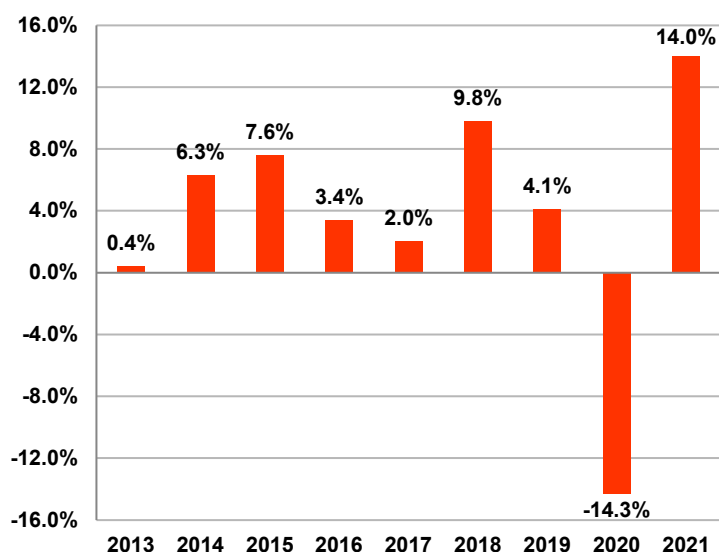


⁽¹⁾ "Gross Sales reported by A&W restaurants in the Royalty Pool" is a non-IFRS supplementary financial measure. See the "Non-IFRS Measures" section of the Fund's MD&A for the fourth quarter ended December 31, 2021, for further details on how this measure is calculated and used to assess the Fund's performance.

Distributions to Unitholders

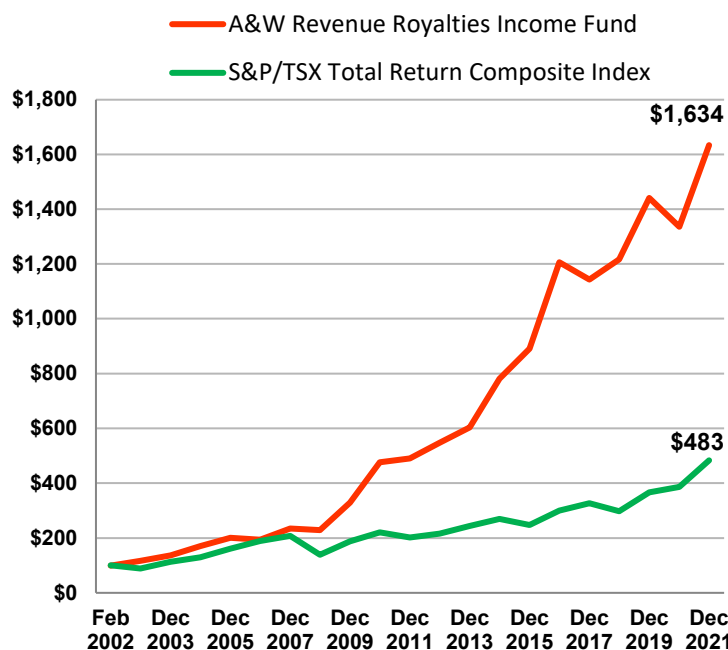


Royalty Pool Same Store Sales Growth ⁽²⁾



⁽²⁾ "Royalty Pool Same Store Sales Growth" is a non-IFRS supplementary financial measure. See the "Non-IFRS Measures" section of the Fund's MD&A for the fourth quarter ended December 31, 2021, for further details on how this measure is calculated and used to assess the Fund's performance.

Comparison of Total Unitholders' Return ⁽³⁾



⁽³⁾ Assuming an investment of \$100 on February 15, 2002 and reinvestment of distributions through 2021.

Chairman's Report to Unitholders

On behalf of the Trustees of the A&W Revenue Royalties Income Fund (the "Fund"), I am pleased to report the results for the year ended December 31, 2021.

The Fund's royalty income increased by 12.0% in the fourth quarter of 2021 as compared to the fourth quarter of 2020 and increased by 16.5% year over year. The increase in royalty income was driven by the Royalty Pool Same Store Sales Growth⁽¹⁾ of 13.8% for the fourth quarter and 14.0% for the year, and the additional gross sales from the 23 net new restaurants that were added to the Royalty Pool on January 5, 2021.

The growth in Royalty Pool same store sales was primarily driven by a Canada-wide easing of COVID-19 related public health restrictions which led to a reduction in the number of A&W restaurants that were temporarily closed or were not able to offer dine-in services, as compared to 2020. I am delighted to report that as at December 31, 2021 and February 15, 2022, all of the A&W restaurants that had been temporarily closed due to COVID-19 related restrictions had reopened.

Due to the strong performance of the A&W restaurants in the Royalty Pool in 2021, the Fund increased its distribution rate three times. Including the 5¢ per unit special distribution that was paid to unitholders on December 31, 2021, the distributions declared by the Fund in 2021 were 14.6% higher than the distributions declared in 2020. The current distribution rate translates to an annualized distribution rate of \$1.86 per unit.

On behalf of the Trustees, I would like to express my sincere gratitude for the continued trust and confidence that unitholders have placed in the Fund and commend the resilience and loyalty that A&W guests, franchisees and employees continue to exemplify.

(signed) John R. McLernon

Chairman

A&W Revenue Royalties Income Fund

⁽¹⁾ "Royalty Pool Same Store Sales Growth" is a non-IFRS supplementary financial measures. See the "Non-IFRS Measures" section of the Fund's MD&A for the fourth quarter ended December 31, 2021, for further details on how this measure is calculated and used to assess the Fund's performance.

Report to Fund Unitholders

We are very pleased with our sales results in 2021, achieving Royalty Pool Same Store Sales Growth⁽¹⁾ of 14.0%. While COVID-19 related public health restrictions continue to ease, many A&W restaurants, particularly those located in shopping centres and urban centres, are still recovering from the adverse impacts caused by COVID-19. The resilience our restaurant operators, their teams, and our guests, has been remarkable.

Food Services and its Franchisees have worked together throughout the pandemic on initiatives to help accelerate sales recovery. Key initiatives included promotional activity, strengthening and expanding partnerships with third party delivery service providers, increasing the speed of service for drive-thru and continuing to evolve the technology we need to be highly convenient for our guests.

We opened 33 new A&W restaurants during the year, bringing the total number of restaurants in the chain to 1,028 as at December 31, 2021. In 2021, we remained focused on menu innovation and launched a national rollout of the A&W Brew BarTM, which offers a variety of frozen beverages as well as hot and cold espresso-based drinks. Guests can now enjoy the A&W Brew Bar at over 110 A&W restaurants across the country and can expect to see more as the roll out continues in 2022.

In August, A&W was proud to once again partner with the Multiple Sclerosis Society of Canada and Christine Sinclair on its annual Burgers to Beat MS Day. Through the generosity of our guests and the commitment of our restaurant teams, the campaign raised \$1.4 million in 2021 and has raised more than \$17 million since inception. These funds help support world-class MS research, programs, services, and advocacy efforts that improve the quality of life for Canadians living with and affected by the disease.

Ensuring that A&W restaurants are able to operate safely and emerge from this time of uncertainty in a financial condition that enables them to compete effectively and grow their business remains our main objective. Our strategic initiatives, including differentiating the A&W brand through the use of natural ingredients, continued new restaurant growth, and delivering an industry leading guest experience, have all contributed to A&W's strong brand appeal and the trust it has built with Canadian consumers.

As we reflect on 2021, we have been inspired by how our Franchisees, our employees, and our strong partner network have found courageous and creative ways to work together and support one another. The leadership of our operators and their commitment to our guests, their restaurant teams and pandemic safety, have been world class. We sincerely appreciate your dedication and hard work. To everyone who has been a part of A&W's success in 2021 – thank you.

(signed) Susan Senecal

President and Chief Executive Officer, A&W Food Services of Canada Inc.

TM trademark of A&W Trade Marks Limited Partnership, used under license.

⁽¹⁾ “Royalty Pool Same Store Sales Growth” is a non-IFRS supplementary financial measures. See the “Non-IFRS Measures” section of the Fund’s MD&A for the fourth quarter ended December 31, 2021, for further details on how this measure is calculated and used to assess the Fund’s performance.



A&W Revenue Royalties Income Fund Management Discussion and Analysis

This Management Discussion and Analysis (“MD&A”) covers the fourth quarter period from September 13, 2021 to December 31, 2021 and the year ended December 31, 2021. This MD&A is dated February 15, 2022. This MD&A should be read in conjunction with the audited annual consolidated financial statements of the A&W Revenue Royalties Income Fund (the “Fund”) for the year ended December 31, 2021. Readers are also referred to the audited annual consolidated financial statements of A&W Food Services of Canada Inc. (“Food Services”) for the 52-week period ended January 2, 2022. Such financial statements and additional information about the Fund and Food Services are available at www.sedar.com or www.awincomefund.ca.

The financial results reported in this MD&A are derived from the audited annual consolidated financial statements of the Fund, which are prepared in accordance with International Financial Reporting Standards (“IFRS”). The accounting policies applied in the audited annual consolidated financial statements for the year ended December 31, 2021 and this report have been consistently applied to all years presented.

The Fund uses a fiscal year ending December 31. Food Services uses a fiscal year comprising a 52- or 53-week period ending on the Sunday nearest December 31. Food Services’ fiscal 2021 year was 52 weeks and ended January 2, 2022 (2020 – 53 weeks ended January 3, 2021). The Fund aligns its quarterly financial reporting with that of Food Services. Readers should be aware that the 2021 annual and quarterly results are not directly comparable to the 2020 quarterly and annual results. There were 87 days in the first quarter of 2021 compared to 82 days in first quarter of 2020. The second and third quarters of both years had 84 days. The fourth quarter of 2021 had 110 days compared to 116 days in the fourth quarter of 2020. The year ended December 31, 2021 had 365 days compared to 366 days in the year ended December 31, 2020. Royalty Pool Same Store Sales Growth is based on an equal number of days in the quarter and year.

HIGHLIGHTS

- Royalty income increased by 16.5% year over year and by 12.0% in Q4 2021 as compared to Q4 2020.
- Royalty Pool Same Store Sales Growth⁽ⁱ⁾ was +14.0% for the year and +13.8% for Q4 2021.
- Including the 5¢ per Unit special distribution that was paid to unitholders on December 31, 2021, the distributions declared by the Fund in 2021 increased by 14.6% from 2020. The current distribution rate translates to an annualized distribution rate of \$1.86 per Unit.

⁽ⁱ⁾ “Royalty Pool Same Store Sales Growth” is a non-IFRS supplementary financial measure. Refer to the “Non-IFRS Measures” section of this MD&A for further details on how this measure is calculated and used to assess the Fund’s performance.

SELECTED INFORMATION

The following selected information, other than “Royalty Pool Same Store Sales Growth”, “Gross sales reported by A&W restaurants in the Royalty Pool”, “Distributable cash generated”, “Distributable cash per equivalent unit”, “Distributions and dividends declared per equivalent unit” and information with respect to numbers of restaurants and equivalent units have 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 except per unit amounts)	Period from Sep 13, 2021 to Dec 31, 2021	Period from Sep 7, 2020 to Dec 31, 2020	Period from Jan 1, 2021 to Dec 31, 2021	Period from Jan 1, 2020 to Dec 31, 2020
Royalty Pool Same Store Sales Growth ⁽ⁱ⁾	13.8%	-9.3%	14.0%	-14.3%
Number of restaurants in the Royalty Pool	994	971	994	971
Gross sales reported by A&W restaurants in the Royalty Pool ⁽ⁱ⁾	\$498,558	\$444,977	\$1,569,377	\$1,347,387
Royalty income	\$14,956	\$13,350	\$47,081	\$40,422
General and administrative expenses	\$412	\$463	\$817	\$994
Term loan and other interest (net)	\$717	\$681	\$2,514	\$2,177
Current income tax provision	\$1,265	\$2,798	\$7,277	\$7,242
Distributable cash generated ⁽ⁱⁱ⁾	\$12,387	\$9,408	\$36,298	\$30,009
Number of equivalent units ⁽ⁱⁱⁱ⁾	19,258,184	18,551,185	19,258,184	18,551,185
Distributable cash per equivalent unit ^(iv)	\$0.643	\$0.508	\$1.885	\$1.618
Distributions and dividends declared per equivalent unit ^(iv)	\$0.665	\$0.900	\$1.740	\$1.518
Payout ratio ^(iv)	81.5%	162.0%	92.3%	93.8%
Net cash generated from operating activities	\$11,713	\$14,629	\$34,113	\$30,409
Net income ^(v)	\$14,124	\$11,194	\$37,854	\$28,374

⁽ⁱ⁾ “Royalty Pool Same Store Sales Growth” and “Gross sales reported by A&W restaurants in the Royalty Pool” are non-IFRS supplementary financial measures. Refer to the “Non-IFRS Measures” section of this MD&A for further details on how these measures are calculated and used to assess the Fund’s performance.

⁽ⁱⁱ⁾ “Distributable cash generated” is a non-IFRS financial measure. Refer to the table on the following page for a reconciliation of this measure to the most comparable IFRS measure and the “Non-IFRS Measures” section of this MD&A for further details on how it is used to assess the Fund’s performance.

⁽ⁱⁱⁱ⁾ Equivalent units include Units and Limited Voting Units of the Fund (“Limited Voting Units” and together with the Units, the “Trust Units”) and common shares of Trade Marks (as defined below) that are exchangeable for Trust Units. The number of equivalent units and Distributable cash per equivalent unit in 2021 are calculated on a fully-diluted basis and include the 241,683 LP units (as defined below) exchanged for 483,366 common shares of Trade Marks representing the remaining consideration paid in December 2021 for the January 5, 2021 adjustment to the Royalty Pool (as defined below). The number of equivalent units and Distributable cash per equivalent unit in 2020 are calculated on a fully-diluted basis and include 147,772 LP units exchanged for 295,544 common shares of Trade Marks representing the remaining consideration paid in December 2020 for the January 5, 2020 adjustment to the Royalty Pool. See “Adjustment to the Royalty Pool”.

(iv) “Distributable cash per equivalent unit”, “Distributions and dividends declared per equivalent unit” and “Payout Ratio” are non-IFRS ratios. Refer to the “Non-IFRS Measures” section of this MD&A for further details on how these ratios are calculated and used to assess the Fund’s performance.

(v) Net income includes unrealized gains and losses on interest rate swaps, amortization of financing fees and deferred income taxes. These non-cash items have no impact on the Fund’s ability to pay distributions to unitholders.

The following table provides a reconciliation of “Distributable cash generated” to “Net cash generated from operating activities”, the most comparable IFRS measure, for the periods indicated.

(dollars in thousands)	Period from Sep 13, 2021 to Dec 31, 2021	Period from Sep 7, 2020 to Dec 31, 2020	Period from Jan 1, 2021 to Dec 31, 2021	Period from Jan 1, 2020 to Dec 31, 2020
Net cash generated from operating activities	\$11,713	\$14,629	\$34,113	\$30,409
Interest expense	(717)	(681)	(2,514)	(2,177)
Current income tax provision	(1,265)	(2,798)	(7,277)	(7,242)
Net changes in items of non-cash working capital	(1,045)	(7,881)	(159)	35
Financing fees paid	(175)	-	(175)	-
Interest paid	1,195	1,099	2,520	1,933
Income tax paid	2,681	5,040	9,790	7,051
Distributable cash generated	\$12,387	\$9,408	\$36,298	\$30,009

NON-IFRS MEASURES

This MD&A makes references to certain non-IFRS measures. The Fund believes that disclosing these non-IFRS measures provides readers of this MD&A with important information regarding the Fund’s financial performance and its ability to pay distributions to unitholders. By considering these measures in combination with IFRS measures, the Fund believes that readers are provided with additional and more useful information about the Fund than readers would have if they simply considered IFRS measures alone. The non-IFRS measures reported by the Fund do not have a standardized meaning prescribed by IFRS and the Fund’s 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 issuers or companies.

Non-IFRS financial measures

The following non-IFRS financial measure is disclosed in this MD&A:

Distributable cash generated. Distributable cash generated is a non-IFRS financial measure and is calculated as royalty income less cash expenses. Distributable cash generated can be reconciled to net cash flows generated from operating activities by adjusting for interest, current income taxes, financing fees paid and net changes in items of working capital. Changes in items of working capital are excluded as the Fund’s working capital requirements are not permanent and are primarily due to the timing of payments between related parties. Financing fees are deducted as they are capitalized and amortized over the term of the credit facility. No deduction is made for capital expenditures as the Fund has no capital expenditures. As discussed under “Income Taxes”, A&W Trade Marks Inc.’s (“Trade Marks”) provision for income taxes includes refundable income tax paid or recoverable. This refundable income tax is not deducted in

calculating the amount of Distributable cash generated, in order to more accurately reflect the actual amount of cash generated by the business to pay distributions to unitholders and dividends to Food Services. The Fund expects that net refundable income tax paid in prior years will be recovered in future years when sufficient dividends are paid by Trade Marks. The Fund believes that Distributable cash generated is a useful measure for investors as it reflects the amount of actual cash generated to pay distributions to unitholders and dividends to Food Services.

Refer to the “Selected Information” and “Selected Annual Information” sections for reconciliations of Distributable cash generated to net cash generated from operating activities, the most comparable IFRS measure, for the current and comparable reporting periods.

Non-IFRS ratios

The following non-IFRS ratios are disclosed in this MD&A:

Distributable cash per equivalent unit. Distributable cash per equivalent unit is a non-IFRS ratio and is calculated as distributable cash generated divided by the number of equivalent units outstanding during the relevant period on a fully diluted basis. The Fund believes that Distributable cash per equivalent unit is a useful measure for investors as it reflects the amount of actual cash generated per equivalent unit to pay distributions to unitholders and dividends to Food Services.

Distributions and dividends declared per equivalent unit. Distributions and dividends declared per equivalent unit is a non-IFRS ratio and is calculated as the sum of the distributions and dividends divided by the number of equivalent units outstanding during the relevant period on a fully diluted basis. The Fund believes that Distributions and dividends declared per equivalent unit is a useful measure for investors as it provides them with the amount of total cash distributions declared during the reporting period.

Distributions and dividends declared and accrued per equivalent unit. Distributions and dividends declared and accrued per equivalent unit is a non-IFRS ratio and is calculated as the sum of (i) distributions and dividends declared per equivalent unit in respect of each full calendar month in the applicable period, and (ii) the aggregate run-rate amount of the current monthly distribution for the remainder of the calendar year, with the sum of (i) and (ii) pro-rated based on the number of days in the reporting period. The Fund believes that Distributions and dividends declared and accrued per equivalent unit is a useful measure for investors as it provides them with the amount per equivalent unit of distributions paid to date and payable for the balance of the year, at the distribution rate in effect at the end of the reporting period, prorated based on the number of days in the reporting period.

Payout ratio. Payout ratio is a non-IFRS ratio and is calculated by dividing total distributions declared and accrued per equivalent unit, by the Distributable cash per equivalent unit generated in that period. The Fund believes that the Payout ratio provides investors with useful information on the extent to which the Fund distributes the Distributable cash generated.

Non-IFRS supplementary financial measures:

The following non-IFRS supplementary financial measures are disclosed in this MD&A:

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 (i) 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 (ii) 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 A&W Trade Marks Limited Partnership (the “Partnership”) and therefore is a key performance indicator for the Fund.

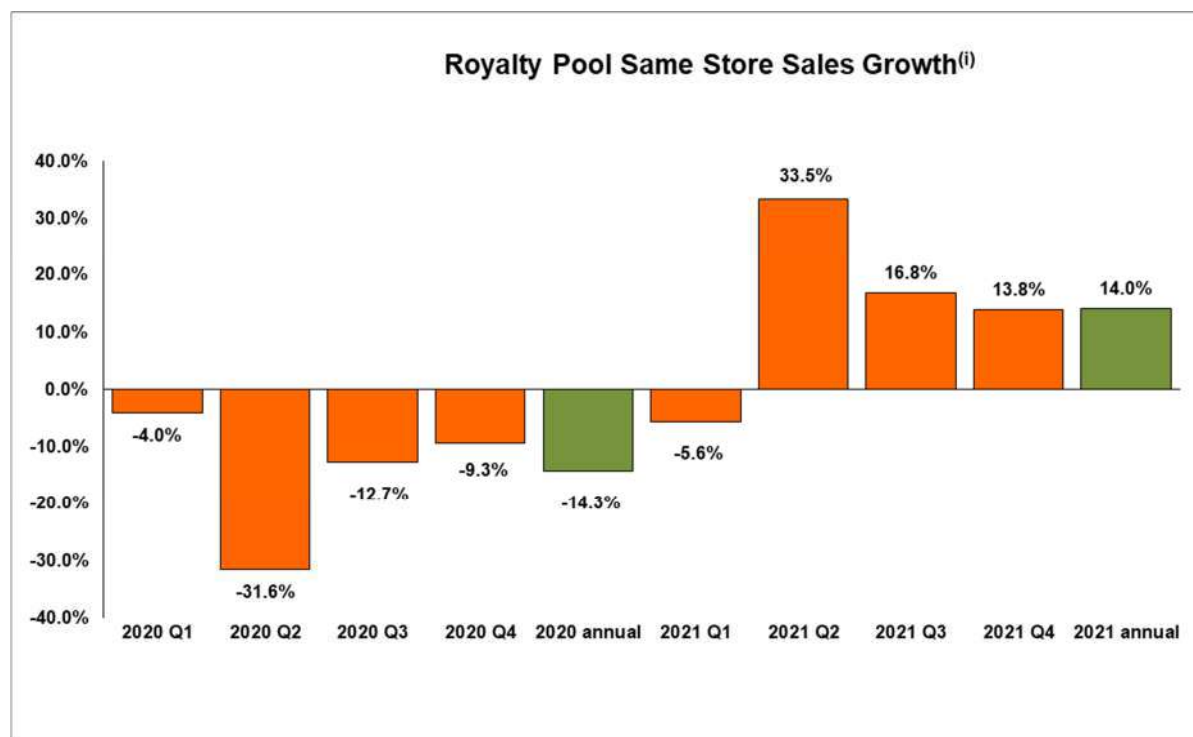
Royalty Pool Same Store Sales Growth. Royalty Pool Same Store Sales Growth reflects the change in gross sales of A&W restaurants in the Royalty Pool that operated, or were temporarily closed at any point due to COVID-19, during the entirety of the fourth quarters and years ending December 31, 2021 and December 31, 2020 and is based on an equal number of days in each quarter. This measure is a key performance indicator for the Fund as it highlights the performance of the existing A&W restaurants in the Royalty Pool.

SALES PERFORMANCE

Royalty Pool Same Store Sales Growth⁽ⁱ⁾ for the fourth quarter of 2021 was +13.8% as compared to the same quarter of 2020. Annual Royalty Pool Same Store Sales Growth⁽ⁱ⁾ for 2021 was +14.0% as compared to 2020. The Royalty Pool Same Store Sales Growth in the quarter was primarily driven by there being fewer public health restrictions related to COVID-19 in place across Canada which led to a reduction in the number of A&W restaurants that were temporarily closed or were not able to offer dine-in services, as compared to the fourth quarter of 2020. As at December 31, 2021 and February 15, 2022, all of the A&W restaurants that had been temporarily closed due to COVID-19 related restrictions had reopened. See “Impact of COVID-19”.

The actions required in 2020 and 2021 in response to COVID-19 have adversely impacted A&W restaurant operations across Canada, particularly for those restaurants located on urban street fronts and in shopping centres. However, since the second quarter of 2020 when COVID-19 impacts on A&W were at their peak, the impact of COVID-19 on Royalty Pool Same Store Sales Growth has lessened.

The chart below shows the Royalty Pool Same Store Sales Growth by A&W restaurants in the Royalty Pool for the eight most recently completed quarters and two most recently completed years.



Gross sales reported by A&W restaurants in the Royalty Pool⁽ⁱ⁾ for the fourth quarter of 2021 were \$498,558,000, a 12.0% increase against gross sales of \$444,977,000 for the fourth quarter of 2020. Annual Gross sales reported by A&W restaurants in the Royalty Pool⁽ⁱ⁾ for 2021 were \$1,569,377,000, a 16.5% increase from annual Gross sales reported by A&W restaurants in the Royalty Pool⁽ⁱ⁾ of \$1,347,387,000 for 2020.

The increase in Gross sales reported by A&W restaurants in the Royalty Pool for the quarter and year is driven by the Royalty Pool Same Store Sales Growth in addition to the gross sales from the 23 net new restaurants added to the Royalty Pool on January 5, 2021. The increase in the quarter was partially offset by there being six fewer days in the fourth quarter of 2021 as compared to the fourth quarter of 2020. The increase in the year was partially offset by there being one less day in 2021 than in 2020. See “Impact of COVID-19” and “Adjustment to the Royalty Pool”.

⁽ⁱ⁾ “Royalty Pool Same Store Sales Growth” and “Gross sales reported by A&W restaurants in the Royalty Pool” are non-IFRS supplementary financial measures. Refer to the “Non-IFRS Measures” section of this MD&A for further details on how these measures are calculated and used to assess the Fund’s performance.

OVERVIEW

The Fund is a limited purpose trust established in 2001 under the laws of the Province of British Columbia pursuant to the Amended and Restated Declaration of Trust (the “Declaration of Trust”). The Units trade on the Toronto Stock Exchange under the symbol AW.UN. The Fund’s place of business is located at 300 – 171 West Esplanade, North Vancouver, BC. The Fund was established to invest in Trade Marks, which through its ownership interest in the Partnership,

owns the A&W trade-marks used in the A&W quick service restaurant business in Canada. 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 to Food Services by A&W restaurants in the Royalty Pool. Food Services is a leading franchisor of hamburger quick service restaurants in Canada.

The Partnership distributes its available cash, after satisfaction of any debt service, provision for operating and other expenses and any amounts retained as reserves, by way of distributions on limited partnership units (“LP units”) held by Trade Marks. Trade Marks subsequently distributes its available cash, after satisfaction of debt service and income tax obligations, provisions for administrative expenses of Trade Marks and the Fund, and retention of reasonable reserves, by way of dividends on its common shares held by the Fund and Food Services and one special share held by Food Services. The Fund in turn makes distributions to unitholders, after allowing for reasonable reserves.

Trade Marks’ general and administrative expenses include the expenses of the Fund as the Fund has entered into an administration agreement with Trade Marks whereby Trade Marks, at its expense, provides or arranges for the provision of services required in the administration of the Fund.

A key attribute of the Fund is that the distributable cash available to make distributions to unitholders is based on the Gross sales of the A&W restaurants in the Royalty Pool, less operating expenses associated with operating the Fund, interest and taxes and an allowance for reasonable reserves. The Fund is a top-line fund, meaning it is not subject to variability of earnings or expenses associated with an operating business, but is subject to variability in revenues of the A&W restaurants in the Royalty Pool.

Another important aspect of the Fund is that, as at December 31, 2021, Food Services owned the equivalent of 24.3% (December 31, 2020 – 24.2%) of the Units on a fully-diluted basis through its ownership of Limited Voting Units and common shares of Trade Marks, both of which are exchangeable, at the option of Food Services, for Units. As a result, the interests of Food Services are closely aligned with the interests of unitholders.

Growth in the Fund is achieved in two ways: first, and most importantly, by growing same store sales of the A&W restaurants in the Royalty Pool, and second by increasing the number of A&W restaurants in the Royalty Pool each year.

The Royalty Pool is adjusted annually to reflect Gross sales from new A&W restaurants added to the Royalty Pool, net of the gross sales of any A&W restaurants that have permanently closed. Food Services is paid for the additional royalty stream related to the gross sales of the net new restaurants add to the Royalty Pool, 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 gross sales from the net new A&W 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 units in the Partnership. 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 Trust Units on the basis of two common shares for one Trust Unit.

IMPACT OF COVID-19

The effects of COVID-19 on many businesses, especially restaurants, have been unexpected, sudden and unprecedented. The future effect of COVID-19 on Canadians, in general, continues to be uncertain. Since the onset in March 2020, jurisdictions across Canada have had varying levels of COVID-19 related restrictions in place and many of those restrictions have been modified multiple times in response to the fluctuating number of COVID-19 cases.

Actions required in response to the COVID-19 pandemic have adversely affected A&W restaurant operations in Canada, including the temporary closure of A&W restaurants. At its peak impact in the second quarter of 2020, a total of 230 A&W restaurants (out of the then 971 restaurants in the Royalty Pool) were temporarily closed due to public health measures in response to COVID-19. The COVID-19 related public health restrictions began to ease in the second quarter of 2021, and as at December 31, 2021 all of the restaurants that were temporarily closed due to restrictions had reopened (42 as at December 31, 2020). The chart below shows the reported number of A&W restaurants that were temporarily closed due to COVID-19 restrictions at specified dates in 2020 and 2021.



Throughout the pandemic, Food Services and its franchisees have worked together on initiatives to help accelerate sales recovery. These initiatives include, but are not limited to promotional activity, strengthening and expanding partnerships with third party delivery service providers, increasing the speed of service for drive-thru and enhancing the A&W mobile app. Food Services and its franchisees also continue to take and maintain significant measures in their restaurants and broader operations to protect the health of employees and guests in compliance with physical distancing recommendations and other mandates of relevant public health authorities, such as the requirement for dine-in guests to show proof of vaccination in jurisdictions where required and the requirement for restaurant staff who have contracted, or been exposed to, COVID-19 to self-isolate. During the pandemic to date, various levels of government have offered a number of important financial programs which have helped support individual restaurant businesses,

including A&W franchisees; however, the eligibility criteria for most of those programs has become stricter and some programs have ceased. See “Risks and Uncertainties”.

In March 2020, and as a response to the sudden onset of COVID-19, the Fund temporarily suspended monthly distributions on the Units; accordingly, no distributions were declared by the Fund in the second quarter of 2020. Regular monthly distributions to unitholders resumed at 10¢ per Unit in the third quarter of 2020 and special distributions totaling 50¢ per Unit were paid in the fourth quarter of 2020.

In 2021, the monthly distribution rate was increased three times. It was first increased to 13.5¢ per Unit beginning with the February distribution that was paid March 31, 2021 and secondly to 15.0¢ per Unit beginning with the July distribution that was paid on August 31, 2021. The monthly distribution rate was increased for a third time to 15.5¢ per Unit beginning with the October distribution that is payable on November 30, 2021. The Fund also paid a special distribution of 5.0¢ per Unit on December 31, 2021 to Unitholders of record as at December 15, 2021.

Trade Marks is currently, and based upon projections, expects to remain, in compliance with all covenants related to its term loan.

ADJUSTMENT TO THE ROYALTY POOL

The 2021 annual adjustment to the Royalty Pool took place on January 5, 2021. The number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants, less 11 restaurants that permanently closed. The Partnership paid Food Services \$13,271,000, by issuance of 465,316 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 930,632 non-voting common shares of Trade Marks.

The final adjustment to the number of LP units issued was made on December 9, 2021, based on the actual annual sales reported by the new restaurants. The actual annual sales of the 34 new A&W restaurants were \$53,842,000, compared to the original estimate of \$45,248,000, resulting in total consideration of \$20,164,000 payable to Food Services. The remaining consideration of \$6,893,000 was paid to Food Services by issuance of 241,683 additional LP units, which were exchanged for 483,366 non-voting common shares of Trade Marks.

On January 5, 2022, the number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants, less 13 restaurants that permanently closed. The initial consideration for the estimated royalty revenue from the net 21 restaurants added to the Royalty Pool is \$21,472,000. The Partnership paid Food Services \$17,178,000 by issuance of 444,327 LP units, representing 80% of the initial consideration. The LP units were exchanged for 888,654 non-voting common shares of Trade Marks. The remaining 20% or \$4,294,000 and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be paid in December 2022 by issuance of additional LP units, which may be exchanged for non voting common shares of Trade Marks.

COMMON SHARES OF TRADE MARKS

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 as follows:

(dollars in thousands)	Fund			Food Services			Total	
	Number of shares	Trade Marks' book value \$	%	Number of shares	Trade Marks' book value \$	%	Number of shares	Trade Marks' book value \$
Balance as at December 31, 2019	28,129,271	164,605	79.1	7,453,763	95,339	20.9	35,583,034	259,944
January 5, 2020 adjustment to the Royalty Pool ⁽¹⁾	-	-	(3.3)	1,519,260	28,881	3.3	1,519,260	28,881
Balance as at December 31, 2020	28,129,271	164,605	75.8	8,973,023	124,220	24.2	37,102,294	288,825
January 5, 2021 adjustment to the Royalty Pool ⁽²⁾	-	-	(2.9)	1,413,998	20,164	2.9	1,413,998	20,164
April 16, 2021 exchange of common shares for Trust Units	4,056,040	63,193	10.6	(4,056,040)	(63,193)	(10.6)	-	-
Balance as at December 31, 2021	32,185,311	227,798	83.5	6,330,981	81,191	16.5	38,516,292	308,989

⁽¹⁾ The number of common shares includes the 147,772 LP units exchanged for 295,544 common shares of Trade Marks representing the remaining consideration paid in December 2020 for the January 5, 2020 adjustment to the Royalty Pool.

⁽²⁾ The number of common shares includes the 241,683 LP units exchanged for 483,366 common shares of Trade Marks representing the remaining consideration paid in December 2021 for the January 5, 2021 adjustment to the Royalty Pool.

On April 16, 2021, A&W of Canada Inc. ("A&W Canada"), an indirect shareholder of Food Services, completed a reorganization to provide liquidity for some of its shareholders and to simplify the indirect ownership of Food Services (the "Reorganization").

As part of the Reorganization, and pursuant to the Declaration of Trust and the Amended and Restated Exchange Agreement, Food Services exchanged 1,042,000 common shares of Trade Marks for 521,000 Units, which Units were then purchased by shareholders of A&W Canada at a price of \$36.42 per Unit. The 521,000 Units sold are subject to a four-month statutory hold period under applicable securities laws. After the exchange and sale of these Units, and as at June 20, 2021 and July 27, 2021, there were 14,585,673 Units outstanding.

The shareholders who purchased the 521,000 Units also entered into an agreement with three individuals (each a "Designated Representative"), which agreement provides that any two of the

Designated Representatives are entitled to exercise the voting rights attached to the 521,000 Units while they remain held by those shareholders. There is no agreement, arrangement, commitment or understanding among the Designated Representatives themselves or amongst the Designated Representatives and those shareholders as to how the voting rights attached to the 521,000 Units will be exercised in any particular circumstance. The Designated Representatives, individually, therefore do not have control or direction over any of the 521,000 Units.

In addition, Food Services exchanged 3,014,040 of its common shares of Trade Marks for 1,507,020 Limited Voting Units. Limited Voting Units may be converted to Units and have equal rights and privileges to Units except that holders of the Limited Voting Units, together with the common shares of Trade Marks that are exchangeable for Trust Units, are not entitled in the aggregate to cast more than 40% of the votes cast upon a resolution with respect to the appointment or removal of Trustees of the Fund (the “Trustees”) and are not entitled to cast votes upon a resolution to amend the Declaration of Trust.

Prior to the Reorganization, Food Services owned 26.0% of the common shares of Trade Marks which are exchangeable into 26.0% of the total outstanding voting securities of the Fund on a fully diluted basis. Following the Reorganization, but excluding the issuance of the excess exchangeable LP units that represented the remaining 20% of the initial consideration for the January 5, 2021 Adjustment to the Royalty Pool that were paid in December 2021, Food Services owned 15.4% of the exchangeable common shares of Trade Marks and 9.4% of the Fund’s Trust Units. Taken together, Food Services’ ownership of exchangeable common shares of Trade Marks and Trust Units equated to Food Services owning 23.3% of the total outstanding voting securities of the Fund on a fully diluted basis, before the inclusion of the issuance of the excess exchangeable LP units.

The Fund did not receive any proceeds from the Reorganization and Food Services paid for the expenses of the Reorganization. The Reorganization does not constitute a change of control of Food Services, as the existing shareholders will continue to maintain majority control of Food Services. There is no change in management or the operations of the Food Services' business in connection with the Reorganization.

OWNERSHIP OF THE FUND

The table below shows the ownership of the Fund as of December 31, 2021 and December 31, 2020 on a fully-diluted basis.

	December 31, 2021		December 31, 2020	
	Number of units	%	Number of units	%
Units held by public unitholders	14,585,673	75.7	14,064,673	75.8
Limited Voting Units held by Food Services ⁽¹⁾	1,507,020	7.8	-	-
Number of Trust Units issuable upon exchange of securities of Trade Marks held by Food Services ⁽²⁾	3,165,491	16.5	4,486,512	24.2
Total equivalent units	19,258,184	100.0	18,551,185	100.0

The chart below shows the ownership of the Fund, on a fully-diluted basis, after the initial consideration for the January 5, 2022 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, 2022 adjustment to the Royalty Pool that are payable in December 2022.

	Number of units	%
Units held by public unitholders	14,585,673	74.0
Limited Voting Units held by Food Services ⁽¹⁾	1,507,020	7.6
Number of Trust Units issuable upon exchange of securities of Trade Marks held by Food Services ⁽²⁾	3,609,818	18.4
Total equivalent units	19,702,511	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.

FINANCIAL RESULTS

INCOME

Royalty income for the fourth quarter of 2021 was \$14,956,000 based on Gross sales reported by restaurants in the Royalty Pool⁽ⁱ⁾ of \$498,558,000, compared to royalty income of \$13,350,000 and Gross sales reported by A&W restaurants in the Royalty Pool⁽ⁱ⁾ of \$444,977,000 for the fourth quarter of 2020. Annual royalty income for 2021 was \$47,081,000 based on Gross sales reported by restaurants in the Royalty Pool⁽ⁱ⁾ of \$1,569,377,000, compared to royalty income of \$40,422,000 and Gross sales reported by A&W restaurants in the Royalty Pool⁽ⁱ⁾ of \$1,347,387,000 for 2020.

The increase in royalty income for the quarter and year is driven by the Royalty Pool Same Store Sales Growth and the gross sales from the 23 net new restaurants added to the Royalty Pool on January 5, 2021. The increase in the quarter was partially offset by there being six fewer days in the fourth quarter of 2021 as compared to the fourth quarter of 2020. The increase in the year was partially offset by there being one less day in 2021 than in 2020. See “Sales Performance”, “Impact of COVID-19”, “Risks and Uncertainties” and “Outlook”.

⁽ⁱ⁾ “Gross sales reported by A&W restaurants in the Royalty Pool” is a non-IFRS supplementary financial measure. Refer to the “Non-IFRS Measures” section of this MD&A for further details on how this measure is calculated and used to assess the Fund’s performance.

EXPENSES

The Fund’s cash expenses excluding income taxes were as follows:

(dollars in thousands)	Period from Sep 13, 2021 to Dec 31, 2021	Period from Sep 7, 2020 to Dec 31, 2020	Period from Jan 1, 2021 to Dec 31, 2021	Period from Jan 1, 2020 to Dec 31, 2020
General and administrative expenses	\$412	\$463	\$817	\$994
Term loan and other interest (net)	\$717	\$681	\$2,514	\$2,177

General and administrative expenses for the fourth quarter of 2021 decreased by \$51,000 to

\$412,000 from \$463,000 for the fourth quarter of 2020. General and administrative expenses for the year were \$817,000 compared to \$994,000 for 2020. The decrease in general and administrative expenses in 2021 is primarily attributable to additional costs incurred in 2020 for special meetings attended by the Trustees and advisory services related to COVID-19 that were non-recurring in 2021.

In response to the onset of COVID-19, Food Services deferred royalty payments totaling \$7,448,000 payable to the Fund for gross sales reported by restaurants in the royalty pool for the period from February 24, 2020 to May 17, 2020. As contemplated in the Amended and Restated Licence and Royalty Agreement, late payments of royalties accrue interest at the rate of 2% per annum over the prime rate. The Fund recognized \$79,000 in interest income related to the deferred royalty payments in the fourth quarter of 2020 and \$184,000 during the year ended December 31, 2020. On December 3, 2020, Food Services paid the previously deferred royalty payments totaling \$7,448,000 plus accrued interest of \$184,000. Food Services did not defer any royalty payments in 2021.

Term loan and other interest (net) was \$717,000 for the fourth quarter of 2021, \$36,000 higher compared to the fourth quarter of 2020. The increase in the quarter is primarily due to the interest income on deferred royalties of \$79,000 that was recognized in the fourth quarter of 2020.

The \$337,000 year over year increase in term loan and other interest (net) was due to a higher effective interest rate on the term loan as well as the \$184,000 in interest income on deferred royalties that was recognized in 2020. Interest rate swap agreements are used to manage risks from fluctuations in interest rates and facilitate uniform monthly distributions when paid. See “Unrealized (Gain) Loss on Interest Rate Swaps” and “Liquidity and Capital Resources”.

UNREALIZED (GAIN) LOSS ON INTEREST RATE SWAPS

Trade Marks uses interest rate swap agreements to manage risks from fluctuations in interest rates. To manage the interest rate risk associated with the \$60,000,000 term loan Trade Marks has entered into two interest rate swap arrangements, one swap with an effective date of December 22, 2015 and a maturity date of December 22, 2022 (the “Existing Swap”) and another swap, which was entered into simultaneously with the renewal of Trade Marks’ Credit Facility on September 10, 2021, with an effective date of December 22, 2022 and a maturity date of September 10, 2026 (the “Forward Start Swap”). See “Liquidity and Capital Resources”.

The Fund’s net income included unrealized gains and losses on the two interest rate swaps that are equal to the change in the fair value of the swaps. These non-cash items had no impact on the Fund’s cash available to pay distributions.

(dollars in thousands)	Period from Sep 13, 2021 to Dec 31, 2021	Period from Sep 7, 2020 to Dec 31, 2020	Period from Jan 1, 2021 to Dec 31, 2021	Period from Jan 1, 2020 to Dec 31, 2020
(Gain) loss on Existing Swap	(\$675)	(\$342)	(\$1689)	\$1,362
(Gain) on Forward Start Swap	(931)	-	(560)	-
Total (gain) loss on interest rate swaps	(\$1,606)	(\$342)	(\$2,249)	\$1,362

INCOME TAXES

The Fund's provision for income taxes was as follows:

(dollars in thousands)	Period from Sep 13, 2021 to Dec 31, 2021	Period from Sep 7, 2020 to Dec 31, 2020	Period from Jan 1, 2021 to Dec 31, 2021	Period from Jan 1, 2020 to Dec 31, 2020
Current				
Current income tax provision	\$1,265	\$2,798	\$7,277	\$7,242
Refundable income tax	(1,794)	(1,165)	(1,090)	310
Deferred	1,817	(290)	1,914	(71)
Total provision for income taxes	\$1,288	\$1,343	\$8,101	\$7,481

The Fund as a legal entity is not subject to the Specified Investment Flow-Through ("SIFT") tax as its only source of income is dividends from Trade Marks which are not subject to SIFT tax. The provision for income taxes on the Fund's consolidated statement of income is the expected current and deferred tax payable by Trade Marks as a legal entity.

Trade Marks' taxable income is taxed at an effective rate of 20.0% (2020 – 20.0%), plus an additional tax of 30.67% (2020 – 30.67%) on investment income which is refundable at a rate of 38.33% (2020 – 38.33%) for each dollar Trade Marks pays out in taxable dividends to its shareholders. Trade Marks' provision for income taxes for 2021 includes a recovery of refundable income tax of \$1,388,000 based on its taxable income and dividends paid in 2021, partially offset by an adjustment of \$298,000 related to refundable income tax paid related to the 2020 taxation year. Under IFRS, refundable income tax is recognized on the income statement when it is paid or payable and subsequently when it is received or receivable. Management expects that the net refundable income tax paid in prior years will be recovered in future years when sufficient dividends are paid by Trade Marks.

Deferred income tax is recorded on the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is a non-cash item and has no impact in the current year on the Fund's cash available to pay distributions.

NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income was as follows:

(dollars in thousands)	Period from Sep 13, 2021 to Dec 31, 2021	Period from Sep 7, 2020 to Dec 31, 2020	Period from Jan 1, 2021 to Dec 31, 2021	Period from Jan 1, 2020 to Dec 31, 2020
Net income and comprehensive income attributable to public unitholders of the Fund	\$9,851	\$8,382	\$27,825	\$21,508
Net income and comprehensive income attributable to Food Services' ownership of Limited Voting Units	1,018	-	2,226	-
Net income and comprehensive income attributable to Food Services' non-controlling interest that arises from Food Services' ownership of common shares of Trade Marks	3,255	2,812	7,803	6,866
Total net income and comprehensive income	\$14,124	\$11,194	\$37,854	\$28,374

DISTRIBUTABLE CASH

(dollars in thousands)	Period from Sep 13, 2021 to Dec 31, 2021	Period from Sep 7, 2020 to Dec 31, 2020	Period from Jan 1, 2021 to Dec 31, 2021	Period from Jan 1, 2020 to Dec 31, 2020
Distributable cash generated ⁽ⁱⁱ⁾	\$12,387	\$9,408	\$36,298	\$30,009
Number of equivalent units	19,258,184	18,551,185	19,258,184	18,551,185
Distributable cash per equivalent unit ^(iv)	\$0.643	\$0.508	\$1.885	\$1.618
Distributions and dividends declared per equivalent unit ^{(i) (iv)}	\$0.665	\$0.900	\$1.740	\$1.518
Distributions and dividends declared and accrued per equivalent unit ^(iv)	\$0.524	\$0.823	\$1.740	\$1.518
Payout ratio ^(iv)	81.5%	162.0%	92.3%	93.8%

Distributable cash generated⁽ⁱⁱ⁾ in the fourth quarter of 2021 to pay distributions to unitholders and dividends to Food Services was \$12,387,000 compared to \$9,408,000 in the fourth quarter of 2020. Distributable cash generated⁽ⁱⁱ⁾ in 2021 to pay distributions to unitholders and dividends to Food Services was \$36,298,000 compared to \$30,009,000 in 2020. The \$6,289,000 year over year increase in Distributable cash generated⁽ⁱ⁾ was attributable to the \$6,659,000 increase in royalty income and the \$177,000 decrease in general and administrative expenses, partially offset by the \$337,000 increase in term loan and other interest (net) and the \$175,000 in financing fees paid in 2021.

Distributable cash per equivalent unit^(iv) increased by 13.5¢ to 64.3¢ per Unit in the fourth quarter of 2021 from 50.8¢ per Unit for the fourth quarter of 2020. Distributable cash per equivalent unit^(iv) for the year increased by 26.7¢ to \$1.885 per Unit for 2021 from \$1.618 per Unit for 2020.

The increase in Distributable cash per equivalent unit is a result of the increase in Distributable cash generated discussed above, partially offset by the increase in the number of equivalent units that is a result of the annual adjustment to the Royalty Pool. (See “Adjustment to the Royalty Pool”).

Four monthly distributions totaling 61.5¢ per Unit and one special distribution of 5.0¢ per Unit were declared in the fourth quarter of 2021 compared to four monthly distributions totaling 40.0¢ per Unit and two special distributions totaling 50.0¢ per Unit in the fourth quarter of 2020. Twelve monthly distributions totaling \$1.690 per Unit and one special distribution of 5.0¢ per Unit were declared in 2021 compared to nine monthly distributions totaling \$1.018 per Unit and two special distributions totaling 50.0¢ per Unit in 2020. No monthly distributions were declared in the second quarter of 2020 as the Trustees had temporarily suspended monthly distributions on the Units commencing with the March 2020 distribution that would ordinarily have been declared in April 2020. The Trustees approved the resumption of monthly distributions on July 7, 2020 commencing with the June distribution of 10¢ per Unit that was paid on July 31, 2020 to unitholders of record as of the close of business on July 15, 2020. Total monthly distributions and special distributions declared in 2021 were \$1.740 per Unit as compared to total monthly distributions and special distributions of \$1.518 per Unit in 2020.

The payout ratio for the fourth quarter of 2021 was 81.5% compared to 162.0% for the fourth quarter of 2020. The annual payout ratio for 2021 was 92.3% compared to 93.8% for 2020. The Fund’s long-term objective is to maintain an annual payout ratio at or below 100%; however, as the Fund strives to provide unitholders with regular monthly distributions (absent unique circumstances, such as those resulting in the declaration of special distributions or a temporary suspension due to COVID-19), and as a result of seasonality of sales in A&W restaurants, the Fund historically experiences seasonal fluctuations in its payout ratio.

The following table shows the trailing four quarter Payout ratios for 2019, 2020 and 2021.



(i) In accordance with the Fund’s Declaration of Trust, the Fund declares and records distributions in respect of any particular calendar month at the beginning of the immediate subsequent month, with the exception of the distribution for December of each year, which is declared and recorded in December of each year. Distributions in respect of any particular calendar month are paid on the last business day of the immediate subsequent month. The distributions declared in the first quarter of each year are in respect of the calendar months January and February.

(ii) “Distributable cash generated” 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 MD&A for further details on how it is used to assess the Fund’s performance.

(iv) “Distributable cash per equivalent unit”, “Distributions and dividends declared per equivalent unit”, “Distributions and dividends declared and accrued per equivalent unit” and “Payout ratio” are non-IFRS ratios. Refer to the “Non-IFRS Measures” section of this MD&A for further details on how these ratios are calculated and used to assess the Fund’s performance.

DISTRIBUTIONS TO UNITHOLDERS

Distributions declared during 2021 were as follows:

(dollars in thousands except per unit amounts)			Amount	Amount	
Month	Record date	Per Trust Unit	paid/payable to public Unitholders	paid/payable to Food Services	Total amount paid/payable
January	February 15, 2021	\$0.100	\$1,406	n/a	\$1,406
February	March 15, 2021	0.135	1,898	n/a	1,898
March	April 15, 2021	0.135	1,898	n/a	1,898
April	May 15, 2021	0.135	1,969	204	2,173
May	June 15, 2021	0.135	1,970	203	2,173
June	July 15, 2021	0.135	1,970	203	2,173
July	August 15, 2021	0.150	2,188	226	2,414
August	September 15, 2021	0.150	2,188	226	2,414
September	October 15, 2021	0.150	2,188	226	2,414
October	November 15, 2021	0.155	2,260	234	2,494
November	December 15, 2021	0.155	2,260	234	2,494
Special Distribution	December 15, 2021	0.050	731	75	806
December	December 31, 2021	0.155	2,260	234	2,494
		\$1.740	\$25,186	\$2,065	\$27,251

The December 2021 distribution of \$2,494,000 was declared on December 9, 2021 and paid subsequent to year end on January 31, 2022, and is reported as a current liability as at December 31, 2021.

On February 4, 2022, the Fund declared a distribution to Unitholders of 15.5¢ per Trust Unit or \$2,494,000, payable on February 28, 2022 to Unitholders of record as at February 15, 2022.

TAX TREATMENT OF DISTRIBUTIONS

All of the distributions declared in 2021 are designated as non-eligible dividends.

DIVIDENDS ON TRADE MARKS' COMMON SHARES

Trade Marks declared and paid non-eligible dividends on its voting and non-voting common shares during 2021 as follows:

(dollars in thousands except per unit amounts)				
Month declared/paid	Per Share	Amount paid/payable to the Fund	Amount paid/payable to Food Services	Total amount paid/payable
January	\$0.0500	\$1,406	\$495	\$1,901
February	0.0675	1,898	669	2,567
March	0.0675	1,898	669	2,567
April	0.0675	2,173	394	2,567
May	0.0675	2,173	394	2,567
June	0.0675	2,173	394	2,567
July	0.0750	2,414	439	2,853
August	0.0750	2,414	439	2,853
September	0.0750	2,414	439	2,853
October	0.0775	2,494	453	2,947
November	0.0775	2,494	491	2,985
Special Distribution	0.0250	806	157	963
December	0.0775	2,494	491	2,985
	\$0.870	\$27,251	\$5,924	\$33,175

In addition to the dividends on voting and non-voting common shares above, Trade Marks declared and paid to Food Services a special dividend of \$334,000 on December 9, 2021 representing the dividends that Food Services would have received on the 483,366 non-voting common shares issued to Food Services on December 9, 2021 in relation to the final consideration for the January 5, 2021 adjustment to the Royalty Pool, had such shares been issued on January 5, 2021.

On February 4, 2022, Trade Marks declared dividends on its voting and non-voting common shares equal to \$0.775 per share, or \$3,054,000, payable to Food Services and the Fund on February 28, 2022.

SUMMARY OF QUARTERLY RESULTS

The following selected quarterly results, other than “Distributable cash generated”, “Distributable cash per equivalent unit”, “Distributions and dividends declared per equivalent unit” and information with respect to numbers of restaurants, equivalent units and days have been prepared in accordance with IFRS and all dollar amounts are reported in Canadian currency. See “Non-IFRS Measures”.

(dollars in thousands except per unit amounts)	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Number of restaurants in the Royalty Pool	994	994	994	994
Royalty income	\$14,956	\$12,284	\$10,519	\$9,322
General and administrative expenses	412	103	96	206
Term loan and other interest (net)	717	580	611	606
Amortization of financing fees	21	8	7	8
(Gain) loss on interest rate swaps	(1,606)	102	(381)	(364)
Current income tax provision	1,265	2,087	1,893	2,032
Refundable income tax expense (recovery)	(1,794)	296	54	354
Deferred income tax expense (recovery)	1,817	212	144	(259)
Net income	\$14,124	\$8,896	\$8,095	\$6,739
Net cash generated from operating activities	11,713	9,042	8,540	4,818
Distributable cash generated ⁽ⁱⁱ⁾	12,387	9,514	\$7,919	\$6,478
Number of equivalent units	19,258,184	19,132,830	19,132,830	19,132,830
Distributable cash per equivalent unit ^(iv)	\$0.643	\$0.497	\$0.414	\$0.339
Distributions and dividends declared per equivalent unit ^(iv)	\$0.665	\$0.435	\$0.405	\$0.235
Number of days in the quarter	110	84	84	87
(dollars in thousands except per unit amounts)	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Number of restaurants in the Royalty Pool	971	971	971	971
Royalty income	\$13,350	\$10,216	\$7,596	\$9,260
General and administrative expenses	463	124	214	193
Term loan and other interest (net)	681	444	543	509
Amortization of financing fees	11	7	8	8
(Gain) loss on interest rate swaps	(342)	(232)	99	1,837
Current income tax provision	2,798	1,447	1,967	1,030
Refundable income tax expense (recovery)	(1,165)	507	1,145	(177)
Deferred income tax expense (recovery)	(290)	527	(620)	312
Net income	\$11,194	\$7,392	\$4,240	\$5,548
Net cash generated from (used in) operating activities	14,629	\$9,211	\$(716)	\$7,285
Distributable cash generated ⁽ⁱⁱ⁾	\$9,408	\$8,201	\$4,872	\$7,528
Number of equivalent units	18,551,185	18,556,378	18,556,378	18,556,378
Distributable cash per equivalent unit ^(iv)	\$0.508	\$0.442	\$0.262	\$0.406
Distributions and dividends declared per equivalent unit ^(iv)	\$0.900	\$0.300	-	\$0.318
Number of days in the quarter	116	84	84	82

⁽ⁱⁱ⁾ “Distributable cash generated” is a non-IFRS financial measure. Refer to the table on the following page for a reconciliation of this measure to the most comparable IFRS measure and the “Non-IFRS Measures” section of

this MD&A for further details on how it is used to assess the Fund's performance.

- (iv) "Distributable cash per equivalent unit" and "Distributions and dividends declared per equivalent unit" are non-IFRS ratios. Refer to the "Non-IFRS Measures" section of this MD&A for further details on how these ratios are calculated and used to assess the Fund's performance.
- (iii) The distribution for December of each year, which is paid on the last business day of January of the following year, is declared and recorded in the year in which it is earned. Therefore, four monthly distributions are declared in the fourth quarter of each year, and two monthly distributions are declared in the first quarter of each year. No distributions were declared in the third quarter of 2020 due to the impact of COVID-19. The Trustees approved the resumption of monthly distributions on July 7, 2020 commencing with the June distribution of 10¢ per Unit that was paid on July 31, 2020 to unitholders of record as of the close of business on July 15, 2020.

The following table provides a reconciliation of "Total distributable cash generated" to "Net cash generated from (used in) operating activities", the most comparable IFRS measure, for the periods indicated.

(dollars in thousands)	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Net cash generated from operating activities	\$11,713	\$9,042	\$8,540	\$4,818
Interest expense	(717)	(580)	(611)	(606)
Current income tax provision	(1,265)	(2,087)	(1,893)	(2,032)
Net changes in items of non-cash working capital	(1,045)	490	516	(119)
Financing fees paid	(175)	-	-	-
Interest paid	1,195	636	26	661
Income tax paid	2,681	2,013	1,341	3,756
Distributable cash generated	\$12,387	\$9,514	\$7,919	\$6,478
(dollars in thousands)	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Net cash generated from (used in) operating activities	\$14,629	\$9,211	\$(716)	\$7,285
Interest expense	(681)	(444)	(543)	(509)
Current income tax provision	(2,798)	(1,447)	(1,967)	(1,030)
Net changes in items of non-cash working capital	(7,881)	535	7,684	(303)
Financing fees paid	-	-	-	-
Interest paid	1,099	346	414	74
Income tax paid	5,040	-	-	2,011
Distributable cash generated	\$9,408	\$8,201	\$4,872	\$7,528

SELECTED ANNUAL INFORMATION

The following selected annual information, other than “Royalty Pool Same Store Sales Growth”, “Distributable cash generated”, “Distributions and dividends declared per equivalent unit” and information with respect to numbers of restaurants has been prepared in accordance with IFRS and all dollar amounts are reported in Canadian currency. See “Non-IFRS Measures”.

(dollars in thousands except per unit amounts)	2021	2020	2019
Royalty Pool Same Store Sales Growth ⁽ⁱ⁾	14.0%	-14.3%	+4.1%
Number of restaurants in the Royalty Pool	994	971	934
Gross sales reported by A&W restaurants in the Royalty Pool ⁽ⁱ⁾	\$1,569,377	\$1,347,387	\$1,482,323
Royalty income	\$47,081	\$40,422	\$44,470
Distributable cash generated ⁽ⁱⁱ⁾	\$36,298	\$30,009	\$33,143
Distributions and dividends declared per equivalent unit ^(iv)	\$1.740	\$1.518	\$1.853
Net income	\$37,854	\$28,374	\$32,558
Basic and diluted income per weighted average Trust Unit outstanding	\$1.938	\$1.529	\$1.859
Total assets	\$377,374	\$352,976	\$322,717
Trade Marks’ term loan	\$59,806	\$59,935	\$59,901

(i) “Royalty Pool Same Store Sales Growth” and “Gross sales reported by A&W restaurants in the Royalty Pool” are non-IFRS supplementary financial measures. Refer to the “Non-IFRS Measures” section of this MD&A for further details on how these measures are calculated and used to assess the Fund’s performance.

(ii) “Distributable cash generated” is a non-IFRS financial measure. Refer to the table on the following page for a reconciliation of this measure to the most comparable IFRS measure and the “Non-IFRS Measures” section of this MD&A for further details on how it is used to assess the Fund’s performance.

(iv) “Distributions and dividends declared per equivalent unit” is a non-IFRS financial measure. Refer to the “Non-IFRS Measures” section of this MD&A for further details on how it is used to assess the Fund’s performance.

The following table provides a reconciliation of “Total distributable cash generated” to “Net cash generated from (used in) operating activities”, the most comparable IFRS measure, for the years indicated.

(dollars in thousands)	2021	2020	2019
Net cash generated from operating activities	\$34,113	\$30,409	\$35,111
Interest expense	(2,514)	(2,177)	(2,267)
Current income tax provision	(7,277)	(7,242)	(8,269)
Net changes in items of non-cash working capital	(159)	35	(38)
Financing fees paid	(175)	-	-
Interest paid	2,520	1,933	2,195
Income tax paid	9,790	7,051	6,411
Distributable cash generated	\$36,298	\$30,009	\$33,143

SEASONALITY

Sales at A&W restaurants typically fluctuate seasonally however in 2021 and 2020, due to COVID-19, the impact of seasonality was less pronounced. In typical years for A&W restaurants in shopping centres, sales tend to fluctuate due to, among other things, higher traffic during the back-to-school, “Black Friday” and Christmas shopping seasons. In the freestanding and other concepts of A&W restaurants, weather and summer travel, among other things, typically impact sales.

LIQUIDITY AND CAPITAL RESOURCES

Modifications to the operations of A&W restaurants in the Royalty Pool in response to COVID-19, as well as temporary restaurant closures, have impacted and are expected to continue to impact system sales at A&W restaurants and therefore, gross sales of A&W restaurants in the Royalty Pool and royalty income of the Fund. There is the potential that COVID-19 and related restrictions imposed on restaurant operations will drive future reductions of system sales which have a direct impact on the amount of royalties payable to and earned by the Fund, and correspondingly, funds available to distribute to unitholders of the Fund.

The Fund’s normal policy is to distribute all available cash, after allowing for reasonable reserves, in order to maximize returns to unitholders over time. In light of seasonal variances inherent to the restaurant industry and fluctuations in business performance, the Fund’s normal policy is to make equal distribution payments to unitholders on a monthly basis (absent unique circumstances, such as those resulting in the declaration of special distributions or a temporary suspension due to COVID-19) in order to smooth out these fluctuations. The Trustees review distribution levels on a regular basis and any change in monthly distributions is expected to be implemented with a view to maintain the continuity of uniform monthly distributions. It is expected that any future distributions will be funded entirely by cash flow from operations and the cash reserve.

Trade Marks has a \$60,000,000 term loan, \$2,000,000 demand operating loan, and an interest rate swap facility (collectively the “Credit Facility”) with HSBC Bank Canada (the “Bank”). On September 10, 2021, Trade Marks renewed and extended the Credit Facility for an additional five years on terms and conditions substantially consistent with those of the previous credit facility in place with the Bank and entered into the Forward Start Swap simultaneously.

The \$2,000,000 demand operating loan facility is used to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the Bank’s prime rate plus 0.4% and are repayable on demand. As at December 31, 2021, the amount of the facility available was \$2,000,000 (December 31, 2020 - \$2,000,000).

The \$60,000,000 term loan with the Bank is in the form of a banker’s acceptance. The term loan is repayable on September 10, 2026. The term loan contains covenants including the requirement to meet certain earnings before interest, taxes, depreciation, amortization and non-cash charges/income (“EBITDA”) levels and debt to EBITDA ratios during each trailing four quarter period. Interest only is payable monthly, providing that Trade Marks’ EBITDA tested quarterly on a trailing four quarter basis is not less than specified amounts. In the event that EBITDA is less than these specified amounts, the term loan will be fully amortized over the greater of three years and the remaining term and repayment will be by way of blended monthly instalments of

principal and interest. Trade Marks was in compliance with all of its financial covenants as at February 15, 2022, December 31, 2021 and December 31, 2020.

Financing fees of \$175,000 that were incurred related to the September 10, 2021 Credit Facility amendment were capitalized and are presented as a reduction to the carrying amount of the \$60,000,000 term loan. The financing fees will be amortised over the remainder of the five-year term of the amended Credit Facility.

Trade Marks uses interest rate swap agreements to manage risks from fluctuations in interest rates. To manage the interest rate risk associated with the \$60,000,000 term loan, Trade Marks has entered into two interest rate swaps. The Existing Swap has an effective date of December 22, 2015 and a maturity date of December 22, 2022 and the Forward Start Swap, which was entered into simultaneously with the renewal of the Credit Facility on September 10, 2021, has an effective date of December 22, 2022 and a maturity date of September 10, 2026.

Under the Existing Swap, as at December 31, 2021, the term loan's effective interest rate was 3.95% per annum (December 31, 2020 – 4.20%), comprising 2.80% per annum which is fixed under the swap agreement until December 22, 2022 plus a 0.90% per annum stamping fee. Depending on the performance of the business of Trade Marks, the stamping fee can range between 0.90% and 1.40% in accordance with the following:

Debt to EBITDA Ratio	Credit Charge
< 1.00:1	0.90% per annum
≥ 1:00:1 and < 1:50:1	1.15% per annum
≥ 1:50:1	1.40% per annum

The fair value of the Existing Swap as at December 31, 2021 was \$983,000 unfavourable (December 31, 2020 - \$2,671,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income and comprehensive income.

Under the Forward Start Swap, effective December 22, 2022, the term loan's effective interest rate will be 1.74% per annum which is fixed under the Forward Start Swap agreement until September 10, 2026 plus a stamping fee that ranges from 0.90% and 1.40%, depending on Trade Marks' debt to EBITDA ratio in accordance with the table above. . The fair value of the Forward Start Swap as at December 31, 2021 was \$560,000 favourable (December 31, 2020 – n/a) and the change in fair value is recorded in the consolidated statements of income and comprehensive income.

A general security agreement over the assets of Trade Marks has been provided as collateral for the demand operating loan facility and term loan. The Partnership has provided its guarantee in favour of the Bank of all of the indebtedness, covenants and obligations of Trade Marks to the Bank.

The following is a summary of contractual obligations payable by the Fund:

Payments due by period (dollars in thousands)	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Term loan	\$60,000	\$0	\$0	\$60,000	\$0

The Fund, Trade Marks and the Partnership have no other contractual or purchase obligations except as described under the section “Related Party Transactions and Balances”. The Fund, Trade Marks and the Partnership do not have any capital expenditures; their operating and administrative expenses are expected to be stable and reasonably predictable and are considered to be in the ordinary course of business.

OFF-BALANCE SHEET ARRANGEMENTS

The Fund, Trade Marks and the Partnership have no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS AND BALANCES

During the year, royalty income of \$47,081,000 (2020 – \$40,422,000) was earned from Food Services, of which \$3,332,000 (2020 – \$3,452,000) is receivable from Food Services as at December 31, 2021. Royalty income earned during the quarter was \$14,956,000 (2020 - \$13,350,000).

In 2020, in response to the onset of COVID-19, Food Services deferred royalty payments totaling \$7,448,000 payable to the Fund for gross sales reported by restaurants in the royalty pool for the period from February 24, 2020 to May 17, 2020. As contemplated in the Amended and Restated Licence and Royalty Agreement, late payments of royalties accrue interest at the rate of 2% per annum over the prime rate. In 2020, the Fund recognized \$184,000 in interest income related to the deferred royalty payments. On December 3, 2020, Food Services paid the previously deferred royalty payments totaling \$7,448,000 plus accrued interest of \$184,000. Food Services did not defer any royalty payments in 2021.

During the year, Trade Marks paid dividends to Food Services of \$6,258,000 (2020 – \$6,811,000). The dividends paid to Food Services in 2021 include special dividends of \$334,000 representing the dividends that Food Services would have received on the 483,366 non-voting common shares issued to Food Services on December 9, 2021 in relation to the final consideration for the January 5, 2021 adjustment to the Royalty Pool, had they been issued on January 5, 2021. In 2020, Trade Marks paid special dividends of \$165,000 to Food Services representing the dividends that Food Services would have received on the 295,544 non-voting common shares issued to Food Services on December 11, 2020 in relation to the final consideration for the January 5, 2020 adjustment to the Royalty Pool, had they been issued on January 5, 2020.

During the year, the Fund declared distributions payable to Food Services of \$2,065,000 (2020 – n/a) as a result of Food Services’ ownership of Limited Voting Units in the Fund. The \$234,000 distribution declared on December 9, 2021 was paid to Food Services subsequent to the period end on January 31, 2022 is reported as a current liability as at December 31, 2021 (December 31, 2020 – n/a).

During the year, Trade Marks recognized an expense of \$40,000 (2020 - \$ nil) related to administrative and advisory services received from Food Services, all of which is reported in accounts payable and accrued liabilities as at December 31, 2021 (December 31, 2020 - \$nil).

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Significant areas requiring the use of a management estimate are the fair value of the interest rate swaps and of the indefinite life intangible assets. The fair value of the interest rate swaps is not a “critical accounting estimate” as (i) it does not require the Fund to make assumptions about matters that are highly uncertain at the time the estimate is made, and (ii) a different estimate 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 the Fund’s financial condition, changes in financial condition or financial performance. The fair value of the Existing Swap as at December 31, 2021 was \$983,000 unfavourable (December 31, 2020 - \$2,671,000 unfavourable) and the fair value of the Forward Start Swap as at December 31, 2021 was \$560,000 favourable (December 31, 2020 – n/a). The change in fair value of both swaps is recorded in the consolidated statements of income and comprehensive income.

FINANCIAL INSTRUMENTS

The Fund’s financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable to Food Services, distributions payable to unitholders, income taxes payable/recoverable, the demand operating loan facility, the term loan, and interest rate swaps. The Fund classifies its financial instruments as follows:

- Cash and cash equivalents and accounts receivable as financial assets at amortized cost, which are initially measured at the amount expected to be received, less, when material, a discount to reduce the assets to fair value. Subsequently, financial assets at amortized cost are measured at amortized cost using the effective interest method less a provision for impairment.
- Accounts payable and accrued liabilities, income taxes payable, distributions payable to unitholders, and the term loan as financial liabilities at amortized cost. Accounts payable and accrued liabilities and income taxes payable are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Dividends payable to Food Services and distributions payable to unitholders are recognized at the amount required to be paid. The term loan is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.
- Derivatives as a financial asset at fair value through profit or loss. The Fund’s derivatives are interest rate swaps with changes in fair value recorded in the consolidated statements of income.

Management estimates that the fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable to Food Services, distributions payable to unitholders, income taxes payable, and the term loan approximate their carrying values given the short term to maturity of these instruments. The fair value of the Existing Swap as at December 31, 2021 was \$983,000 unfavourable (December 31, 2020 - \$2,671,000 unfavourable) and the fair value of the Forward Start Swap as at December 31, 2021 was \$560,000 favourable (December 31, 2020 – n/a).

The Trustees have oversight responsibilities for risk management policies. The Trustees closely monitor the cash position and internal controls, along with the level of distributions of the Fund. The Fund, through dividends from Trade Marks, is expected to have sufficient financial resources to pay future distributions.

The Fund's exposure to credit risk is as indicated by the carrying amount of its accounts receivable. All of the accounts receivable as at December 31, 2021 relate to royalties due from Food Services to the Partnership which were paid in full by Food Services on January 28, 2022. The primary sources of liquidity risk are the monthly distributions to unitholders and dividends to Food Services. The Fund's primary source of funds to pay distributions and dividends is the 3% royalty income it receives from Food Services. Additionally, the Fund manages liquidity risk by actively monitoring forecast and actual cash flows.

The demand operating loan facility and the term loan bear floating rates of interest. Trade Marks has used interest rate swaps to fix the rate of interest on the term loan. Cash and cash equivalents earn interest at market rates. All of the Fund's other financial instruments are non-interest bearing.

CAPITAL DISCLOSURE

The Fund's capital consists of unitholders' equity and the term loan. The Fund's capital management objectives are to have sufficient cash and cash equivalents to pay distributions to its unitholders, after satisfaction of its debt service and income tax obligations; provisions for general and administrative expenses; retention of reasonable working capital reserves; and amounts that may be paid by the Fund in connection with any cash redemptions of Units. The Fund manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Fund may adjust the amount of distributions paid to its unitholders.

DISCLOSURE CONTROLS

Disclosure controls and procedures have been designed, established and maintained to provide reasonable assurance that (i) material information relating to the Fund is made known to the Fund's management, including its Chief Executive Officer (CEO) and Chief Financial Officer (CFO), particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Fund in its annual filings, interim filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

As at December 31, 2021, an evaluation of the effectiveness of the Fund's disclosure controls and procedures, as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers* '

Annual and Interim Filings (NI 52-109) issued by the Canadian Securities Administrators, was carried out under the supervision of and with the participation of management, including the CEO and CFO. Based upon that evaluation, the CEO and the CFO have concluded that as at December 31, 2021, the design and operation of these disclosure controls and procedures were effective in providing reasonable assurance that (i) material information relating to the Fund is made known to the Fund's management, including its CEO and CFO particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Fund in its annual filings, interim filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Fund's financial reporting and the preparation of its financial statements for external purposes in accordance with the Fund's generally accepted accounting principles. The control framework used to design the Fund's internal control over financial reporting is "Internal Control – Integrated Framework: 2013" which was released in May 2013 by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

As at December 31, 2021, an evaluation of the effectiveness of the Fund's internal controls over financial reporting, as defined in NI 52-109, was carried out under the supervision of and with the participation of management, including the CEO and CFO. Based upon that evaluation, the CEO and the CFO have concluded that as at December 31, 2021, that the Fund's internal controls over financial reporting were operating effectively.

There has been no change in the Fund's internal controls over financial reporting during the period covered by this MD&A that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

RISKS AND UNCERTAINTIES

COVID-19

Since March 2020, the COVID-19 pandemic has had significant impacts on the Canadian economy, the QSR industry, and the willingness of the general public to dine outside their homes and travel. These have negatively impacted Food Services, its franchisees and the Fund (including Trade Marks and the Partnership), and have adversely affected each of their respective investments, results of operations and financial condition. Restrictions on the operations of A&W restaurants in response to COVID-19, as well as temporary restaurant closures and vaccine passport mandates, continue to impact system sales at A&W restaurants in 2021. System sales drive the fees payable to Food Services by its franchisees and the amount of royalties payable to the Fund (through the Partnership), 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. Food Services may become liable for the lease obligations of certain of

its franchisees, if such franchisees default on their leases as a result of the impacts of COVID-19 or otherwise, and such obligations may be significant and Food Services may be unsuccessful in seeking recovery from such franchisees, all of which may adversely affect Food Services' investments, results of operations and financial condition. Food Services' projections may be inaccurate, and do not represent a financial forecast and actual results may differ materially from those anticipated by the projections. Monthly distributions on Units are not guaranteed and may be reduced, suspended or terminated at any time. Recent sales improvements for restaurants in the Royalty Pool may not continue and may slow or regress. A&W restaurant locations may close temporarily or permanently due to the impacts of COVID-19. Government restrictions related to COVID-19 may have their durations extended, or may be reinstated in the case of those that have recently been lifted, which measures may restrict the ability of A&W restaurants to operate, or result in forced closures, further reduced guest traffic, supply interruptions or staff shortages. The government programs that have been helpful to A&W franchisees are winding down and are expected to eventually cease and may not be available to some franchisees, and may not be available in amounts expected for those franchisees.

In addition, it is unknown if and to what extent the COVID-19 pandemic will alter consumer behaviour and demand for QSR services. Health epidemics or pandemics can adversely affect consumer spending and confidence levels and supply availability and costs, as well as the local operations in impacted markets, all of which can adversely affect the financial results, condition and outlook of Food Services and A&W franchisees. Importantly, the global pandemic resulting from COVID-19 has disrupted global health, economic and market conditions, consumer behavior and A&W restaurant operations beginning in early 2020. Local and national governmental mandates or recommendations and public perceptions of the risks associated with the COVID-19 pandemic have caused, and may continue to cause, consumer behavior to change, which could continue to adversely affect Food Services' and A&W franchisees' business. Food Services and A&W franchisees could also be adversely impacted by the worsening or increased volatility of economic conditions.

The COVID-19 pandemic may also heighten other risks disclosed herein, such as, but not limited to, those related to consumer behavior, consumer perceptions of the A&W brand, supply chain interruptions, inflation, interest rates, commodity costs and labor availability and cost. See "Impact of COVID-19".

Information regarding the other risks and uncertainties applicable to the business operations of the Fund is contained elsewhere in this MD&A, including under the heading "Forward-Looking Information", and in the Fund's most recent Annual Information Form under the heading "Risk Factors". Additional risks and uncertainties not currently known to the Trustees or that are currently not considered to be material may also impair the Fund's business operations. If any of the risks actually occur, the Fund's business, results of operations and financial condition, and the amount of cash available for distribution to unitholders, could be adversely affected.

OUTLOOK

Food Services believes that the food service industry, and more particularly the quick service restaurant (QSR) segment of the industry, will recover from the impact of COVID-19. However, the timing and strength of the recovery cannot yet be predicted with any degree of certainty. Against this backdrop, the success of the A&W brand and individual franchised A&W restaurants is paramount to the long-term success of the overall A&W system and, in turn, to the

Fund. Both Food Services and its franchisees have worked diligently to develop and implement plans and programs to mitigate the effects of the COVID-19 pandemic. Food Services' objective is to ensure that A&W's 1,028 restaurants (as at December 31, 2021) are able to safely operate (as permitted by health authorities and government regulations mandated from time to time) and have the ability to emerge from this period of uncertainty in a financial condition that enables them to compete effectively and grow their businesses.

Food Services believes that its mission "To become #1 with millennial burger lovers, chosen and trusted for truly good food and the convenience they crave" will help it to continue to rebound from the impact of COVID-19. Strategic initiatives, including repositioning and differentiating the A&W brand through the use of natural ingredients; continued new restaurant growth, and delivering an industry leading guest experience, have all contributed to A&W's strong appeal and the trust it has built with Canadian consumers over many years. These strengths will be key to delivering strong results and improved market share as the QSR industry and the QSR burger market resume growth.

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 using 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; including chicken raised without the use of antibiotics, Organic Fairtrade coffee, bacon from pork raised without the use of antibiotics, real cheese on all burgers and breakfast sandwiches, and A&W Root Beer served in restaurants made from natural cane sugar and all-natural flavours.

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 burger lovers across Canada this burger patty made using 100% plant-based protein with peas, rice, mung beans, coconut oil, pomegranates, potatoes, apples and beets. 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, including a limited time offer of Beyond Meat⁽¹⁾ Nuggets in 2021.

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

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.

A&W continues to innovate to serve the increasing number of guests that are mobile app users and offered its mobile app users unlimited free coffee for the month of March 2021 through a trial of the A&W 'Sipscription', a coffee subscription program. On April 1, 2021 Food Services announced that it is expanding the beverage offerings at A&W restaurants with the phased rollout of the A&W Brew BarTM. 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 110 A&W restaurants across the country.

TM trademark of A&W Trade Marks Limited Partnership, used under license.

A&W is also committed to reducing its environmental impact through conscious use of packaging, waste, energy and water, and high-efficiency equipment is being introduced into A&W restaurants to use less energy.

Food Services has continued to grow new A&W restaurants, particularly in the key Ontario and Quebec markets. Thirty three new restaurants opened across the country in 2021, thirteen of which opened in the fourth quarter, and an additional twelve restaurants were under construction as at December 31, 2021.

The health and safety of A&W's customers and restaurant team members remains a top priority. A&W has implemented stringent protocols in its dining rooms to limit contact and ensure physical distancing. Other services that encourage physical distancing such as drive-thru, third party delivery and pickup through A&W's mobile app are available to A&W's guests.

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 October 25, 2021 Food Services announced that it had entered into a non-binding term sheet reflecting an agreement in principle (the "Agreement") with UK-based Pret A Manger (Europe) Limited ("Pret"), which sets forth the general terms and conditions of a proposed Country Agreement with Pret that would grant Food Services master franchisor rights to Canada (the "Country Agreement").

Pursuant to the Agreement, Food Services will be granted the exclusive right to use the Pret brand in Canada for a two-year pilot (the "Trial Phase") during which Food Services will introduce the Pret brand within A&W restaurants in select markets in Canada. If the Trial Phase is successful, Food Services will have the exclusive right to expand the Pret brand across Canada (the "Expansion Phase") pursuant to an agreed development plan. The proposed exclusive Canadian rights to be granted to Food Services during both the Trial Phase and Expansion Phase remains subject to the negotiation and completion of the definitive Country Agreement, which is subject to Board approval.

The royalty payable to the Fund will apply 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 MD&A 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 MD&A 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; the impact of COVID-19, including its impact on the global economy in general and on the businesses of Food Services and A&W franchisees in particular; statements with respect to government restrictions on business operations, and in particular restaurants; statements regarding the extent to which COVID-19 will alter consumer behaviour and demand for QSR services; expectations regarding improvements in sales trends at the A&W restaurants in the Royalty Pool; statements regarding the duration of various government support programs; Food Services' expectation that the food service industry, and more particularly the QSR segment, will recover; the success of the A&W brand and individual franchised restaurants being paramount to the long-term success of the overall A&W system and, in turn, to the unitholders of the Fund; Food Services' objectives with respect to the A&W restaurants and its planned strategies to achieve those objectives; statements regarding future restrictions on the operations of A&W restaurants as well as temporary restaurant closures and the corresponding reductions to the amounts of royalties payable to and earned by the Fund, as well as funds available to distribute to unitholders of the Fund; the expectation that Trade Marks will remain in compliance with all covenants related to its term debt based on current projections; management's expectation that its refundable income tax will be recovered in future years when sufficient dividends are paid by Trade Marks; the Fund's long-term objective to maintain an annual payout ratio at or below 100%; Food Services' belief that its mission "to become #1 with millennial burger lovers, chosen and trusted for truly good food and the convenience they crave" will help it to continue to rebound from the impact of COVID-19; Food Services' belief that strategic initiatives will be key to delivering strong results and improved market share as the QSR industry and the QSR burger market resume growth; 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 remaining committed to the long-term health and success of its franchise network and the Fund; the expectation that Food Services will open Pret locations and that the Fund will earn royalty income from the sale of Pret products; the expectation that the Trial Phase will be successful and that Food Services will expand the Pret brand across Canada; the Fund's expectations that future distributions will continue to be funded entirely by cash flow from operations and the cash reserve; and statements regarding the stability and predictability of the operating and administrative expenses of the Fund, Trade Marks and the Partnership.

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

- the general risks that affect the restaurant industry will not arise, other than those related to COVID-19;
- 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;
- 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;
- current store closures will be temporary and restaurant performance will continue to improve;
- 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;
- the impacts of the COVID-19 pandemic on the A&W system will not significantly worsen; 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;
- 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 (including COVID-19), and other unexpected events which could affect Food Services' and A&W franchisees' supply chains, business continuity, and financial results;
- the availability and adequacy of insurance coverage;
- occurrence of catastrophic events; and
- risks related to COVID-19 set forth in this MD&A, including under the headings "Risks and Uncertainties – COVID-19" and "Impact of COVID-19".

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 COVID-19 set forth in this MD&A, including under the headings "Risks and Uncertainties – COVID-19" and "Impact of COVID-19"; 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 above under the heading "Risks and Uncertainties" and in the Fund's most recent Annual Information Form under the heading "Risk Factors".

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

A&W Revenue Royalties Income Fund

Consolidated Financial Statements
December 31, 2021 and 2020
(in thousands of dollars)



Independent auditor's report

To the Unitholders of A&W Revenue Royalties Income Fund

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of A&W Revenue Royalties Income Fund and its subsidiaries (together, the Fund) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Fund's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2021 and 2020;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of unitholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Key audit matter

Impairment assessment of the intangible assets

Refer to note 3 - Significant accounting policies, judgments and estimation uncertainty and note 4 - Intangible assets to the consolidated financial statements.

The Fund had \$360.87 million of intangible assets as at December 31, 2021. The intangible assets are the A&W trade-marks which have an indefinite life. An impairment assessment is conducted annually at the year-end balance sheet date or earlier if events and circumstances dictate. An impairment loss is recognized if the carrying amount of the intangible assets exceeds its recoverable amount.

The recoverable amount is the higher of the intangible assets' fair value less costs to sell and value in use. Management used a value-in-use model to determine the recoverable amount of the intangible assets. The assumptions applied by management in estimating the recoverable amount included projected royalties from the gross sales of A&W restaurants in the Royalty Pool which include when dining rooms would reopen and at what capacity, the revenue growth rates, terminal growth rate and the discount rate. No impairment loss was recorded during the year.

We considered this a key audit matter due to the significant judgments made by management in developing assumptions to determine the recoverable amount as at December 31, 2021. This in turn resulted in significant audit effort and subjectivity in performing audit procedures to test the recoverable amount determined by management. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.

How our audit addressed the key audit matter

Our approach to addressing the matter included the following procedures, among others:

- Tested how management determined the recoverable amount of the intangible assets as at December 31, 2021 which, included the following:
 - Evaluated the appropriateness of the method applied and the value-in-use model.
 - Tested the reasonableness of the projected royalties from the gross sales of A&W restaurants in the Royalty Pool which include when dining rooms would reopen and at what capacity, revenue growth rates, and terminal growth rate by comparing them to the current and past performance of the A&W restaurants in the Royalty Pool.
 - With the assistance of professionals with specialized skill and knowledge in the field of valuation, assessed the appropriateness of the discount rate applied.
 - Tested underlying data used in the value-in-use model.
- Examined the disclosures made in the consolidated financial statements related to the intangible assets.



Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards



will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Robert Coard.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
February 15, 2022

A&W Revenue Royalties Income Fund

Consolidated Balance Sheets

As at December 31, 2021 and 2020

(in thousands of dollars)

	Note	2021 \$	2020 \$
Assets			
Current assets			
Cash and cash equivalents		10,064	8,548
Accounts receivable	14	3,332	3,530
Prepaid interest		197	191
Income taxes recoverable		2,350	-
		15,943	12,269
Non-current assets			
Derivative financial assets	5	560	-
Intangible assets	4	360,871	340,707
Total assets		377,374	352,976
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	14	631	670
Distributions payable to Unitholders	12, 14	2,494	1,406
Derivative financial liabilities	5	983	-
Income taxes payable		-	1,253
		4,108	3,329
Non-current liabilities			
Term loan	5	59,803	59,935
Derivative financial liabilities	5	-	2,671
Deferred income tax liabilities	7	15,866	13,953
		79,777	79,888
Unitholders' Equity			
Trust Units	8	398,884	332,950
Accumulated deficit		(181,527)	(181,586)
		217,357	151,364
Non-controlling interest			
		80,240	121,724
Total equity		297,597	273,088
Total liabilities and equity		377,374	352,976
Subsequent events			
	17		

On behalf of the Board of Trustees

(signed) John R. McLernon Trustee

(signed) Richard N. McKerracher Trustee

The accompanying notes are an integral part of these consolidated financial statements.

A&W Revenue Royalties Income Fund
Consolidated Statements of Income and Comprehensive Income
For the years ended December 31, 2021 and 2020

(in thousands of dollars except per Unit amounts)

	Note	2021 \$	2020 \$
Royalty income	14	47,081	40,422
Expenses			
General and administrative		817	994
Interest expense			
Term loan and other	6	2,514	2,177
Amortization of financing fees		44	34
		3,375	3,205
Operating income		43,706	37,217
Unrealized (gain) loss on interest rate swaps	5	(2,249)	1,362
Income before income taxes		45,955	35,855
Provision for (recovery of) income taxes			
Current			
Current income tax provision	7	7,277	7,242
Refundable income tax	7	(1,090)	310
Deferred	7	1,914	(71)
		8,101	7,481
Net income and comprehensive income for the year		37,854	28,374
Net income and comprehensive income attributable to			
Unitholders of A&W Revenue Royalties Income Fund		30,051	21,508
A&W Food Services of Canada Inc.'s non-controlling interest in A&W Trade Marks Inc.		7,803	6,866
		37,854	28,374
Basic and diluted income per weighted average Trust Unit outstanding		1.938	1.529
Weighted average number of Trust Units outstanding		15,509,290	14,064,673

The accompanying notes are an integral part of these consolidated financial statements.

A&W Revenue Royalties Income Fund

Consolidated Statements of Unitholders' Equity

For the years ended December 31, 2021 and 2020

(in thousands of dollars)

	Note	Trust Units \$	Accumulated deficit \$	Total \$	Non- controlling interest \$	Total equity \$
Balance as at December 31, 2019		332,950	(181,744)	151,206	92,788	243,994
Net income and comprehensive income for the year		-	21,508	21,508	6,866	28,374
Distributions on Trust Units		-	(21,350)	(21,350)	-	(21,350)
Dividends on common shares		-	-	-	(6,811)	(6,811)
Issue of common shares	4	-	-	-	28,881	28,881
Balance as at December 31, 2020		332,950	(181,586)	151,364	121,724	273,088
Net income and comprehensive income for the year		-	30,051	30,051	7,803	37,854
Distributions on Trust Units	12	-	(27,251)	(27,251)	-	(27,251)
Dividends on common shares	14	-	-	-	(6,258)	(6,258)
Issue of common shares	4	-	-	-	20,164	20,164
Common shares exchanged for Trust Units	8	65,934	(2,741)	63,193	(63,193)	-
Balance as at December 31, 2021		398,884	(181,527)	217,357	80,240	297,597

The accompanying notes are an integral part of these consolidated financial statements.

A&W Revenue Royalties Income Fund

Consolidated Statements of Cash Flows

For the years ended December 31, 2021 and 2020

(in thousands of dollars)

	Note	2021 \$	2020 \$
Cash provided by (used in)			
Operating activities			
Net income and comprehensive income for the year		37,854	28,374
Adjustments for:			
Unrealized (gain) loss on interest rate swaps	5	(2,249)	1,362
Amortization of financing fees		44	34
Interest expense	6	2,514	2,177
Deferred income tax expense (recovery)	7	1,914	(71)
Refundable income tax (recovery) expense	7	(1,090)	310
Current income tax provision	7	7,277	7,242
Net changes in items of non-cash working capital	11	159	(35)
Interest paid		(2,520)	(1,933)
Income taxes paid		(9,790)	(7,051)
Net cash provided by operating activities		34,113	30,409
Financing activities			
Financing fees paid	5	(176)	-
Dividends paid to non-controlling interest	14	(6,258)	(6,811)
Distributions paid to Unitholders		(26,163)	(22,180)
Net cash used in financing activities		(32,597)	(28,991)
Increase in cash and cash equivalents during the year		1,516	1,418
Cash and cash equivalents – Beginning of year		8,548	7,130
Cash and cash equivalents – End of year		10,064	8,548

The accompanying notes are an integral part of these consolidated financial statements.

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(figures in tables are expressed in thousands of dollars)

1 General information

A&W Revenue Royalties Income Fund (the Fund) is a limited purpose trust established on December 18, 2001 with an unlimited number of Units and Limited Voting Units (collectively the Trust Units), under the laws of the Province of British Columbia pursuant to the Declaration of Trust. The Fund is listed on the Toronto Stock Exchange under the symbol AW.UN. The Fund's place of business is located at 300 – 171 West Esplanade, North Vancouver, British Columbia. The Fund was established to invest in A&W Trade Marks Inc. (Trade Marks) which, through its ownership interest in A&W Trade Marks Limited Partnership (the Partnership), owns the A&W trade-marks used in the A&W quick service restaurant business in Canada.

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

2 Basis of preparation

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC).

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. Those areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

These consolidated financial statements were authorized for issue by the Board of Trustees of the Fund on February 15, 2022.

3 Significant accounting policies, judgments and estimation uncertainty

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of the interest rate swaps to fair value through the consolidated statements of income and comprehensive income.

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(figures in tables are expressed in thousands of dollars)

Consolidation

The consolidated financial statements include the accounts of the Fund and its 83.6% interest in Trade Marks and its subsidiary, the Partnership (together the subsidiaries). The Fund controls its subsidiaries when it is exposed to or it has rights to variable returns from its involvement with its subsidiaries and has the ability to affect those returns through its power over the subsidiaries.

Changes in the Fund's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Non-controlling interest

The non-controlling interest represents an equity interest in Trade Marks owned by Food Services. The share of net assets of the Fund's subsidiary attributable to non-controlling interest is presented as a component of equity. Food Services' share of net income and comprehensive income is recognized directly in equity.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Fund and its subsidiaries.

Use of estimates

The preparation of consolidated 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. Significant areas requiring the use of management estimates are the fair value of the interest rate swaps and in the impairment of testing of intangible assets. The fair value of the interest rate swaps estimate is not a "critical accounting estimate" as (i) it does not require the Fund to make assumptions about matters that are highly uncertain at the time the estimate is made, and (ii) a different estimate that could have been used, or changes in the accounting estimate that are reasonably likely to occur from period-to-period, would not have had a material impact on the Fund's financial condition, changes in financial condition or financial performance. Estimates may differ from actuals and may be further impacted by COVID-19.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and short-term investments with an original maturity date of three months or less.

Accounts receivable

Accounts receivable are amounts due from Food Services for services performed in the ordinary course of business. These amounts are classified as current because collection is expected in one year or less. Accounts receivable are recognized initially at the amount expected to be received, less, when material, a discount to reduce the recoverable amount to fair value. Subsequently, accounts receivable are measured at amortized cost using the effective interest method less a provision for the impairment.

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(figures in tables are expressed in thousands of dollars)

Intangible assets – trade-marks

The intangible assets are the A&W trade-marks, which have an indefinite useful life that was originally recorded at fair value at the date of acquisition. The assets are subject to an impairment test annually or earlier if events and circumstances dictate as required by International Accounting Standards (IAS) 36, Impairment of Assets. An impairment loss is recognized whenever the carrying amount of the intangible assets exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognized in the consolidated statements of income and comprehensive income.

Impairment of financial assets

At each reporting date, the Fund assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Fund recognizes an impairment loss.

The amount of the loss, if any, is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statements of income and comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statements of income and comprehensive income.

Income per Fund Trust Unit

The Fund's income per Trust Unit is based on the net income and comprehensive income attributable to Fund Unitholders and the weighted average number of Trust Units outstanding during the period.

Interest rate swaps

The Fund uses interest rate swap agreements to manage risks from fluctuations in interest rates. All such instruments are used only for risk management purposes. Changes in the fair value of the Fund's interest rate swap agreements are recognized in the consolidated statements of income and comprehensive income (note 5).

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(figures in tables are expressed in thousands of dollars)

Income taxes

Income tax comprises current and deferred tax and is recognized in the consolidated statements of income and comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the consolidated balance sheet dates, and any adjustment to tax payable in respect of previous years. The Fund uses the weighted average tax rate of its subsidiaries. The Fund, as a legal entity, is not currently taxed on its income, as it receives dividends from Trade Marks which are not subject to the Specified Investment Flow-Through (SIFT) tax. Therefore, Trade Marks' substantively enacted tax rate is used.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated balance sheet dates and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income tax assets and liabilities are presented as non-current.

Revenue recognition

Revenue is recognized on an accrual basis in accordance with the relevant agreements. It comprises royalty income equal to 3% of the gross sales reported to Food Services by A&W restaurants in the Royalty Pool.

Interest

Cash flows relating to interest paid have been classified as operating activities in the consolidated statements of cash flows. Interest paid on the term loan is netted with other interest income on the consolidated statements of cash flows. As contemplated in the Amended and Restated Licence and Royalty Agreement, late payments of royalties accrue interest at the rate of 2% per annum over the prime rate.

Financial instruments

Financial assets and liabilities are recognized when the Fund becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognized when the rights to receive or obligation to pay cash flows from the assets or liabilities have expired or been settled or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(figures in tables are expressed in thousands of dollars)

The Fund classifies its financial instruments in the following categories:

- a) Financial assets and liabilities at amortized cost. The Fund classifies its financial assets at amortized cost only if both of the following criteria are met:
 - i) the asset is held within a business model whose objective is to collect the contractual cash flows; and
 - ii) the contractual terms give rise to cash flows that are solely payments of principal and interest.

The Fund's financial assets at amortized cost comprise cash and cash equivalents and accounts receivable and are included in current assets due to their short-term nature. Financial assets at amortized cost are initially recognized at the amount expected to be received less, when material, a discount to reduce the assets to fair value. Subsequently, financial assets at amortized cost are measured at amortized cost using the effective interest method less a provision for impairment.

Financial liabilities at amortized cost include accounts payable and accrued liabilities, distributions payable to Unitholders, income taxes payable, the demand operating loan facility and the term loan. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce payables to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Distributions payable are recognized at the amount required to be paid. The demand operating loan facility and the term loan are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs at which point it is netted against proceeds as a transaction cost. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

- b) Financial assets at fair value through other comprehensive income (FVOCI): Financial assets at FVOCI comprise:
 - i) equity securities which are not held for trading and which the Fund has irrevocably elected at initial recognition to recognize in this category; and
 - ii) debt securities where the contractual cash flows are solely principal and interest and the objective of the Fund's business model is achieved both by collecting contractual cash flows and selling financial assets.

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(figures in tables are expressed in thousands of dollars)

The Fund currently has not classified any of its financial instruments as FVOCI.

- c) Financial assets at fair value through profit or loss (FVPL): The Fund classifies the following financial assets at FVPL:
- i) debt instruments that do not qualify for measurement at either amortized cost or FVOCI;
 - ii) equity instruments that are held for trading; and
 - iii) equity instruments for which the Fund has not elected to recognize fair value gains and losses through other comprehensive income.

The Fund's financial assets classified as FVPL include derivative financial instruments. The Fund utilizes derivative financial instruments in the normal course of its operations as a means to manage risks from fluctuations in interest rates. The Fund's policy is to not utilize derivative financial instruments for trading or speculative purposes. The Fund's derivatives are interest rate swaps with changes in fair value recorded in the consolidated statements of income and comprehensive income.

4 Intangible assets

	Number of new restaurants	Number of closed restaurants	Number of restaurants in Royalty Pool	Amount \$
Balance as at December 31, 2019	1,073	(139)	934	311,826
Annual adjustment January 5, 2020	44	(7)	37	28,881
Balance as at December 31, 2020	1,117	(146)	971	340,707
Annual adjustment January 5, 2021	34	(11)	23	20,164
Balance as at December 31, 2021	1,151	(157)	994	360,871

Annual gross sales reported by the 994 (2020 – 971) A&W restaurants in the Royalty Pool were \$1,569,377,000 (2020 – \$1,347,387,000).

The intangible assets are the A&W trade-marks used in the A&W quick service restaurant business in Canada.

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(figures in tables are expressed in thousands of dollars)

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

The 2021 annual adjustment to the Royalty Pool took place on January 5, 2021. The number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants less 11 restaurants that permanently closed. The Partnership paid Food Services \$13,271,000, by issuance of 465,316 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 930,632 non-voting common shares of Trade Marks.

The final adjustment to the number of LP units issued was made on December 9, 2021, based on the actual annual sales reported by the new restaurants. The actual annual sales of the 34 new A&W restaurants were \$53,842,000, compared to the original estimate of \$45,248,000, resulting in total consideration of \$20,164,000 payable to Food Services. The remaining consideration of \$6,893,000 was paid to Food Services by issuance of 241,683 additional LP units, which were exchanged for 483,366 non-voting common shares of Trade Marks.

The Fund performed its annual impairment test on the indefinite life intangible asset as at December 31, 2021, using a value-in-use model to determine the recoverable amount of the indefinite life intangible assets. The calculations were based on the Fund's and 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, the Fund and Food Services considered past experience, economic trends and forecasted industry trends. The Fund projected royalties from the gross sales of A&W restaurants in the Royalty Pool, gross profit and cash flows for a period of five years and extrapolated cash flows beyond that using an estimated terminal growth rate of 2%. The Fund assumed a pre-tax discount rate of 10.2% 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.

The Fund performed a sensitivity analysis on the most sensitive assumptions, which were revenue growth rates (2%) and the discount rate. A 1% increase in the discount rate would have decreased the amount by which the recoverable amount exceeded the carrying amount by approximately \$62,000,000, and would not have resulted in impairment. A 1% decrease in the estimated revenue growth rate would have decreased the amount by which the recoverable amount exceeded the carrying amount by approximately \$63,000,000, and would not have resulted in impairment.

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(figures in tables are expressed in thousands of dollars)

5 Term loan and operating loan facility

Trade Marks has a \$60,000,000 term loan, a \$2,000,000 demand operating loan and an interest rate swap facility (collectively the Credit Facility) with HSBC Bank Canada (the Bank). On September 10, 2021, Trade Marks renewed and extended the Credit Facility for an additional five years on terms and conditions substantially consistent with those of the previous credit facility in place with the Bank.

The \$2,000,000 demand operating loan facility is used to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the Bank's prime rate plus 0.4% and are repayable on demand. As at December 31, 2021, the amount of the facility available was \$2,000,000 (December 31, 2020 – \$2,000,000).

The \$60,000,000 term loan with the Bank is in the form of a banker's acceptance. The term loan is repayable on September 10, 2026. The term loan contains covenants including the requirement to meet certain earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) levels and debt to EBITDA ratios during each trailing four-quarter period. Interest only is payable monthly, providing that Trade Marks' EBITDA tested quarterly on a trailing four-quarter basis is not less than specified amounts. In the event that EBITDA is less than these specified amounts, the term loan will be fully amortized over the greater of three years and the remaining term and repayment will be by way of blended monthly instalments of principal and interest. Trade Marks was in compliance with all of its financial covenants as at February 15, 2022, December 31, 2021 and December 31, 2020.

Financing fees of \$176,000 that were incurred relating to the September 10, 2021 Credit Facility amendment were capitalized and are presented as a reduction to the carrying amount of the \$60,000,000 term loan. The financing fees will be amortized over the remainder of the five-year term of the amended Credit Facility.

Trade Marks uses interest rate swap agreements to manage risks from fluctuations in interest rates. To manage the interest rate risk associated with the \$60,000,000 term loan, Trade Marks has entered into two interest rate swap arrangements, one swap with an effective date of December 22, 2015 and a maturity date of December 22, 2022 (the Existing Swap) and one forward start swap with an effective date of December 22, 2022 and a maturity date of September 10, 2026 (the Forward Start Swap).

Under the Existing Swap, as at December 31, 2021, the term loan's effective interest rate was 3.95% per annum (December 31, 2020 – 4.20%), comprising 2.80% per annum, which is fixed under the Existing Swap agreement until December 22, 2022 plus a 1.15% per annum stamping fee. The stamping fee ranges from 0.90% to 1.40%, depending on Trade Marks' debt to EBITDA ratio. The fair value of the Existing Swap as at December 31, 2021 was \$983,000 unfavourable (December 31, 2020 – \$2,671,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income and comprehensive income.

Under the Forward Start Swap, effective December 22, 2022, the term loan's effective interest rate will be 1.74% per annum, which is fixed under the Forward Start Swap agreement until September 10, 2026 plus a stamping fee that ranges from 0.90% to 1.40%, depending on Trade Mark's debt to EBITDA ratio. The fair value of the Forward Start Swap as at December 31, 2021 was \$560,000 favourable (December 31, 2020 – n/a) and the change in fair value is recorded in the consolidated statements of income and comprehensive income.

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

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(figures in tables are expressed in thousands of dollars)

The following gains and losses, representing the change in the fair value of the interest rate swaps, is recorded in the consolidated statements of income and comprehensive income:

	2021 \$	2020 \$
(Gain) loss on Existing Swap	(1,689)	1,362
Gain on Forward Start Swap	(560)	-
	<u>(2,249)</u>	<u>1,362</u>

A general security agreement over the assets of Trade Marks has been provided as collateral for the demand operating loan facility and term loan. The Partnership has provided its guarantee in favour of the Bank of all of the indebtedness, covenants and obligations of Trade Marks to the Bank.

The term loan comprises:

	2021 \$	2020 \$
Term loan	60,000	60,000
Financing fees	(197)	(65)
	<u>59,803</u>	<u>59,935</u>

6 Term loan and other interest

	2021 \$	2020 \$
Interest on cash	(16)	(33)
Interest on deferred royalties (note 14)	-	(184)
Standby fees	5	5
Interest expense – term loan	2,495	2,389
Interest expense – other	30	-
	<u>2,514</u>	<u>2,177</u>

A&W Revenue Royalties Income Fund

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(figures in tables are expressed in thousands of dollars)

7 Income taxes

- a) The provision for income taxes shown in the consolidated statements of income and comprehensive income is equal to the amount obtained by applying statutory tax rates to the income before income taxes:

	2021	2020
Statutory combined federal and provincial income tax rates on investment income	20%	20%
	\$	\$
Provision for income taxes based on statutory income tax rates	9,191	7,171
Refundable tax	(1,090)	310
Provision for income taxes	8,101	7,481

- b) Deferred income tax liabilities comprise the following:

	2021 \$	2020 \$
Timing difference of income of A&W Trade Marks Limited Partnership	(1,605)	(476)
Fair value of interest rate swaps	85	534
Intangible assets	(14,346)	(14,011)
	(15,866)	(13,953)

8 Trust Units

The Trust Units are comprised of two classes, Units and Limited Voting Units. Both Units and Limited Voting Units have equal undivided beneficial interests in any distributions of the Fund and in the net assets of the Fund. Limited Voting Units and Units have equal rights and privileges except that holders of the Limited Voting Units, together with the common shares of Trade Marks that are exchangeable for Limited Voting Units, are not entitled in the aggregate to cast more than 40% of the votes cast upon a resolution with respect to the appointment or removal of Trustees of the Fund and are not entitled to cast votes upon a resolution to amend the Declaration of Trust. The Trust Units issued are not subject to future calls or assessments.

Units are redeemable at any time at the option of the holder at amounts related to market prices at the time, subject to a maximum of \$50,000 in total cash redemptions by the Fund in any one month. The limitation may be waived at the discretion of the Trustees of the Fund. Redemption in excess of these amounts, assuming no limitation, shall be paid by way of distribution of a pro rata number of securities of Trade Marks held by the Fund.

On April 16, 2021, A&W of Canada Inc. (A&W Canada), an indirect shareholder of Food Services, completed a reorganization to provide liquidity for some of its shareholders and to simplify the indirect ownership of Food Services (the Reorganization).

A&W Revenue Royalties Income Fund

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(figures in tables are expressed in thousands of dollars)

As part of the Reorganization, and pursuant to the Amended and Restated Declaration of Trust and the Amended and Restated Exchange Agreement, Food Services exchanged 1,042,000 common shares of Trade Marks for 521,000 Units, which were then purchased by shareholders of A&W Canada at a price of \$36.42 per Unit. The 521,000 Units sold were subject to a four-month statutory hold period under applicable securities laws. This hold period expired on August 16, 2021. After the exchange and sale of these Units, and as at December 31, 2021, there were 14,585,673 Units outstanding.

In addition, Food Services exchanged 3,014,040 of its common shares of Trade Marks for 1,507,020 Limited Voting Units.

The 4,056,040 common shares of Trade Marks exchanged by Food Services for 2,028,020 Trust Units had a book value of \$63,193,000 and the 2,028,020 Trust Units issued by the Fund had a book value of \$65,934,000. The difference of \$2,741,000 was recognized in accumulated deficit as the exchange reduced Food Services' proportional ownership in Trade Marks, which resulted in a \$63,193,000 decrease in non-controlling interest.

	Number of Units	Number of Limited Voting Units	Total number of Trust Units
Balance as at December 31, 2019 and 2020	14,064,673	-	14,064,673
Trust Units issued in exchange for common shares of A&W Trade Marks Inc.	521,000	1,507,020	2,028,020
Balance as at December 31, 2021	14,585,673	1,507,020	16,092,693

	Equity – Units	Equity – Limited Voting Units	Total equity – Trust Units
Balance as at December 31, 2019 and 2020	332,950	-	332,950
Trust Units issued in exchange for common shares of A&W Trade Marks Inc.	18,975	46,959	65,934
Balance as at December 31, 2021	351,925	46,959	398,884

Prior to the Reorganization, Food Services owned 26.0% of the common shares of Trade Marks, which were exchangeable into 26.0% of the total outstanding voting securities of the Fund on a fully diluted basis. Following the Reorganization, but excluding the issuance of the excess exchangeable LP units that represented the remaining 20% of the initial consideration for the January 5, 2021 Adjustment to the Royalty Pool that were paid in December 2021, Food Services owned 15.4% of the exchangeable common shares of Trade Marks and 9.4% of the Trust Units. Taken together, Food Services' ownership of exchangeable common shares of Trade Marks and Trust Units equated to Food Services owning 23.3% of the total outstanding voting securities of the Fund on a fully diluted basis, before the inclusion of the issuance of the excess exchangeable LP units.

Overall, the Reorganization was not dilutive to unitholders of the Fund because the calculation of the number of the fully diluted Trust Units did not change. Post Reorganization, Food Services holds both Limited Voting Units and exchangeable common shares of Trade Marks, whereas prior to the Reorganization, Food Services only held exchangeable common shares of Trade Marks.

A&W Revenue Royalties Income Fund

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The Fund did not receive any proceeds from the Reorganization and Food Services paid for the expenses of the Reorganization.

9 A&W Trade Marks Inc.

The common shares of Trade Marks are owned by the Fund and Food Services as follows:

	The Fund			Food Services			Total	
	Number of shares	Amount \$	%	Number of shares	Amount \$	%	Number of shares	Amount \$
Balance as at December 31, 2019	28,129,271	164,605	79.1	7,453,763	95,339	20.9	35,583,034	259,944
January 5, 2020 adjustment to the Royalty Pool	-	-	(3.3)	1,519,260	28,881	3.3	1,519,260	28,881
Balance as at December 31, 2020	28,129,271	164,605	75.8	8,973,023	124,220	24.2	37,102,294	288,825
January 5, 2021 adjustment to the Royalty Pool	-	-	(2.8)	1,413,998	20,164	2.8	1,413,998	20,164
April 16, 2021 exchange of common shares for Trust Units	4,056,040	63,193	10.6	(4,056,040)	(63,193)	(10.6)	-	-
Balance as at December 31, 2021	32,185,311	227,798	83.6	6,330,981	81,191	16.4	38,516,292	308,989

The common shares of Trade Marks owned by Food Services may be exchanged for Trust Units on the basis of two common shares for one Trust Unit.

A&W Revenue Royalties Income Fund

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(figures in tables are expressed in thousands of dollars)

The summarized financial information of Trade Marks is as follows:

	2021 \$	2020 \$
Current assets	13,466	10,880
Non-current assets	361,431	340,707
Current liabilities	1,614	1,923
Non-current liabilities	75,670	76,559
Revenue	47,081	40,422
Net income and comprehensive income	37,854	28,374

10 Ownership of the Fund

The ownership of the Fund, on a fully diluted basis, as at December 31 is as follows:

	2021		2020	
	Number of units	%	Number of units	%
Units held by public unitholders (note 8)	14,585,673	75.7	14,064,673	75.8
Limited Voting Units held by Food Services (note 8)	1,507,020	7.8	-	-
Number of Trust Units issuable upon exchange of securities of Trade Marks held by Food Services (note 9)	3,165,491	16.5	4,486,512	24.2
Total equivalent units	19,258,184	100.0	18,551,185	100.0

11 Working capital

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

	2021 \$	2020 \$
Accounts receivable	198	(204)
Accounts payable and accrued liabilities	(39)	169
	159	(35)

A&W Revenue Royalties Income Fund

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(figures in tables are expressed in thousands of dollars)

12 Distributions

During the year ended December 31, 2021, the Fund declared distributions to its Unitholders of \$27,251,000 or \$1.740 per Unit (2020 – \$21,350,000 or \$1.518 per Unit). The record dates and amounts of these distributions are as follows:

	Record date	Amount \$	Per Unit \$
Month			
January 2021	February 15, 2021	1,406	0.100
February 2021	March 15, 2021	1,898	0.135
March 2021	April 15, 2021	1,898	0.135
April 2021	May 15, 2021	2,173	0.135
May 2021	June 15, 2021	2,173	0.135
June 2021	July 15, 2021	2,173	0.135
July 2021	August 15, 2021	2,414	0.150
August 2021	September 15, 2021	2,414	0.150
September 2021	October 15, 2021	2,414	0.150
October 2021	November 15, 2021	2,494	0.155
November 2021	December 15, 2021	2,494	0.155
Special Distribution	December 15, 2021	806	0.050
December 2021	December 31, 2021	2,494	0.155
		27,251	1.740

The December 2021 distribution was declared on December 9, 2021 and paid on January 31, 2022, and is reported as a current liability as at December 31, 2021. The December 2020 \$1,406,000 distribution was declared on December 11, 2020 and paid on January 29, 2021, and is reported as a current liability as at December 31, 2020.

13 Compensation to key management

Key management personnel are the Trustees of the Fund and Directors of Trade Marks. During the year, the Trustees and Directors earned \$128,000 (2020 – \$175,000).

14 Related party transactions and balances

During the year, royalty income of \$47,081,000 (2020 – \$40,422,000) was earned from Food Services, of which \$3,332,000 (2020 – \$3,452,000) is receivable from Food Services as at December 31, 2021.

In 2020, in response to the onset of COVID-19, Food Services deferred royalty payments totalling \$7,448,000 payable to the Fund for gross sales reported by restaurants in the royalty pool for the period from February 24, 2020 to May 17, 2020. As contemplated in the Amended and Restated Licence and Royalty Agreement, late payments of royalties accrue interest at the rate of 2% per annum over the prime rate. In 2020, the Fund recognized \$184,000 in interest income related to the deferred royalty payments. On December 3, 2020, Food Services paid the previously deferred royalty payments totalling \$7,448,000 plus accrued interest of \$184,000. Food Services did not defer any royalty payments in 2021.

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

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(figures in tables are expressed in thousands of dollars)

During the year, Trade Marks paid dividends to Food Services of \$6,258,000 (2020 – \$6,811,000). The dividends paid to Food Services in 2021 include special dividends of \$334,000 representing the dividends that Food Services would have received on the 483,366 non-voting common shares issued to Food Services on December 9, 2021 in relation to the final consideration for the January 5, 2021 adjustment to the Royalty Pool (note 4), had they been issued on January 5, 2021. In 2020, Trade Marks paid special dividends of \$165,000 to Food Services representing the dividends that Food Services would have received on the 295,544 non-voting common shares issued to Food Services on December 11, 2020 in relation to the final consideration for the January 5, 2020 adjustment to the Royalty Pool, had they been issued on January 5, 2020.

During the year, the Fund declared distributions payable to Food Services of \$2,065,000 (2020 – n/a) as a result of Food Services' ownership of Limited Voting Units in the Fund. The \$234,000 distribution declared on December 9, 2021 paid to Food Services subsequent to the period-end on January 31, 2022 is reported as a current liability as at December 31, 2021 (December 31, 2020 – n/a).

During the year, Trade Marks recognized an expense of \$40,000 (2020 – \$nil) related to administrative and advisory services received from Food Services, all of which is reported in accounts payable and accrued liabilities as at December 31, 2021 (December 31, 2020 – \$nil).

Other related party transactions and balances are referred to in note 8.

15 Financial instruments and financial risk management

Fair values

Management estimates that the fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, distributions payable to Unitholders, the demand operating loan facility and the term loan approximate their carrying values given the short term to maturity of these instruments. The fair value of the Existing Swap as at December 31, 2021 was \$983,000 unfavourable (December 31, 2020 – \$2,671,000 unfavourable) and the fair value of the Forward Start Swap as at December 31, 2021 was \$560,000 favourable (December 31, 2020 – n/a).

Fair value estimation

The Fund analyzes financial instruments carried at fair value by the valuation method. The different levels have been identified as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly derived from prices; and
- Level 3 – Inputs from the asset or liability that are not based on observable market data (that is, unobservable inputs).

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

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(figures in tables are expressed in thousands of dollars)

The interest rate swaps are measured at fair value as Level 3 financial instruments and are measured using valuation techniques. These valuation techniques utilize significant inputs that are not based on observable market data.

Credit risk

The Fund's exposure to credit risk is as indicated by the carrying amount of its accounts receivable. All of the accounts receivable relate to royalties due from Food Services to the Partnership, which were paid on January 28, 2022.

Liquidity risk

The primary sources of liquidity risk are the monthly distributions to Unitholders and dividends to Food Services. The Fund's primary source of funds to pay distributions and dividends is the 3% royalty income it receives from Food Services. Additionally, the Fund manages liquidity risk by actively monitoring forecast and actual cash flows.

Interest rate risk

The demand operating loan facility and the term loan bear floating rates of interest as disclosed in note 5. Trade Marks has used interest rate swaps to fix the rate of interest on the term loan. Cash and cash equivalents earn interest at market rates. All of the Fund's other financial instruments are non-interest bearing.

16 Capital disclosures

The Fund's capital consists of Unitholders' equity and the term loan. The Fund's capital management objectives are to have sufficient cash and cash equivalents to pay distributions to its Unitholders, after satisfaction of its debt service and income tax obligations; provisions for general and administrative expenses; retention of reasonable working capital reserves; and amounts that may be paid by the Fund in connection with any cash redemption of Units. The Fund manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Fund may adjust the amount of its distributions paid to Unitholders.

A&W Revenue Royalties Income Fund

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17 Subsequent events

On January 5, 2022, the number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants less 13 restaurants that permanently closed. The initial consideration for the estimated royalty revenue from the net 21 restaurants added to the Royalty Pool is \$21,472,000. The Partnership paid Food Services \$17,178,000 by issuance of 444,327 LP units, representing 80% of the initial consideration. The LP units were exchanged for 888,654 non-voting common shares of Trade Marks. The remaining 20% or \$4,294,000 and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be paid in December 2022 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks.

On February 4, 2022, Trade Marks declared dividends on its voting and non-voting common shares of \$3,054,000 payable to Food Services and the Fund on February 28, 2022.

On February 4, 2022, the Fund declared a distribution to Unitholders of \$0.155 per Trust Unit or \$2,494,000, payable on February 28, 2022 to Unitholders of record as at February 15, 2022.

Unitholder Information

Corporate Head Office

A&W Trade Marks Inc.

Registered Office and Records Office:

Mailing and Delivery Address: 2200 HSBC Building,
885 West Georgia Street, Vancouver, BC Canada V6C 3E8

Mailing Address

A&W Revenue Royalties Income Fund
300 – 171 West Esplanade
North Vancouver, BC, V7M 3K9

A&W Revenue Royalties Income Fund Board of Trustees

John R. McLernon ⁽¹⁾
Richard N. McKerracher ⁽¹⁾
Fern Glowinsky ⁽¹⁾

A&W Trade Marks Inc. Board of Directors

John R. McLernon ⁽²⁾
Chairman
Richard N. McKerracher ⁽²⁾
Fern Glowinsky ⁽²⁾
Paul F.B. Hollands
David A. Mindell

Committees of the Board
⁽¹⁾ Audit Committee and
⁽²⁾ Governance Committee

Market Information

Units Listed: Toronto Stock Exchange
Symbol: AW.UN

Registrar and Transfer Agent

Computershare Investor Services Inc.

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