



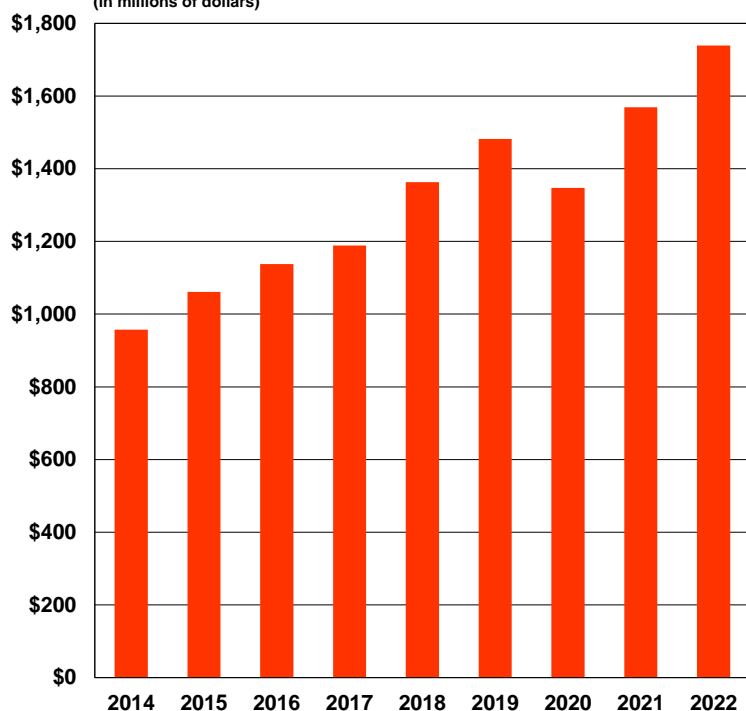
A&W REVENUE ROYALTIES INCOME FUND

A N N U A L R E P O R T

2022

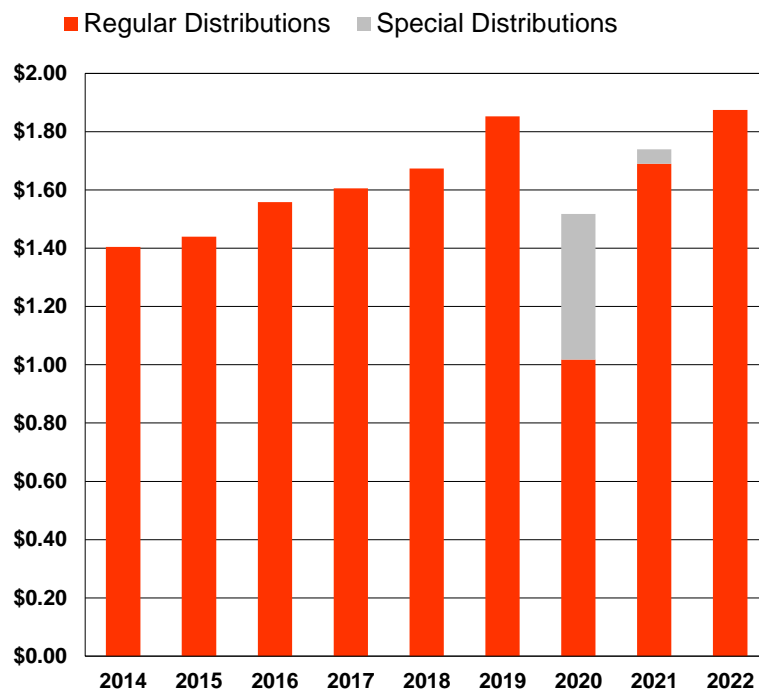


Gross Sales reported by A&W restaurants in the Royalty Pool ⁽¹⁾ (in millions of dollars)

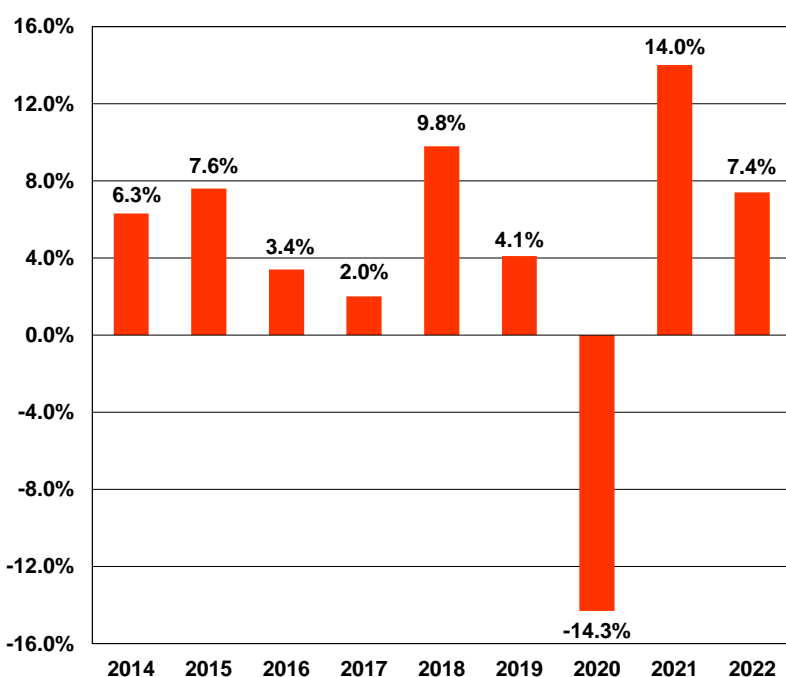


⁽¹⁾ "Gross Sales reported by A&W restaurants in the Royalty Pool" is a non-IFRS supplementary financial measure. Refer to the "Non-IFRS Measures" section of the Fund's MD&A for further details on how this measure is calculated and used to assess the Fund's performance.

Distributions to Unitholders

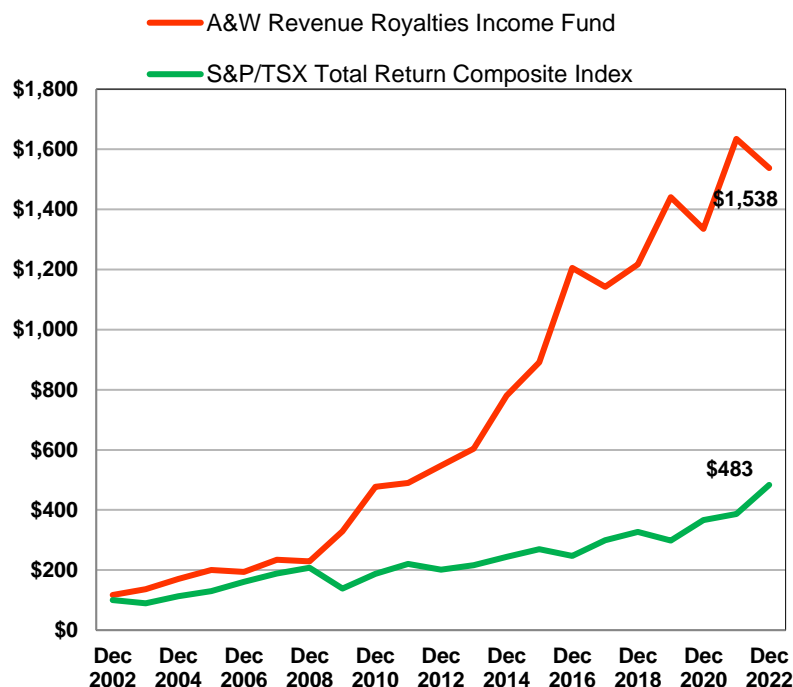


Royalty Pool Same Store Sales Growth ⁽²⁾



⁽²⁾ "Royalty Pool Same Store Sales Growth" is a non-IFRS supplementary financial measure. Refer to the "Non-IFRS Measures" section of the Fund's MD&A 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 2022.

Chairman's Report to Unitholders

On behalf of the trustees (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, 2022.

The Fund's royalty income increased by 8.4% in the fourth quarter of 2022 as compared to the fourth quarter of 2021 and increased 10.8% year over year. Royalty Pool Same Store Sales Growth⁽¹⁾, which was 4.3% for the fourth quarter and 7.4% for the year, and the additional gross sales from the 21 net new restaurants that were added to the royalty pool on January 5, 2022, together contributed to the increase in royalty income for the Fund.

The annual growth in Royalty Pool Same Store Sales Growth⁽¹⁾ of 7.4% was achieved primarily by an increase in guest visits across all restaurant concepts and regions, as compared to 2021. In 2021, there were a number of A&W restaurants that were temporarily closed and many of the restaurants that were open were negatively impacted by COVID-19 restrictions. There were no temporary closures of A&W restaurants due to COVID-19 restrictions in 2022 and by the end of the second quarter of 2022 most restrictions, such as capacity limits on dine-in guests, reduced hours of operation and requirements for dine-in guests to show proof of vaccination, had been lifted.

The monthly distribution rate increased by 7.8% and is currently at 16.0¢ per Unit of the Fund which brings the annualized rate of distribution to \$1.92 per unit, a new high-water mark for the Fund.

A&W's partnerships with its franchisees and suppliers, along with its strategic initiatives and unwavering commitment to its mission "To become #1 with millennial burger lovers, chosen and trusted for truly good food and the convenience they crave", have allowed A&W to continue to open new restaurants, innovate and increase guest visits.

On behalf of the Trustees, I would like to thank the Fund's unitholders for the continued trust and confidence that they place in the Fund and recognize all of A&W's guests, franchisees and employees for their loyalty.

(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 year ended December 31, 2022, 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 2022, achieving Royalty Pool Same Store Sales Growth⁽¹⁾ of 7.4%. COVID-19 continued to impact system sales at A&W restaurants in early 2022, particularly in the first quarter. Despite these early challenges, 2022 was a year of success at A&W.

By the end of the year, through the efforts of our franchisees, all concepts and regions had demonstrated recovery and growth over 2021. We also opened 23 new A&W restaurants during the year, bringing the total number of restaurants in the chain to 1,046 as at December 31, 2022. In 2022, we remained focused on the 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 400 A&W restaurants across the country and can expect to see more as the roll out continues in 2023. In 2022, A&W also introduced the Pret A Manger (“Pret”) brand within A&W restaurants in select markets across Canada. As at December 31, 2022, 5 A&W locations (3 in Vancouver and 2 in Toronto) were offering Pret products in their restaurants with more to come in 2023.

In August, A&W was proud to once again partner with the Multiple Sclerosis Society of Canada on its annual Burgers to Beat MS Day. Through the generosity of our guests and the commitment of our restaurant teams, the campaign raised \$1.8 million in 2022 and has raised more than \$19 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.

In order “To become #1 with millennial burger lovers, chosen and trusted for truly good food and the convenience they crave”, we have been focusing our efforts on core strategic initiatives. The talent and experience of our operators and franchisees have contributed significantly to our ability to achieve these goals and tremendous results in the year.

(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 year ended December 31, 2022, 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 12, 2022 to December 31, 2022 and the year ended December 31, 2022. This MD&A is dated February 28, 2023. 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, 2022. 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 1, 2023. 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, 2022 and this MD&A 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 2022 year was 52 weeks and ended January 1, 2023 (2021 – 52 weeks ended January 2, 2022). The Fund aligns its quarterly financial reporting with that of Food Services. Readers should be aware that the 2022 annual and quarterly results are not directly comparable to the 2021 quarterly and annual results. There were 86 days in the first quarter of 2022 compared to 87 days in first quarter of 2021. The second and third quarters of both years had 84 days. The fourth quarter of 2022 had 111 days compared to 110 days in the fourth quarter of 2021. The year ended December 31, 2022 and December 31, 2021 both had 365 days. Royalty Pool Same Store Sales Growth is based on an equal number of days in the quarter and year.

HIGHLIGHTS

- Royalty income increased by 8.4% in Q4 2022 and 10.8% year-over-year, as compared to the comparable periods in 2021.
- Royalty Pool Same Store Sales Growth⁽ⁱ⁾ was +4.3% for Q4 2022 and +7.4% for the year. The distributions declared by the Fund in 2022 increased by 7.8% from 2021. The current distribution rate translates to an annualized distribution rate of \$1.92 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 12, 2022 to Dec 31, 2022	Period from Sep 13, 2021 to Dec 31, 2021	Period from Jan 1, 2022 to Dec 31, 2022	Period from Jan 1, 2021 to Dec 31, 2021
Royalty Pool Same Store Sales Growth ⁽ⁱ⁾	4.3%	13.8%	7.4%	14.0%
Number of restaurants in the Royalty Pool	1,015	994	1,015	994
Gross sales reported by A&W restaurants in the Royalty Pool ⁽ⁱ⁾	\$540,598	\$498,558	\$1,739,377	\$1,569,377
Royalty income	\$16,218	\$14,956	\$52,181	\$47,081
General and administrative expenses	\$476	\$412	\$983	\$817
Term loan and other interest (net)	\$530	\$717	\$2,113	\$2,514
Current income tax provision	\$2,650	\$1,265	\$10,471	\$7,277
Distributable cash generated ⁽ⁱⁱ⁾	\$12,562	\$12,387	\$38,614	\$36,298
Number of equivalent units ⁽ⁱⁱⁱ⁾	19,893,414	19,258,184	19,893,414	19,258,184
Distributable cash per equivalent unit ^(iv)	\$0.631	\$0.643	\$1.941	\$1.885
Distributions and dividends declared per equivalent unit ^(iv)	\$0.635	\$0.665	\$1.875	\$1.740
Payout ratio ^(iv)	90.3%	81.5%	96.6%	92.3%
Net cash generated from operating activities	\$13,185	\$11,713	\$44,264	\$34,113
Net income ^(v)	\$11,861	\$14,124	\$41,389	\$37,854

⁽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 in 2022 is calculated on a fully-diluted basis and includes the 190,903 LP units (as defined below) exchanged for 381,806 common shares of Trade Marks representing the remaining consideration paid in December 2022 for the January 5, 2022 adjustment to the Royalty Pool (as defined below). The number of equivalent units in 2021 is calculated on a fully-diluted basis and includes 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.

(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 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 12, 2022 to Dec 31, 2022	Period from Sep 13, 2021 to Dec 31, 2021	Period from Jan 1, 2022 to Dec 31, 2022	Period from Jan 1, 2021 to Dec 31, 2021
Net cash generated from operating activities	\$13,185	\$11,713	\$44,264	\$34,113
Term loan and other interest (net)	(530)	(717)	(2,113)	(2,514)
Current income tax provision	(2,650)	(1,265)	(10,471)	(7,277)
Net changes in items of non-cash working capital	(774)	(1,045)	508	(159)
Financing fees paid	-	(175)	-	(175)
Interest paid	1,332	1,195	2,763	2,520
Income tax paid	1,999	2,681	3,663	9,790
Distributable cash generated	\$12,562	\$12,387	\$38,614	\$36,298

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 and 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 public unitholders and Food Services and dividends to Food Services. The Fund expects that net cumulative refundable income tax paid 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” section 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 public unitholders and Food Services 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 declared 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 in 2022 versus 2021 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 entire quarter and years ending December 31, 2022 and December 31, 2021, 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. Royalty Pool Same Store Sales Growth in 2022 versus 2019 (the most recent pre-COVID comparable period) reflects the change in gross sales of A&W restaurants in the Royalty Pool that operated during the years ending December 31, 2022 and December 31, 2019. This measure is important as it highlights the performance of the A&W restaurants in the Royalty Pool in 2022 versus their performance in 2019 which is the most recently completed year that was not impacted by COVID-19.

SALES PERFORMANCE

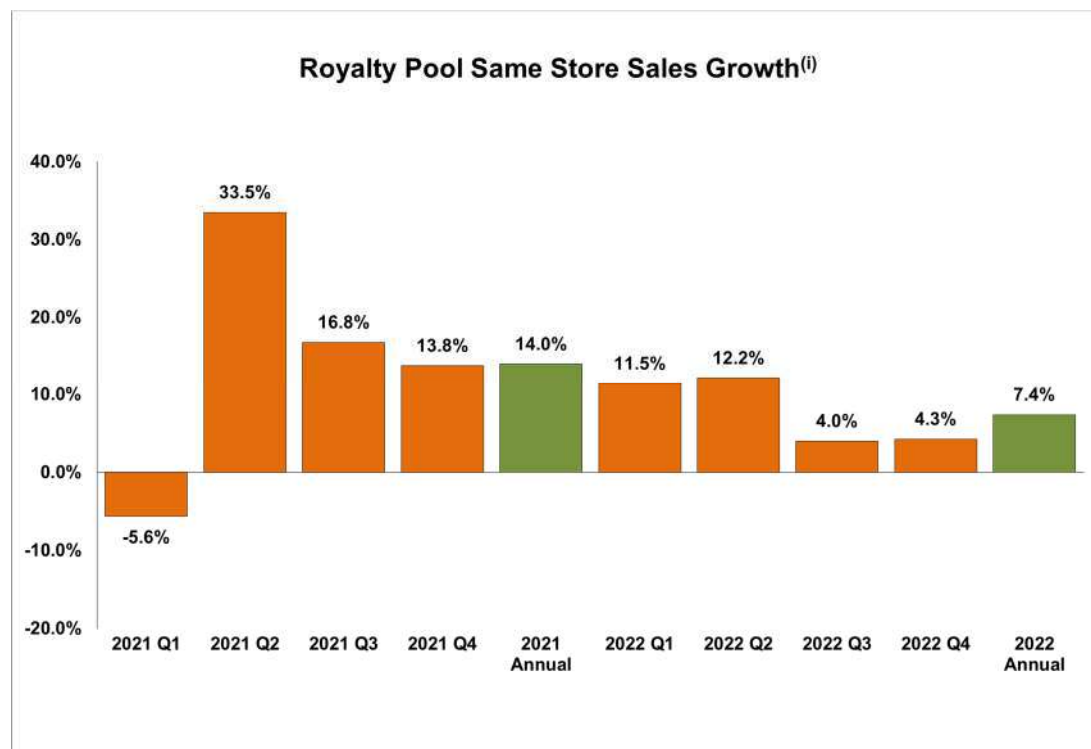
Royalty Pool Same Store Sales Growth⁽ⁱ⁾ for the fourth quarter of 2022 was +4.3% as compared to the same quarter of 2021. Annual Royalty Pool Same Store Sales Growth⁽ⁱ⁾ for 2022 was +7.4% as compared to 2021. Royalty Pool Same Store Sales Growth is a function of changes in guest counts and check size, both of which are impacted by sales mix and menu price changes.

The Q4 2022 Royalty Pool Same Store Sales Growth⁽ⁱ⁾ of +4.3% was a product of an increase in both guest counts and average check size. The growth in average check size was partly attributable to menu prices which have modestly increased in response to industry-wide inflation on goods, services, and labour. The annual Royalty Pool Same Store Sales Growth⁽ⁱ⁾ of +7.4% was primarily driven by an increase in guest counts, due to there being fewer public health restrictions related to COVID-19 in place across Canada in 2022 as compared to the comparable period in 2021. During 2021, there were a number of A&W restaurants that were temporarily closed and many of the restaurants that were open were negatively impacted by COVID-19 restrictions. There were no temporary closures of A&W restaurants due to COVID-19 restrictions in 2022 and by end of Q2 2022 most restrictions, such as capacity limits on dine-in guests, reduced hours of operation and requirements for dine-in guests to show proof of vaccination, had been lifted. See “Impact of COVID-19”.

Gross sales reported by A&W restaurants in the Royalty Pool⁽ⁱ⁾ for the fourth quarter of 2022 were \$540,598,000, an 8.4% increase against gross sales of \$498,558,000 for the fourth quarter of 2021. Annual Gross sales reported by A&W restaurants in the Royalty Pool⁽ⁱ⁾ were \$1,739,377,000, a 10.8% increase from annual gross sales reported by A&W restaurants in the Royalty Pool⁽ⁱ⁾ of \$1,569,377,000 for 2021.

The increase in Gross sales reported by A&W restaurants in the Royalty Pool is driven by the Royalty Pool Same Store Sales Growth in addition to the gross sales from the 21 net new restaurants added to the Royalty Pool on January 5, 2022. The increase in the quarter was also impacted by there being one additional day in the fourth quarter of 2022 as compared to the fourth quarter of 2021. See “Impact of COVID-19” and “Adjustment to the Royalty Pool”.

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.



⁽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 dated February 15, 2002 (the "Administration Agreement") whereby Trade Marks, at its expense, provides or arranges for the provision of services required in the administration of the Fund. On April 8, 2022, Trade Marks and Food Services entered into an agreement for Food Services to provide administrative services to Trade Marks (the "Services Agreement"). Under the terms of the Services Agreement, Food Services is entitled to be paid an annual fee, on a quarterly basis, for the services provided in each fiscal year in an amount approved by the board of directors of Trade Marks that is based on a prescribed time and effort computation. The Services Agreement will remain in effect for the duration of the Administration Agreement, unless terminated by either party by giving 5 years advance written notice to the other party.

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, 2022, Food Services owned the equivalent of 26.7% (December 31, 2021 – 24.3%) 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.

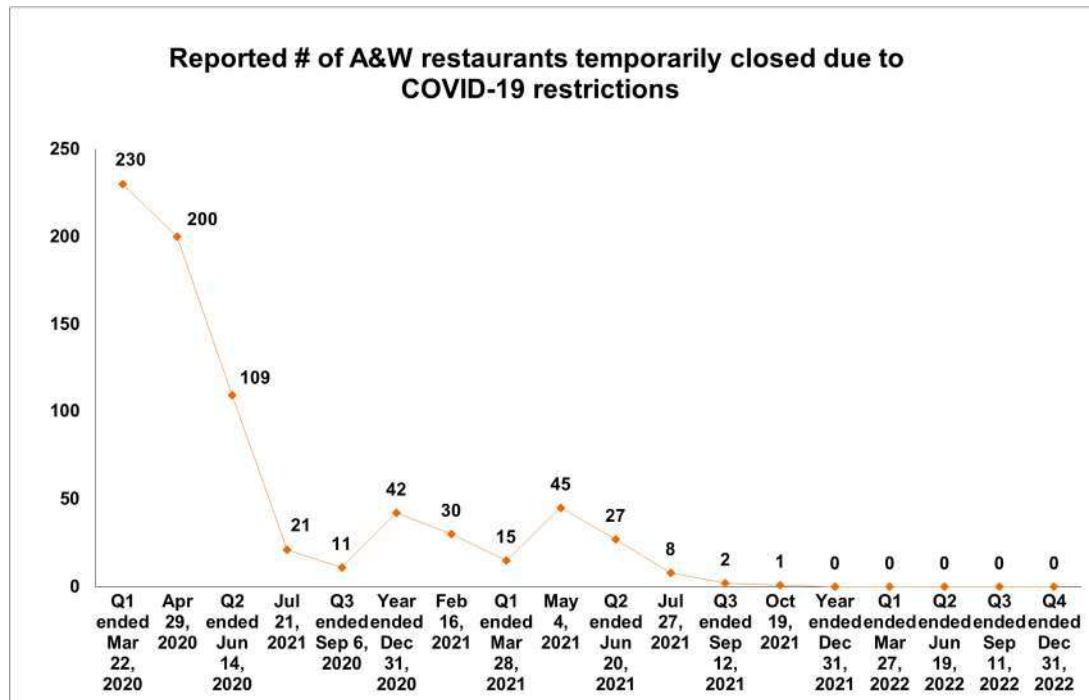
The Royalty Pool is adjusted annually to reflect Gross sales from new A&W restaurants added to the Royalty Pool, net of the gross sales of any A&W restaurants that have permanently closed. Food Services is paid for the additional royalty stream related to the gross sales of the net new restaurants added 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

COVID-19 and the resulting changes in the market place have had significant impacts on many businesses across Canada, especially restaurants, and the future effect of COVID-19 continues to be uncertain.

Actions required in response to the COVID-19 pandemic had a significant adverse impact on A&W restaurant operations in Canada, particularly in 2020 and 2021, including the temporary closure of A&W restaurants during that timeframe. The COVID-19 related public health restrictions began to ease in Q3 2021, and by the end of 2021 all of the A&W restaurants that were temporarily closed due to restrictions

had reopened. While certain restrictions remained for some A&W locations in early 2022, these restrictions continued to ease and by Q2 2022 most restrictions, such as capacity limits on dine-in guests, reduced hours of operation and requirements for dine-in guests to show proof of vaccination, had been lifted. The chart below shows the reported number of A&W restaurants that were temporarily closed due to COVID-19 restrictions at specified dates since the pandemic began.



Throughout the pandemic, Food Services and its franchisees worked together on initiatives to help accelerate sales recovery and enhance employee experience. 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 serving guests on the A&W mobile app. Throughout the pandemic, Food Services and its franchisees were careful to take and maintain measures in their restaurants and broader operations to protect public health including complying with mandates of relevant public health authorities.

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, all of those programs have now ceased. Some of the assistance provided to restaurant businesses was in the form of government loans which will require repayment by December 31, 2023. See “Risks and Uncertainties”.

After the temporary suspension of monthly distributions at the onset of the COVID-19 pandemic, regular distributions resumed in Q3 2020. In 2021, the monthly distribution rate was increased three times, with the last increase in November 2021 bringing the monthly distribution rate to 15.5¢ per Unit. The Fund also paid a special distribution of 5.0¢ per Unit on December 31, 2021.

From January to September 2022, the monthly distribution rate was 15.5¢ per Unit and was increased to the current rate of 16.0¢ per Unit beginning with the October distribution that that was paid on November 30, 2022.

When comparing 2022 Royalty Pool Same Store Sales Growth to 2019 Royalty Pool Same Store Sales Growth (the most recent pre-COVID year), Royalty Pool Same Store Sales Growth⁽ⁱ⁾ was +6.5%. The 6.5% Royalty Pool Same Store Sales Growth⁽ⁱ⁾ over 2019 has been achieved due to strong sales growth from 2019 to 2022 primarily in A&W restaurants with drive-thru.

⁽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.

ADJUSTMENT TO THE ROYALTY POOL

The 2022 annual adjustment to the Royalty Pool took place 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 during 2021. The Partnership paid Food Services \$17,178,000 by issuance of 444,327 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 888,654 non-voting common shares of Trade Marks.

The final adjustment to the number of LP units issued was made on December 8, 2022, based on the actual annual sales reported by the new restaurants. The actual annual sales of the 34 new A&W restaurants were \$55,287,000, compared to the original estimate of \$50,688,000, resulting in total consideration of \$24,558,000 payable to Food Services. The remaining consideration of \$7,380,000 was paid to Food Services by issuance of 190,903 additional LP units, which were exchanged for 381,806 non-voting common shares of Trade Marks.

On January 5, 2023, the number of A&W restaurants in the Royalty Pool was increased by 29 new restaurants, less 7 restaurants that permanently closed. The initial consideration for the estimated royalty revenue from the net 22 restaurants added to the Royalty Pool is \$16,118,000. The Partnership paid Food Services \$12,894,000 by issuance of 380,368 LP units, representing 80% of the initial consideration. The LP units were exchanged for 760,736 non-voting common shares of Trade Marks. The remaining 20% or \$3,224,000 and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be paid in December 2023 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:

(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, 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 ⁽¹⁾	-	-	(2.9)	1,413,998	20,164	2.9	1,413,998	20,164
April 16, 2021 exchange of common shares for Trust Units ⁽²⁾	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
January 5, 2022 adjustment to the Royalty Pool ⁽³⁾	-	-	(2.6)	1,270,460	24,558	2.6	1,270,460	24,558
Balance as at December 31, 2022	32,185,311	227,798	80.9	7,601,441	105,749	19.1	39,786,752	333,547

⁽¹⁾ 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.

⁽²⁾ On April 16, 2021, A&W of Canada Inc., 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"). Further details regarding the Reorganization can be found in the Fund's MD&A for the fourth quarter ended December 31, 2021, available at www.sedar.com or www.awincomefund.ca.

⁽³⁾ The number of common shares includes the 190,903 LP units exchanged for 381,806 common shares of Trade Marks representing the remaining consideration paid in December 2022 for the January 5, 2022 adjustment to the Royalty Pool.

OWNERSHIP OF THE FUND

The table below shows the ownership of the Fund as of December 31, 2022 and December 31, 2021 on a fully-diluted basis.

	December 31, 2022		December 31, 2021	
	Number of units	%	Number of units	%
Units held by public unitholders	14,585,673	73.3	14,585,673	75.7
Limited Voting Units held by Food Services ⁽¹⁾	1,507,020	7.6	1,507,020	7.8
Number of Trust Units issuable upon exchange of securities of Trade Marks held by Food Services ⁽²⁾	3,800,721	19.1	3,165,491	16.5
Total equivalent units	19,893,414	100.0	19,258,184	100.0

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

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

The chart below shows the ownership of the Fund, on a fully-diluted basis, after the initial consideration for the January 5, 2023 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, 2023 adjustment to the Royalty Pool that are payable in December 2023.

	Number of units	%
Units held by public unitholders	14,585,673	71.9
Limited Voting Units held by Food Services ⁽¹⁾	1,507,020	7.5
Number of Trust Units issuable upon exchange of securities of Trade Marks held by Food Services ⁽²⁾	4,181,089	20.6
Total equivalent units	20,273,782	100.0

⁽³⁾ Limited Voting Units in the Fund held by Food Services may be exchanged for Units on the basis of one Limited Voting Unit for one Unit.

⁽⁴⁾ Common shares of Trade Marks held by Food Services may be exchanged for Trust Units on the basis of two common shares for one Trust Unit.

FINANCIAL RESULTS

INCOME

Royalty income for the fourth quarter of 2022 was \$16,218,000 based on Gross sales reported by restaurants in the Royalty Pool⁽ⁱ⁾ of \$540,598,000, compared to royalty income of \$14,956,000 and Gross sales reported by A&W restaurants in the Royalty Pool⁽ⁱ⁾ of \$498,558,000 for the fourth quarter of 2021. Annual royalty income for 2022 was \$52,181,000 based on gross sales reported by restaurants in the Royalty Pool⁽ⁱ⁾ of \$1,739,377,000, compared to royalty income of \$47,081,000 and gross sales reported by A&W restaurants in the Royalty Pool⁽ⁱ⁾ of \$1,569,377 for 2021.

The increase in royalty income is driven by the Royalty Pool Same Store Sales Growth and the gross sales from the 21 net new restaurants added to the Royalty Pool on January 5, 2022. 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 12, 2022 to Dec 31, 2022	Period from Sep 13, 2021 to Dec 31, 2021	Period from Jan 1, 2022 to Dec 31, 2022	Period from Jan 1, 2021 to Dec 31, 2021
General and administrative expenses	\$476	\$412	\$983	\$817
Term loan and other interest (net)	\$530	\$717	\$2,113	\$2,514

The \$166,000 year over year increase in general and administrative expenses is primarily attributable to the \$175,000 expense (2021 - \$40,000) related to administrative services received from Food Services.

The \$401,000 year over year decrease in term loan and other interest (net) was due to a lower effective interest rate on the term loan due to a decrease in the stamping fee and a \$238,000 increase in interest income due to rising interest rates. Interest rate swap agreements are used to manage risks from fluctuations in interest rates and facilitate uniform monthly distributions when paid. See "Unrealized Gain on Interest Rate Swaps" and "Liquidity and Capital Resources".

GAIN 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 had 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 "Matured Swap") and another swap, which was entered into simultaneously with the renewal of Trade Marks' Credit Facility (as defined below) on September 10, 2021, with an effective date of December 22, 2022 and a maturity date of September 10, 2026 (the "Current Swap"). See "Liquidity and Capital Resources".

The Fund's net income included realized and 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 gains and losses had no impact on the Fund's cash available to pay distributions.

(dollars in thousands)	Period from Sep 12, 2022 to Dec 31, 2022	Period from Sep 13, 2021 to Dec 31, 2021	Period from Jan 1, 2022 to Dec 31, 2022	Period from Jan 1, 2021 to Dec 31, 2021
Loss (gain) on Matured Swap	\$187	\$(675)	\$(983)	\$(1,689)
Gain on Current Swap	\$(438)	\$(931)	\$(3,921)	\$(560)
Total Gain on interest rate swaps	\$(251)	\$(1,606)	\$(4,904)	\$(2,249)

INCOME TAXES

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

(dollars in thousands)	Period from Sep 12, 2022 to Dec 31, 2022	Period from Sept 13, 2021 to Dec 31, 2021	Period from Jan 1, 2022 to Dec 31, 2022	Period from Jan 1, 2021 to Dec 31, 2021
Current				
Current income tax provision	\$2,650	\$1,265	\$10,471	\$7,277
Refundable income tax	492	(1,794)	1,732	(1,090)
Deferred	439	1,817	330	1,914
Total provision for income taxes	\$3,581	\$1,288	\$12,533	\$8,101

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% (2021 – 20.0%), plus an additional tax of 30.67% (2021 – 30.67%) on investment income which is refundable at a rate of 38.33% (2021 – 38.33%) for each dollar Trade Marks pays out in taxable dividends to its shareholders. Trade Marks' provision for income taxes for 2022 includes a payable of refundable income tax of \$1,732,000 based on its taxable income and dividends paid in 2022. Under IFRS, refundable income tax is recognized on the income statement when it is paid or payable or 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 12, 2022 to Dec 31, 2022	Period from Sept 13, 2021 to Dec 31, 2021	Period from Jan 1, 2022 to Dec 31, 2022	Period from Jan 1, 2021 to Dec 31, 2021
Net income and comprehensive income attributable to public unitholders of the Fund	\$8,762	\$9,851	\$30,636	\$27,825
Net income and comprehensive income attributable to Food Services' ownership of Limited Voting Units	905	1,018	3,165	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	2,194	3,255	7,588	7,803
Total net income and comprehensive income	\$11,861	\$14,124	\$41,389	\$37,854

DISTRIBUTABLE CASH

(dollars in thousands)	Period from Sep 12, 2022 to Dec 31, 2022	Period from Sept 13, 2021 to Dec 31, 2021	Period from Jan 1, 2022 to Dec 31, 2022	Period from Jan 1, 2021 to Dec 31, 2021
Distributable cash generated ⁽ⁱⁱ⁾	\$12,562	\$12,387	\$38,614	\$36,298
Number of equivalent units	19,893,414	19,258,184	19,893,414	19,258,184
Distributable cash per equivalent unit ^(iv)	\$0.631	\$0.643	\$1.941	\$1.885
Distributions and dividends declared per equivalent unit ^{(ii) (iv)}	\$0.635	\$0.665	\$1.875	\$1.740
Distributions and dividends declared and accrued per equivalent unit ^(iv)	\$0.570	\$0.524	\$1.875	\$1.740
Payout ratio ^(iv)	90.3%	81.5%	96.6%	92.3%

Distributable cash generated⁽ⁱⁱ⁾ in the fourth quarter of 2022 to pay distributions to unitholders and dividends to Food Services was \$12,562,000 compared to \$12,387,000 in the fourth quarter of 2021. Distributable cash generated⁽ⁱⁱ⁾ in 2022 was \$38,614,000 compared to \$36,298,000 in 2021. The \$2,316,000 year over year increase in Distributable cash generated⁽ⁱⁱ⁾ was attributable to the \$5,100,000 increase in royalty income, partially offset by the \$3,194,000 increase in the current income tax expense. The increase in the current tax expense in 2022 is largely driven by a timing difference related to when income from the Partnership is captured in Trade Mark's taxable income.

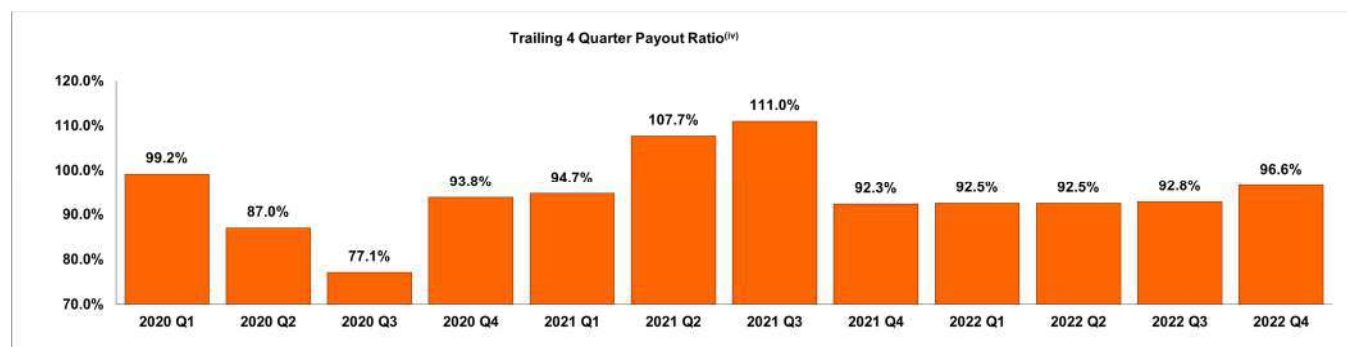
Distributable cash per equivalent unit^(iv) was down slightly in the fourth quarter of 2022 compared to the fourth quarter of 2021 due to the increase in the number of equivalent units that is a result of the 2022 annual adjustment to the Royalty Pool, partially offset by an increase in the Distributable cash generated.

Distributable cash per equivalent unit^(iv) for the year increased by 5.6¢ to \$1.941 per Unit for 2022 from \$1.885 per Unit for 2021. 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 2022 annual adjustment to the Royalty Pool. See “Adjustment to the Royalty Pool”.

Four monthly distributions totaling 63.5¢ per Unit were declared in the fourth quarter of 2022 compared to four monthly distributions totaling 61.5¢ per Unit and one special distribution of 5.0¢ per Unit declared in the fourth quarter of 2021. Twelve monthly distributions totaling \$1.875 per Unit were declared in 2022 compared to twelve monthly distributions totaling \$1.690 per Unit and one special distribution of 5.0¢ per Unit in 2021.

The Payout ratio^(iv) for the fourth quarter of 2022 was 90.3% compared to 81.5% for the fourth quarter of 2021. The annual Payout ratio^(iv) for 2022 was 96.6% compared to 92.3% in 2021. 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 and the timing of current income taxes, the Fund historically experiences seasonal fluctuations in its Payout ratio.

The following table shows the trailing four quarter Payout ratios for 2020, 2021 and 2022.



⁽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 2022 were as follows:

(dollars in thousands except per unit amounts)					
Month	Record date	Per Trust Unit	Amount paid/payable to public Unitholders	Amount paid/payable to Food Services	Total amount paid/payable
January	February 15, 2022	\$0.155	\$2,261	\$234	\$2,495
February	March 15, 2022	0.155	2,261	233	2,494
March	April 15, 2022	0.155	2,260	234	2,494
April	May 15, 2022	0.155	2,261	234	2,495
May	June 15, 2022	0.155	2,261	233	2,494
June	July 15, 2021	0.155	2,261	233	2,494
July	August 15, 2022	0.155	2,261	234	2,495
August	September 15, 2022	0.155	2,260	234	2,494
September	October 15, 2022	0.155	2,260	234	2,494
October	November 15, 2022	0.160	2,334	241	2,575
November	December 15, 2022	0.160	2,334	241	2,575
December	December 31, 2022	0.160	2,334	241	2,575
		\$1.875	\$27,348	\$2,826	\$30,174

The December 2022 distribution of \$2,575,000 was declared on December 8, 2022 and paid subsequent to quarter end on January 31, 2023, and is reported as a current liability as at December 31, 2022.

On February 3, 2023, the Fund declared a distribution to unitholders of \$0.160 per Trust Unit or \$2,575,000 payable on February 28, 2023 to unitholders of record as at February 15, 2023.

TAX TREATMENT OF DISTRIBUTIONS

All of the distributions declared in 2022 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 2022 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	\$0.0775	\$2,495	\$559	\$3,054
February	0.0775	2,494	560	3,054
March	0.0775	2,494	560	3,054
April	0.0775	2,495	559	3,054
May	0.0775	2,494	560	3,054
June	0.0775	2,494	559	3,053
July	0.0775	2,495	559	3,054
August	0.0775	2,494	560	3,054
September	0.0775	2,494	560	3,054
October	0.0800	2,575	577	3,152
November	0.0800	2,575	608	3,183
December	0.0800	2,575	608	3,183
	\$0.9375	\$30,174	\$6,829	\$37,003

In addition to the dividends on voting and non-voting common shares above, on December 8, 2022 Trade Marks declared to Food Services a special dividend of \$297,000 that was paid on December 30, 2022, representing the dividends that Food Services would have received on the 381,806 non-voting common shares issued to Food Services on December 8, 2022 in relation to the final consideration for the January 5, 2022 adjustment to the Royalty Pool, had such shares been issued on January 5, 2022.

On February 3, 2023, Trade Marks declared dividends on its voting and non-voting common shares equal to \$0.080 per share, or \$3,244,000, payable to Food Services and the Fund on February 28, 2023.

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”.

	Q4	Q3	Q2	Q1
(dollars in thousands except per unit amounts)	2022	2022	2022	2022
Number of restaurants in the Royalty Pool	1,015	1,015	1,015	1,015
Royalty income	\$16,218	\$13,198	\$12,187	\$10,578
General and administrative expenses	476	121	120	266
Term loan and other interest (net)	530	489	520	574
Amortization of financing fees	21	15	15	16
Loss (gain) on interest rate swaps	(251)	101	(1,817)	(2,937)
Current income tax provision	2,650	2,036	2,030	3,755
Refundable income tax expense	492	410	408	422
Deferred income tax expense (recovery)	439	458	639	(1,206)
Net income	\$11,861	\$9,568	\$10,272	\$9,688
Net cash generated from operating activities	\$13,185	\$10,678	\$12,459	\$7,942
Distributable cash generated ⁽ⁱⁱ⁾	\$12,562	\$10,552	\$9,517	\$5,983
Number of equivalent units	19,893,414	19,813,593	19,813,593	19,813,593
Distributable cash per equivalent unit ^(iv)	\$0.631	\$0.533	\$0.480	\$0.302
Distributions and dividends declared per equivalent unit ^{(iii)(iv)}	\$0.635	\$0.465	\$0.465	\$0.310
Number of days in the quarter	111	84	84	86
	Q4	Q3	Q2	Q1
(dollars in thousands except per unit amounts)	2021	2021	2021	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 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 ^{(iii)(iv)}	\$0.665	\$0.435	\$0.405	\$0.235
Number of days in the quarter	110	84	84	87

⁽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) 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.
- (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.

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

(dollars in thousands)	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Net cash generated from operating activities	\$13,185	\$10,678	\$12,459	\$7,942
Term loan and other interest (net)	(530)	(489)	(520)	(574)
Current income tax provision	(2,650)	(2,036)	(2,030)	(3,755)
Net changes in items of non-cash working capital	(775)	137	800	346
Interest paid (received)	1,332	762	(15)	684
Income tax paid (recovered)	2,000	1,500	(1,177)	1,340
Distributable cash generated	\$12,562	\$10,552	\$9,517	\$5,983

(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
Term loan and other interest (net)	(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

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)	2022	2021	2020
Royalty Pool Same Store Sales Growth ⁽ⁱ⁾	7.4%	14.0%	-14.3%
Number of restaurants in the Royalty Pool	1,015	994	971
Gross sales reported by A&W restaurants in the Royalty Pool ⁽ⁱ⁾	\$1,739,377	\$1,569,377	\$1,347,387
Royalty income	\$52,181	\$47,081	\$40,422
Distributable cash generated ⁽ⁱⁱ⁾	\$38,614	\$36,298	\$30,009
Distributions and dividends declared per equivalent unit ^(iv)	\$1.875	\$1.740	\$1.518
Net income	\$41,389	\$37,854	\$28,374
Basic and diluted income per weighted average Trust Unit outstanding	\$2.100	\$1.938	\$1.529
Total assets	\$411,658	\$377,374	\$352,976
Trade Marks’ term loan	\$59,870	\$59,806	\$59,935

⁽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 “Distributable cash generated” to “Net cash generated from operating activities”, the most comparable IFRS measure, for the years indicated.

(dollars in thousands)	2022	2021	2020
Net cash generated from operating activities	\$44,264	\$34,113	\$30,409
Interest expense	(2,113)	(2,514)	(2,177)
Current income tax provision	(10,471)	(7,277)	(7,242)
Net changes in items of non-cash working capital	508	(159)	35
Financing fees paid	-	(175)	-
Interest paid	2,763	2,520	1,933
Income tax paid	3,663	9,790	7,051
Distributable cash generated	\$38,614	\$36,298	\$30,009

SEASONALITY

Sales at A&W restaurants typically fluctuate seasonally however, because of COVID-19, the impact of seasonality was less pronounced in 2020 and 2021. 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

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 a 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, 2022, the amount of the facility available was \$2,000,000 (December 31, 2021 - \$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, 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 28, 2023, December 31, 2022 and December 31, 2021.

Financing fees of \$175,000 that were incurred related to the September 10, 2021 Credit Facility amendment were capitalized in 2021 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 had entered into two interest rate swaps. The Matured Swap had an effective date of December 22, 2015 and a maturity date of

December 22, 2022 and the Current 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 Matured Swap, which matured on December 22, 2022, the term loan's effective interest rate was 3.95% per annum (December 31, 2021 – 3.95%), comprising 2.80% per annum which is fixed under the swap agreement until December 22, 2022 plus a 1.15% per annum stamping fee. Depending on the performance of the business of Trade Marks, the stamping fee on the term loan 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 Matured Swap matured on December 22, 2022 and as a result of the maturity, a realized gain of \$983,000 was recorded in the consolidated statements of income and comprehensive income resulting in a fair value as at December 31, 2022 of \$nil (December 31, 2021 – \$983,000 unfavourable).

Under the Current Swap, effective December 22, 2022, the term loan's effective interest rate is 2.85% per annum, comprising 1.74% per annum which is fixed under the Current Swap agreement until September 10, 2026 plus a 1.15% 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 Current Swap as at December 31, 2022 was \$4,481,000 favourable (December 31, 2021 – \$560,000 favourable) 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. Trade Marks is currently, and based upon projections, expects to remain, in compliance with all covenants related to its term loan.

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	\$60,000	\$0	\$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 ended December 31, 2022 royalty income of \$52,181,000 (2021 - \$47,081,000) was earned from Food Services of which \$3,792,000 is receivable at December 31, 2022 (December 31, 2021 - \$3,332,000). Royalty income earned during the quarter was \$16,218,000 (2021 - \$14,956,000).

During the year ended December 31, 2022, Trade Marks paid dividends to Food Services \$7,126,000 (2021 - \$6,258,000) as a result of Food Services' ownership of Trade Marks' common shares. The dividends paid to Food Services in 2022 include special dividends of \$297,000 representing the dividends that Food Services would have received on the 381,806 non-voting common shares issued to Food Services on December 8, 2022 in relation to the final consideration for the January 5, 2022 adjustment to the Royalty Pool, had they been issued on January 5, 2022. In 2021, Trade Marks paid special dividends of \$334,000 to Food Services 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.

During the year ended December 31, 2022, the Fund declared distributions payable to Food Services totaling \$2,826,000 (2021 - \$2,065,000) as a result of Food Services' ownership of Limited Voting Units. The \$241,000 distribution declared on December 8, 2022 was paid to Food Services subsequent to the period end on January 31, 2023 is reported as a current liability as at December 31, 2022 (December 31, 2021 - \$234,000).

On April 8, 2022, Trade Marks and Food Services entered into the Services Agreement. Under the terms of the Services Agreement, Food Services is entitled to be paid an annual fee, on a quarterly basis, for the services provided in each fiscal year in an amount approved by the board of directors of Trade Marks that is based on a prescribed time and effort computation. The Services Agreement will remain in effect for the duration of the Administration Agreement dated February 15, 2002 between Trade Marks and the Fund, unless terminated by either party by giving 5 years advance written notice to the other party. During the year ended December 31, 2022, Trade Marks recognized an expense of \$175,000 (2021 - \$40,000) related to administrative services received from Food Services. During the fourth quarter, Trade Marks recognized an expense of \$44,000 related to administrative services received from Food Services (2021 - \$40,000), all of which was paid as at December 31, 2022 (December 31, 2021 - \$40,000).

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 Matured Swap as at December 31, 2022 was \$nil (December 31, 2021 - \$983,000 unfavourable) as a result of its maturity on December 22, 2022. The fair value of the Current Swap as at December 31, 2022 was \$4,481,000 favourable (December 31, 2021 - \$560,000 favourable).

The change in fair value of the swap is recorded as a gain on interest rate swaps 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, demand operating loan facility 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 financial assets/liabilities 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, 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 Matured Swap as at December 31, 2022 was \$nil (December 31, 2021 - \$983,000 unfavourable), as a result of its maturity on December 22, 2022, and the fair value of the Current Swap as at December 31, 2022 was \$4,481,000 favourable (December 31, 2021 - \$560,000 favourable).

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, 2022 relate to royalties due from Food Services to the Partnership which were paid in full by Food Services on January 27, 2023.

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, 2022, 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, 2022, 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.

As at December 31, 2022, 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, 2022, 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

Economic Conditions

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

International Conflict

International conflict and other geopolitical tensions and events, including war, military action, terrorism, trade disputes, and international responses thereto have historically led to, and may in the future lead to, uncertainty or volatility in the global supply chain and financial markets. On February 24, 2022, Russia commenced a military invasion of Ukraine. In response, many jurisdictions have imposed strict economic sanctions against Russia and its interests, including Canada, the United States, the European Union, the United Kingdom, and others, which may have a destabilizing effect on commodity prices, supply chain and global economies more broadly. Supply chain disruptions may adversely affect the business, financial condition, and results of operations for Food Services, its franchisees and the Fund. The extent and duration of the current Russian-Ukrainian conflict and related international action cannot be accurately predicted at this time and the effects of such conflict may magnify the impact of the other risks identified herein and in the Fund's most recent Annual Information Form, available on the Fund's SEDAR profile at www.sedar.com.

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 home and travel. The pandemic abruptly and negatively impacted Food Services, its franchisees and the Fund (including Trade Marks and the Partnership), most particularly in 2020 and 2021. Restrictions on the operations of A&W restaurants in response to COVID-19 continued to impact system sales at A&W restaurants in early 2022, particularly in the first quarter; however, by the end of the year, through the efforts of our franchisees, all

concepts and regions had demonstrated recovery and growth over 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' projections may be inaccurate, and 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. Government restrictions related to COVID-19 may be reinstated, which may restrict the ability of A&W restaurants to operate, or result in forced closures, reduced guest traffic, supply interruptions or staff shortages. All of the government programs that have been helpful to A&W franchisees have ceased and loans which were provided by the government are due and payable by December 31, 2023.

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 labour 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

Based on recent results in the food services industry, Food Services believes that the quick service restaurant (QSR) segment of the industry, is recovering from the impacts of COVID-19. 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 1,046 restaurants (as at December 31, 2022) 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 and better position it to withstand the risks associated with economic conditions and other risks disclosed under the “Risks and Uncertainties” section of this MD&A. Strategic initiatives, including repositioning and differentiating the A&W brand through the use of delicious 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 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 a continued effort to source other proteins from animals that were raised without the use artificial hormones and antibiotics. A&W also serves organic Fairtrade coffee and A&W Root Beer made from natural cane sugar and all-natural flavours in its restaurants.

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

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

In 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 400 A&W restaurants across the country.

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

A&W is 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. In October 2021, A&W launched the “A&W Cup Crew”, an exchangeable cup pilot at A&W restaurants in Vancouver and in March 2022, A&W launched a pilot program in Toronto for its “Zero Cup” which is a fully compostable, plastic-free cup that requires no lid or straw.

A&W also continues to innovate to serve guests that are mobile app users.

Food Services has continued to grow new A&W restaurants, particularly in the key Ontario and Quebec markets. Twenty three new A&W restaurants opened in 2022, nine of which were opened during the fourth quarter of 2022, and an additional nine restaurants were under construction as at December 31, 2022.

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

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

Pursuant to the Country Agreement, Food Services has the exclusive right to use the Pret brand in Canada for a two-year pilot (the "Trial Phase") 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 pursuant to an agreed development plan. As at December 31, 2022, five A&W locations (three in Vancouver and two in Toronto) were offering Pret products in their restaurants.

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

FORWARD LOOKING INFORMATION

Certain statements in this 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 net cumulative refundable income tax paid will be recovered in future years when sufficient dividends are paid by Trade Marks; 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; timing for the repayment of the government loans; expectations regarding improvements in sales trends at the A&W restaurants in the Royalty Pool; statements regarding future adjustments to the Royalty Pool; statements regarding 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; statements regarding the potential impact of international

conflicts; 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; 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 and better position it to withstand the risks associated with the current economic conditions and international conflicts; 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 additional 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:

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

- the projections for the A&W business provided by Food Services are accurate;
- 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;
- risks related to international conflicts;
- risks related to inflation;
- the availability and adequacy of insurance coverage;
- occurrence of catastrophic events;
- 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
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates and household debt, political uncertainty, interest rates, currency exchange rates or derivative and commodity prices.

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

- dependence of the Fund on Trade Marks, Partnership and Food Services;
- dependence of the Partnership on Food Services;
- risks related to leverage and restrictive covenants;
- the risk that cash distributions are not guaranteed and will fluctuate with the Partnership's performance and could be reduced or suspended at any time;
- risks related to the unpredictability and volatility of Unit prices;
- risks related to the nature of Units;
- risks related to the distribution of securities on redemption or termination of the Fund;
- risks related to the Fund issuing additional Units diluting existing unitholders' interests;
- risks related to income tax matters and investment eligibility;
- risks related to the limitations of internal controls over financial reporting;
- risks related to COVID-19 set forth in this MD&A, including under the headings "Risks and Uncertainties – COVID-19" and "Impact of COVID-19";
- risks related to international conflicts set forth in this MD&A under the heading "Risks and Uncertainties – International Conflicts"; and
- risks related to economic conditions set forth in this MD&A under the heading "Risks and Uncertainties – Economic Conditions"; and
- risks related to Food Services not meeting its objectives, and the possibility that its strategies to meet its objectives may not be successful.

These risks, uncertainties and other factors are more particularly described 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, 2022 and 2021
(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, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Fund's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2022 and 2021;
- 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, 2022. These matters were

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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.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment assessment of the intangible assets</p> <p><i>Refer to note 3 – Significant accounting policies, judgments and estimation uncertainty and note 4 – Intangible assets to the consolidated financial statements.</i></p> <p>The Fund had \$385.4 million of intangible assets as at December 31, 2022. 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.</p> <p>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, revenue growth rates, terminal growth rate and the discount rate. No impairment loss was recorded during the year.</p> <p>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, 2022. 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</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none">• Tested how management determined the recoverable amount of the intangible assets as at December 31, 2022, which included the following:<ul style="list-style-type: none">– 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, 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.



Key audit matter	How our audit addressed the key audit matter
and knowledge in the field of valuation assisted us in performing our procedures.	

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 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
March 3, 2023

A&W Revenue Royalties Income Fund

Consolidated Balance Sheets

As at December 31, 2022 and 2021

(in thousands of dollars)

	Note	2022 \$	2021 \$
Assets			
Current assets			
Cash and cash equivalents		17,109	10,064
Accounts receivable	14	3,792	3,332
Prepaid interest		847	197
Income taxes recoverable		-	2,350
		21,748	15,943
Non-current assets			
Derivative financial assets	5	4,481	560
Intangible asset	4	385,429	360,871
Total assets		411,658	377,374
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	14	583	631
Distributions payable to Unitholders	12, 14	2,575	2,494
Derivative financial liabilities	5	-	983
Income taxes payable		6,190	-
		9,348	4,108
Non-current liabilities			
Term loan	5	59,870	59,803
Deferred income tax liabilities	7	16,196	15,866
		85,414	79,777
Unitholders' Equity			
Trust Units	8	398,884	398,884
Accumulated deficit		(177,900)	(181,527)
		220,984	217,357
Non-controlling interest			
		105,260	80,240
Total equity		326,244	297,597
Total liabilities and equity		411,658	377,374
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, 2022 and 2021

(in thousands of dollars except per Unit amounts)

	Note	2022 \$	2021 \$
Royalty income	14	52,181	47,081
Expenses			
General and administrative		983	817
Interest expense			
Term loan and other	6	2,113	2,514
Amortization of financing fees		67	44
		3,163	3,375
Operating income		49,018	43,706
Gain on interest rate swaps	5	(4,904)	(2,249)
Income before income taxes		53,922	45,955
Provision for (recovery of) income taxes			
Current			
Current income tax provision	7	10,471	7,277
Refundable income tax	7	1,732	(1,090)
Deferred	7	330	1,914
		12,533	8,101
Net income and comprehensive income for the year		41,389	37,854
Net income and comprehensive income attributable to			
Unitholders of A&W Revenue Royalties Income Fund		33,801	30,051
A&W Food Services of Canada Inc.'s non-controlling interest in A&W Trade Marks Inc.		7,588	7,803
		41,389	37,854
Basic and diluted income per weighted average Trust Unit outstanding		2.100	1.938
Weighted average number of Trust Units outstanding		16,092,693	15,509,290

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, 2022 and 2021

(in thousands of dollars)

	Note	Trust Units \$	Accumulated deficit \$	Total \$	Non- controlling interest \$	Total equity \$
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
Net income and comprehensive income for the year		-	33,801	33,801	7,588	41,389
Distributions on Trust Units	12	-	(30,174)	(30,174)	-	(30,174)
Dividends on common shares	14	-	-	-	(7,126)	(7,126)
Issue of common shares	4	-	-	-	24,558	24,558
Balance as at December 31, 2022		398,884	(177,900)	220,984	105,260	326,244

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, 2022 and 2021

(in thousands of dollars)

	Note	2022 \$	2021 \$
Cash provided by (used in)			
Operating activities			
Net income and comprehensive income for the year		41,389	37,854
Adjustments for:			
Realized gain on interest rate swaps	5	(983)	(2,249)
Unrealized gain on interest rate swaps		(3,921)	-
Amortization of financing fees		67	44
Interest expense	6	2,113	2,514
Deferred income tax expense	7	330	1,914
Refundable income tax expense (recovery)	7	1,732	(1,090)
Current income tax provision	7	10,471	7,277
Net changes in items of non-cash working capital	11	(508)	159
Interest paid		(2,763)	(2,520)
Income taxes paid		(3,663)	(9,790)
Net cash provided by operating activities		44,264	34,113
Financing activities			
Financing fees paid	5	-	(176)
Dividends paid to non-controlling interest	14	(7,126)	(6,258)
Distributions paid to Unitholders		(30,093)	(26,163)
Net cash used in financing activities		(37,219)	(32,597)
Increase in cash and cash equivalents during the year		7,045	1,516
Cash and cash equivalents – Beginning of year		10,064	8,548
Cash and cash equivalents – End of year		17,109	10,064

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, 2022 and 2021

(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 28, 2023.

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, 2022 and 2021

(figures in tables are expressed in thousands of dollars)

Consolidation

The consolidated financial statements include the accounts of the Fund and its 80.9% 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 asset 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 the impairment of testing of intangible asset. 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 those differences could be material.

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.

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(figures in tables are expressed in thousands of dollars)

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.

Intangible asset – trade-marks

The intangible asset 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 asset 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.

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(figures in tables are expressed in thousands of dollars)

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).

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 that 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.

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(figures in tables are expressed in thousands of dollars)

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.

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 the objective of which 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.

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(figures in tables are expressed in thousands of dollars)

- b) Financial assets at fair value through other comprehensive income (FVOCI): Financial assets at FVOCI comprise:
- i) equity securities that are not held for trading and that 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.

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 asset

	Number of new restaurants	Number of closed restaurants	Number of restaurants in Royalty Pool	Amount \$
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 adjustment January 5, 2022	34	(13)	21	24,558
Balance as at December 31, 2022	1,185	(170)	1,015	385,429

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(figures in tables are expressed in thousands of dollars)

Annual gross sales reported by the 1,015 (2021 – 994) A&W restaurants in the Royalty Pool were \$1,739,377,000 (2021 – \$1,569,377,000).

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

Annual Adjustment to the Royalty Pool

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 2022 annual adjustment to the Royalty Pool took place 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 during 2021. The Partnership paid Food Services \$17,178,000, by issuance of 444,327 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 888,654 non-voting common shares of Trade Marks.

The final adjustment to the number of LP units issued was made on December 8, 2022, based on the actual annual sales reported by the new restaurants. The actual annual sales of the 34 new A&W restaurants were \$55,287,000, compared to the original estimate of \$50,688,000, resulting in total consideration of \$24,558,000 payable to Food Services. The remaining consideration of \$7,380,000 was paid to Food Services by issuance of 190,903 additional LP units, which were exchanged for 381,806 non-voting common shares of Trade Marks.

The Fund performed its annual impairment test on the indefinite life intangible asset as at December 31, 2022, using a value-in-use model to determine the recoverable amount of the indefinite life intangible asset. 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% (2021 – 2%). The Fund assumed a pre-tax discount rate of 12.0% (2021 – 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

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(figures in tables are expressed in thousands of dollars)

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 \$47,000,000, 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 \$70,000,000, and would not have resulted in impairment.

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, 2022, the amount of the facility available was \$2,000,000 (December 31, 2021 – \$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 28, 2023, December 31, 2022 and December 31, 2021.

Financing fees of \$176,000 that were incurred relating to the September 10, 2021 Credit Facility amendment were capitalized in 2021 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 had 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 Matured Swap) and one current swap with an effective date of December 22, 2022 and a maturity date of September 10, 2026 (the Current Swap).

A&W Revenue Royalties Income Fund

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(figures in tables are expressed in thousands of dollars)

Under the Matured Swap, which matured on December 22, 2022, the term loan's effective interest rate was 3.95% per annum (December 31, 2021 – 3.95%), comprising 2.80% per annum, which was fixed under the Matured Swap agreement until December 22, 2022 plus a 1.15% per annum stamping fee. The stamping fee ranged from 0.90% to 1.40%, depending on Trade Marks' debt to EBITDA ratio. The Matured Swap matured on December 22, 2022 and as a result of the maturity, a realized gain of \$983,000 was recorded in the consolidated statements of income and comprehensive income resulting in a fair value as at December 31, 2022 of \$nil (December 31, 2021 – \$983,000 unfavourable).

Under the Current Swap, which was effective December 22, 2022, the term loan's effective interest rate is 2.85% per annum, comprising of 1.74% per annum, which is fixed under the Current Swap agreement until September 10, 2026 plus a 1.15% per annum stamping fee. The stamping fee ranges from 0.90% to 1.40%, depending on Trade Mark's debt to EBITDA ratio. The fair value of the Current Swap as at December 31, 2022 was \$4,481,000 favourable (December 31, 2021 – \$560,000 favourable) and the change in fair value is recorded in the consolidated statements of income and comprehensive income.

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

	2022 \$	2021 \$
Gain on Matured Swap	983	1,689
Gain on Current Swap	3,921	560
	<u>4,904</u>	<u>2,249</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:

	2022 \$	2021 \$
Term loan	60,000	60,000
Financing fees	(130)	(197)
	<u>59,870</u>	<u>59,803</u>

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

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(figures in tables are expressed in thousands of dollars)

6 Term loan and other interest

	2022 \$	2021 \$
Interest income – cash	(254)	(16)
Standby fees	5	5
Interest expense – term loan	2,362	2,495
Interest expense – other	-	30
	<u>2,113</u>	<u>2,514</u>

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:

	2022	2021
Statutory combined federal and provincial income tax rates on investment income	<u>20%</u>	<u>20%</u>
	\$	\$
Provision for income taxes based on statutory income tax rates	10,801	9,191
Refundable tax	<u>1,732</u>	<u>(1,090)</u>
Provision for income taxes	<u>12,533</u>	<u>8,101</u>

- b) Deferred income tax liabilities comprise the following:

	2022 \$	2021 \$
Timing difference of income of A&W Trade Marks Limited Partnership	(654)	(1,605)
Fair value of interest rate swap(s)	(896)	85
Intangible asset	<u>(14,646)</u>	<u>(14,346)</u>
	<u>(16,196)</u>	<u>(15,866)</u>

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

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(figures in tables are expressed in thousands of dollars)

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 on a resolution with respect to the appointment or removal of Trustees of the Fund and are not entitled to cast votes on 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).

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 and December 31, 2022, there were 14,585,673 Units outstanding.

In addition, on April 16, 2021, Food Services exchanged 3,014,040 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 in 2021.

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.

A&W Revenue Royalties Income Fund

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(figures in tables are expressed in thousands of dollars)

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.

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

As at December 31, 2022, Food Services owned 19.1% (2021 – 16.4%) of the common shares of Trade Marks and 9.4% (2021 – 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 26.7% (2021 – 24.3%) of the total outstanding voting securities of the Fund on a fully diluted basis.

	Number of Units	Number of Limited Voting Units	Total number of Trust Units
Balance as at December 31, 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
Balance as at December 31, 2022	14,585,673	1,507,020	16,092,693

	Equity – Units	Equity – Limited Voting Units	Total equity – Trust Units
Balance as at December 31, 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
Balance as at December 31, 2022	351,925	46,959	398,884

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(figures in tables are expressed in thousands of dollars)

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, 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
January 5, 2022 adjustment to the Royalty Pool	-	-	(2.7)	1,270,460	24,558	2.7	1,270,460	24,558
Balance as at December 31, 2022	32,185,311	227,798	80.9	7,601,441	105,749	19.1	39,786,752	333,547

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.

The summarized financial information of Trade Marks is as follows:

	2022 \$	2021 \$
Current assets	19,189	13,466
Non-current assets	389,909	361,431
Current liabilities	6,772	1,614
Non-current liabilities	76,066	75,670
Revenue	52,181	47,081
Net income and comprehensive income	41,389	37,854

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

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(figures in tables are expressed in thousands of dollars)

10 Ownership of the Fund

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

	2022		2021	
	Number of units	%	Number of units	%
Units held by public unitholders (note 8)	14,585,673	73.3	14,585,673	75.7
Limited Voting Units held by Food Services (note 8)	1,507,020	7.6	1,507,020	7.8
Number of Trust Units issuable on exchange of securities of Trade Marks held by Food Services (note 9)	3,800,721	19.1	3,165,491	16.5
Total equivalent units	19,893,414	100.0	19,258,184	100.0

11 Working capital

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

	2022 \$	2021 \$
Accounts receivable	(460)	198
Accounts payable and accrued liabilities	(48)	(39)
	<u>(508)</u>	<u>159</u>

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

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(figures in tables are expressed in thousands of dollars)

12 Distributions

During the year ended December 31, 2022, the Fund declared distributions to its Unitholders of \$30,174,000 or \$1.875 per Unit (2021 – \$27,251,000 or \$1.740 per Unit). The record dates and amounts of these distributions are as follows:

	Record date	Amount \$	Per Unit \$
Month			
January 2022	February 15, 2022	2,495	0.155
February 2022	March 15, 2022	2,494	0.155
March 2022	April 15, 2022	2,494	0.155
April 2022	May 15, 2022	2,495	0.155
May 2022	June 15, 2022	2,494	0.155
June 2022	July 15, 2022	2,494	0.155
July 2022	August 15, 2022	2,495	0.155
August 2022	September 15, 2022	2,494	0.155
September 2022	October 15, 2022	2,494	0.155
October 2022	November 15, 2022	2,575	0.160
November 2022	December 15, 2022	2,575	0.160
December 2022	December 31, 2022	2,575	0.160
		<u>30,174</u>	<u>1.875</u>

The December 2022 distribution was declared on December 8, 2022 and paid on January 31, 2023, and is reported as a current liability as at December 31, 2022. The December 2021, distributions of \$2,494,000 were declared on December 9, 2021 and paid on January 31, 2022, and is reported as a current liability as at December 31, 2021.

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 \$138,000 (2021 – \$128,000).

14 Related party transactions and balances

During the year, royalty income of \$52,181,000 (2021 – \$47,081,000) was earned from Food Services, of which \$3,792,000 (2021 – \$3,332,000) was receivable from Food Services as at December 31, 2022.

During the year, Trade Marks paid dividends to Food Services of \$7,126,000 (December 31, 2021 – \$6,258,000). The dividends paid to Food Services in 2022 include special dividends of \$297,000 representing the dividends that Food Services would have received on the 381,806 non-voting common shares issued to Food Services on December 9, 2022 in relation to the final consideration for the January 5, 2022 adjustment to the Royalty Pool (note 4), had they been issued on January 5, 2022. In 2021, Trade Marks paid special dividends of \$334,000 to Food Services 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.

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, the Fund declared distributions payable to Food Services of \$2,826,000 (December 31, 2021 – \$2,065,000) as a result of Food Services' ownership of Limited Voting Units in the Fund. The \$241,000 distribution declared on December 8, 2022 paid to Food Services subsequent to the period-end on January 31, 2023 is reported as a current liability as at December 31, 2022 (December 31, 2021 – \$234,000).

On April 8, 2022, Trade Marks and Food Services entered into an agreement for Food Services to provide administrative services to Trade Marks (the "Services Agreement"). Under the terms of the Services Agreement, Food Services is entitled to be paid an annual fee, on a quarterly basis, for the services provided in each fiscal year in an amount approved by the board of directors of Trade Marks that is based on a prescribed time and effort computation. The Services Agreement will remain in effect for the duration of the Administration Agreement dated February 15, 2002 between Trade Marks and the Fund, unless terminated by either party by giving five years advance written notice to the other party. During the year, Trade Marks recognized an expense of \$175,000 (December 31, 2021 – \$40,000) related to administrative and advisory services received from Food Services.

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 Current Swap as at December 31, 2022 was \$4,481,000 favourable (December 31, 2021 – \$560,000 favourable).

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).

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.

A&W Revenue Royalties Income Fund

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(figures in tables are expressed in thousands of dollars)

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 26, 2023.

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.

17 Subsequent events

On January 5, 2023, the number of A&W restaurants in the Royalty Pool was increased by 29 new restaurants less 7 restaurants that permanently closed. The initial consideration for the estimated royalty revenue from the net 22 restaurants added to the Royalty Pool is \$16,118,000. The Partnership paid Food Services \$12,894,000 by issuance of 380,368 LP units, representing 80% of the initial consideration. The LP units were exchanged for 760,736 non-voting common shares of Trade Marks. The remaining 20% or \$3,224,000 and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be paid in December 2023 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks.

On February 3, 2023, Trade Marks declared dividends on its voting and non-voting common shares of \$3,244,000 payable to Food Services and the Fund on February 28, 2023.

On February 3, 2023, the Fund declared a distribution to Unitholders of \$0.160 per Trust Unit or \$2,575,000, payable on February 28, 2023 to Unitholders of record as at February 15, 2023.

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⁾ ⁽²⁾
Fern Glowinsky ⁽¹⁾ ⁽²⁾
Kevin Mahoney ⁽¹⁾ ⁽²⁾

A&W Trade Marks Inc. Board of Directors

John R. McLernon (Chairman)
Fern Glowinsky
Kevin Mahoney
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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