

A&W Revenue Royalties Income Fund

Q1

First Quarter Report to Unitholders
for the period ended
March 28, 2021

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To our Unitholders

On behalf of the Trustees of the A&W Revenue Royalties Income Fund (the “Fund”), these are the results for the first quarter ended March 28, 2021.

A&W same store sales for A&W restaurants in the royalty pool decreased by 5.6% for the first quarter of 2021 as compared to the first quarter of 2020. Although the impact of COVID-19 on A&W has lessened in comparison to the peak impact it had in the second quarter of 2020, COVID-19 continues to affect the operations of A&W’s restaurants and system sales in the first quarter of 2021.

When comparing the results of the first quarter of 2021 to the first quarter of 2020, it is important to note that the pandemic began to impact A&W sales in the last two weeks of the first quarter of 2020, on March 13, 2020. While the onset was sudden and extreme, it only affected results for two out of a total of the 12 weeks of the first quarter of 2020 whereas the pandemic’s impact was present through the entirety of the first quarter of 2021, and this affects comparability.

Both A&W Food Services and its franchisees have worked diligently since the beginning of the pandemic to implement plans and programs to mitigate the effects of COVID-19 and have been very successful in operating the restaurants, when permitted to do so, in a safe manner.

We have recently turned the page on one full year of being under pandemic restrictions and looking back, we are reminded that at the height of the pandemic, which occurred in the second quarter of 2020, 230 restaurants (out of 971 restaurants in the Royalty Pool) were temporarily closed due to government restrictions. As at December 31, 2020, the situation had improved to 42 A&W restaurants in the Royalty Pool remaining closed and as at March 28, 2021, 15 A&W restaurants in the Royalty Pool remained temporarily closed due to Government restrictions that have more recently arisen because of the emergence of COVID-19 variants.

As at May 4, 2021, 45 restaurants remained temporarily closed. These temporarily closed A&W restaurants are expected to reopen when permitted to do so, however, there continues to be uncertainty related to COVID-19 and the impact on our business. It is possible that there could be temporary further closures or that the number of restaurants closed increases again as the situation evolves.

On behalf of the Trustees, I would like to express my sincere thanks to our unitholders for the trust and confidence you have placed in the Fund during these unprecedented times. I want to once again recognize the commitment of our guests, A&W franchisees and employees, all of whom have been directly impacted by this pandemic.

A handwritten signature in black ink, appearing to read "John R. McLernon", followed by a period.

John R. McLernon
Chairman, A&W Revenue Royalties Income Fund
On behalf of the Board of Trustees

A&W Revenue Royalties Income Fund Management Discussion and Analysis

This Management Discussion and Analysis (MD&A) covers the first quarter period from January 1, 2021 to March 28, 2021. This MD&A is dated May 4, 2021. This MD&A should be read in conjunction with the unaudited interim condensed financial statements of the A&W Revenue Royalties Income Fund (the Fund) for the quarter ended March 28, 2021 and the audited annual consolidated financial statements of the Fund for the year ended December 31, 2020. Readers are also referred to the unaudited interim condensed consolidated financial statements of A&W Food Services of Canada Inc. (Food Services) for the quarter ended March 28, 2021 and the audited annual consolidated financial statements of Food Services for the 53 week year ended January 3, 2021. 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 unaudited interim condensed consolidated financial statements of the Fund, which are prepared in accordance with International Financial Reporting Standards (IFRS) as applicable to interim financial reports, including International Accounting Standards (IAS) 34, Interim Financial Reporting. The accounting policies applied in the unaudited interim condensed consolidated financial statements and this report are consistent with those followed in the preparation of the Fund's annual consolidated financial statements for the year ended December 31, 2020.

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 2020 year was 53 weeks and ended January 3, 2021 (2019 – 52 weeks ended December 29, 2019). The Fund aligns its quarterly financial reporting with that of Food Services, and therefore the Fund's first quarter of 2021 ended March 28, 2021 (2020 – March 22, 2020), 12 weeks after Food Services' fiscal year end. Readers should be aware that 2021 quarterly results are not directly comparable to 2020 quarterly results, as there were 87 days of sales in Q1 2021 compared to 82 days in Q1 2020. Same Store Sales Growth⁽ⁱ⁾ is based on an equal number of days in each quarter.

KEY UPDATES

- Same Store Sales Growth⁽ⁱ⁾ were -5.6% for the first quarter of 2021 as compared to the same quarter of 2020.
- Same Store Sales Growth⁽¹⁾ has trended upwards each quarter since Q2 2020 when the impact of the COVID-19 pandemic was at its peak.
- Well positioned emerging from COVID-19 for a return to growth as Canada's economy recovers and returns to growth.
- The monthly distribution rate was increased from 10¢ per unit to 13.5¢ per unit beginning with the February 2021 distribution that was paid March 31, 2021.

The following selected information, other than "Same Store Sales Growth", "Total distributable cash generated for distributions and dividends", "Distributable cash per equivalent unit", "Net

income, excluding non-cash items”, “Total distributions and dividends declared and accrued per equivalent unit” and information with respect to numbers of restaurants 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 Jan 1, 2021 to Mar 28, 2021	Period from Jan 1, 2020 to Mar 22, 2020
Same Store Sales Growth ⁽ⁱ⁾	-5.6%	-4.0%
Number of restaurants in the Royalty Pool	994	971
Gross sales reported by A&W restaurants in the Royalty Pool ⁽ⁱⁱ⁾	\$ 310,726	\$308,679
Royalty income	\$ 9,322	\$9,260
General and administrative expenses	206	193
Term loan and other interest (net)	606	509
Current income tax provision	2,032	1,030
Total distributable cash generated for distributions and dividends ⁽ⁱⁱⁱ⁾	\$6,478	\$7,528
Distributable cash per equivalent unit (2021 – 19,132,830 units; 2020 – 18,556,378 units) ^{(iii)(iv)}	\$0.339	\$0.406
Distributions and dividends declared per equivalent unit	\$0.235	\$0.318
Net income ^(v)	\$6,739	\$5,548
Net income excluding non-cash items ^(v)	\$6,124	\$7,705

Notes:

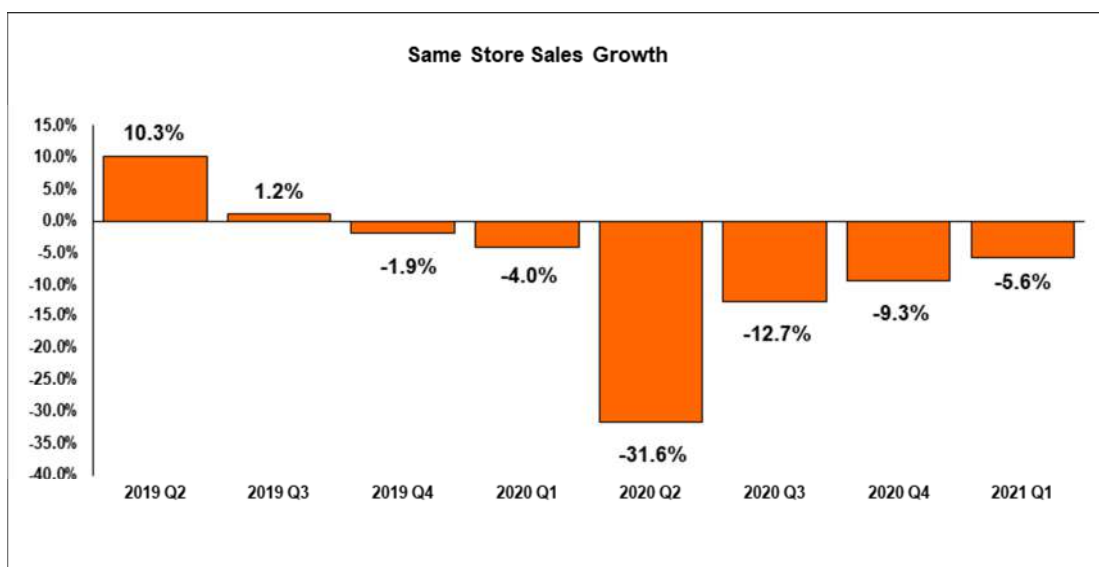
- (i) “Same Store Sales” and “Same Store Sales Growth” are calculated as the change in the gross sales reported by A&W restaurants in the Royalty Pool (as defined below) that operated, or were temporarily closed at any point due to COVID-19, during the entire 12-week periods ending March 28, 2021 and March 22, 2020 and is based on an equal number of days in each quarter. “Same Store Sales” and “Same Store Sales Growth” are non-IFRS measures – see “Non-IFRS Measures”. This important information is provided as it is a key driver of growth in the Fund. See “Sales Performance”.
- (ii) “Gross sales reported by A&W restaurants in the Royalty Pool” is calculated in respect of A&W restaurants in Canada in the Royalty Pool (as defined below), as the amount of gross sales reported to Food Services by franchisees of such A&W restaurants in the Royalty Pool without audit, verification or other form of independent assurance and the gross sales of A&W restaurants owned and operated by Food Services in the Royalty Pool, in each case, after deducting amounts for discounts for coupons and other promotional offerings and applicable sales taxes.
- (iii) “Distributable cash”, “distributable cash per equivalent unit”, “total distributions and dividends declared and accrued per equivalent unit” and “payout ratio” are non-IFRS measures. See “Non-IFRS Measures”. This information is provided as it identifies the amount of actual cash generated to pay distributions to unitholders and dividends to Food Services. See “Distributable Cash” and footnote (iv) below for more information, including a description of how these non-IFRS measures are calculated.
- (iv) The number of equivalent units and distributable cash per equivalent unit in 2021 is calculated on a fully-diluted basis and includes the 116,329 LP units (as hereinafter defined) exchangeable for 232,658 common shares of Trade Marks representing the remaining 20% of the initial consideration for the January 5, 2021 adjustment to the Royalty Pool, which LP units are held back until the number of LP units is determined in December 2021 based on the actual annual sales reported by the new restaurants. See “Adjustment to the Royalty Pool”. The number of equivalent units and distributable cash per equivalent unit in Q1 2020 is calculated on a fully-diluted basis and includes 152,965 LP units, exchangeable for 305,930 common shares of Trade Marks representing the remaining 20% of the initial consideration for the January 5, 2020 adjustment to the Royalty Pool but does not include the adjustment to reduce the final consideration by 5,193 LP units, equivalent to 10,386 common shares of Trade Marks, made in December 2020 based on the actual system sales for the A&W Restaurants added to the Royalty Pool as part of the January 5, 2020 adjustment to the Royalty Pool.
- (v) Net income in 2021 and 2020 includes unrealized gains and losses on an interest rate swap, amortization of deferred financing fees and deferred income taxes. These non-cash items have no impact on the Fund’s ability to pay distributions to unitholders. The Fund’s net income excluding these non-cash items is presented for information purposes only. “Net income excluding non-cash items” is a non-IFRS measure – see “Non-IFRS Measures”.

SALES PERFORMANCE

Same Store Sales Growth⁽ⁱ⁾, which is reported in respect of A&W restaurants for which the royalty is payable (the Royalty Pool) by Food Services to A&W Trade Marks Limited Partnership (the Partnership) is a key performance indicator for the Fund. Same Store Sales Growth⁽ⁱ⁾ is the change in 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 12-week periods ending March 28, 2021 and March 22, 2020.

Same Store Sales⁽ⁱ⁾ for the first quarter of 2021 decreased by 5.6% as compared to the same quarter of 2020. When comparing the results of the first quarter of 2021 to the first quarter of 2020 it is important to note that the pandemic began to impact A&W sales in the last two weeks of the first quarter of 2020, on March 13, 2020. While the onset was sudden and extreme, it only affected results for two out of a total of the twelve weeks of the first quarter of 2020 whereas the pandemic's impact was present through the entirety of the first quarter of 2021, and this affects comparability. Actions required in response to COVID-19 continue to adversely impact A&W restaurant operations across Canada, particularly for those restaurants located on urban street fronts and in shopping centres. Throughout the first quarter of 2021, there continued to be a number of A&W restaurants that were either temporarily closed or were not able to offer dine-in services due to government imposed COVID-19 restrictions. As at May 4, 2021, 45 restaurants remained temporarily closed. See "Impact of COVID-19".

Since the second quarter of 2020, when COVID-19 impacts on A&W were at their peak and 230 of A&W's restaurants needed to be closed because of restrictions or other COVID-19 impacts, Same Store Sales Growth⁽ⁱ⁾ has trended upwards. The chart below shows the Same Store Sales Growth⁽ⁱ⁾ by A&W restaurants in the Royalty Pool for the eight most recently completed quarters.



Gross sales reported by A&W restaurants in the Royalty Pool for the first quarter of 2021 were \$310,726,000, a 0.7% increase against sales of \$308,679,000 for the first quarter of 2020. The slight increase in gross sales is attributable to the five additional sales days in the first quarter of 2021 and the gross sales from the 23 net new restaurants added to the Royalty Pool on January 5, 2021, partially offset by the 5.6% decrease in Same Store Sales⁽ⁱ⁾ in existing restaurants. See "Impact of COVID-19" and "Adjustment to the Royalty Pool".

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 of the Fund 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 A&W Trade Marks Inc. (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 working capital reserves, by way of dividends on its common shares held by the Fund and Food Services and one special share held by Food Services. The Fund in turn makes distributions to unitholders, after allowing for reasonable reserves.

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

A key attribute of the Fund is that the distributable cash⁽ⁱⁱⁱ⁾ 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 March 28, 2021, Food Services owned the equivalent of 26.0% (December 31, 2020 – 24.2%) of the units of the Fund on a fully-diluted basis through its ownership of common shares of Trade Marks, which are exchangeable, at the option of Food Services, for units of the Fund on the basis of two common shares for one unit of the Fund. As a result, the interests of Food Services are closely aligned with the interests of unitholders.

Subsequent to the period end, 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 long-standing shareholders and to simplify the indirect ownership of Food Services (the "Reorganization").

As part of the Reorganization, and pursuant to the Declaration of Trust and the Amended and Restated Exchange Agreement, Food Services exchanged 1,042,000 common shares of Trade Marks for 521,000 units of the Fund, which units were then purchased by shareholders of A&W Canada at a price of \$36.42 per unit. The 521,000 units sold are subject to a four-month statutory hold period under applicable securities laws. After the exchange and sale of these units, and as at May 4, 2021, there were 14,585,673 Fund units outstanding.

The shareholders who purchased the 521,000 units of the Fund also entered into an agreement with three individuals (each a “Designated Representative”), which agreement provides that any two of the Designated Representatives are entitled to exercise the voting rights attached to the 521,000 units while they remain held by those shareholders. There is no agreement, arrangement, commitment or understanding among the Designated Representatives themselves or amongst the Designated Representatives and those shareholders as to how the voting rights attached to the 521,000 units will be exercised in any particular circumstance. The Designated Representatives, individually, therefore do not have control or direction over any of the 521,000 units.

In addition, Food Services exchanged 3,014,040 of its common shares of Trade Marks for 1,507,020 limited voting units of the Fund. The limited voting units will continue to be owned by Food Services and may be converted to units of the Fund. Limited voting units have equal rights and privileges to units except that holders of the limited voting units, or the common shares of Trade Marks that are exchangeable for limited voting units, are not entitled in the aggregate to cast more than 40% of the votes cast upon a resolution with respect to the appointment or removal of Trustees of the Fund and are not entitled to cast votes upon a resolution to amend the Declaration of Trust.

Prior to the Reorganization, Food Services owned 26.0% of the outstanding voting securities of the Fund on a fully diluted basis. Following the Reorganization, but excluding the issuance of the excess units that represent the remaining 20% of the initial consideration for the January 5, 2021 Adjustment to the Royalty Pool that are payable in December 2021, Food Services owned approximately 23.3% of the outstanding voting securities of the Fund on a fully diluted basis. Including the issuance of the excess units that represent the remaining 20% of the initial consideration for the January 5, 2021 payable in December 2021, Food Services’ ownership in the Fund is approximately 23.8% on a fully diluted basis (26.5% prior to the Reorganization). Overall, the Reorganization was not dilutive to unitholders of the Fund because the calculation of the number of the fully diluted Fund units did not change. Post Reorganization, Food Services holds both limited voting units in the Fund 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. The Reorganization does not constitute a change of control of Food Services, as the existing shareholders will continue to maintain majority control of Food Services. There is no change in management or the operations of the Food Services' business in connection with the Reorganization.

Growth in the Fund is achieved in two ways: first, and most importantly, by increasing the Same Store Sales⁽ⁱ⁾ of the A&W restaurants in the Royalty Pool, and second by increasing the number of A&W restaurants to 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, 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 of the Fund, 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 units of the Fund on the basis of two common shares for one unit of the Fund.

IMPACT OF COVID-19

The effects of COVID-19 on many businesses, especially restaurants, have been unexpected, sudden and unprecedented. The future effect of COVID-19 on the economy and businesses, in general, remains uncertain. Over the past year jurisdictions across Canada have had varying levels of COVID-19 related restrictions in place and many of those restrictions have been modified several times in response to the fluctuating number of COVID-19 cases.

Actions required in response to the COVID-19 pandemic have adversely affected A&W restaurant operations in Canada, including the temporary closure of a large number of restaurants. At its peak impact, in the second quarter of 2020, a total of 230 A&W restaurants (out of 971 restaurants in the Royalty Pool) were temporarily closed due to public health measures in response to COVID-19. With COVID-19 case numbers across Canada on the rise throughout the first quarter of 2021, including a surge in the more easily transmittable variant strains of COVID-19, some of the A&W restaurants in operation have once again been restricted to drive-thru operations, take-out, delivery and mobile ordering only. As at March 28, 2021 there were 15 restaurants that remained temporarily closed (42 as at December 31, 2020). As at May 4, 2021, 45 restaurants remained temporarily closed. These temporarily closed A&W restaurants are expected to reopen when permitted to do so. It is possible that there could be temporary further closures or that the number of restaurants closed increases as the situation evolves.

Food Services and its franchisees work in partnership on initiatives to help accelerate sales recovery. These initiatives include, but are not limited to strengthening and expanding partnerships with third party delivery service providers, increasing the speed of service for drive-thru and enhancing the A&W mobile app. Food Services and its franchisees also continue to take and maintain significant measures in their restaurants and broader operations to protect the health of employees and guests in compliance with physical distancing recommendations and mandates of relevant public health authorities. Various levels of government have announced a number of important financial programs which have helped support individual restaurant businesses, including A&W franchisees; however, the duration of those programs remains uncertain. See “Risks and Uncertainties”.

In March 2020, and as a response to the sudden onset of COVID, the Fund temporarily suspended monthly distributions on the units; accordingly, no distributions were declared by the Fund for the months of March, April, and May 2020. Regular monthly distributions to unitholders resumed at 10 cents per unit in the third quarter of 2020 and special distributions totaling 50 cents per unit were paid in the fourth quarter of 2020. The monthly distribution rate was then increased to 13.5 cents per unit beginning with the February 2021 distribution that was paid March 31, 2021.

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

ADJUSTMENT TO THE ROYALTY POOL

The 2021 annual adjustment to the Royalty Pool took place on January 5, 2021. The number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants less 11 restaurants that permanently closed during 2020. The addition of these 23 net new restaurants brought the total number of A&W restaurants in the Royalty Pool to 994. The estimated annual sales of the 34 new A&W restaurants were \$45,248,000 at the time they were added to the Royalty Pool and annual sales for the 11 permanently closed restaurants were \$6,199,000 based on their sales during the first year such restaurants were included in the Royalty Pool. The initial consideration for the estimated additional royalty stream was \$16,588,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the units of the Fund for the 20-trading days ending October 26, 2020. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$13,271,000, by issuance of 465,316 LP units which were subsequently exchanged for 930,632 non-voting common shares of Trade Marks. The remaining 20% or \$3,318,000 and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be paid in December 2021 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 two most recently completed financial years and the current quarter being as follows:

(dollars in thousands)	Fund			Food Services			Total	
	Number of shares	Trade Marks' book value \$	%	Number of shares	Trade Marks' book value \$	%	Number of shares	Trade Marks' book value \$
Balance as at December 31, 2019	28,129,271	164,605	79.1	7,453,763	95,339	20.9	35,583,034	259,944
January 5, 2020 adjustment to the Royalty Pool ⁽¹⁾	-	-	(3.3)	1,519,260	28,881	3.3	1,519,260	28,881
Balance as at December 31, 2020	28,129,271	164,605	75.8	8,973,023	124,220	24.2	37,102,294	288,825
January 5, 2021 adjustment to the Royalty Pool ⁽²⁾	-	-	(1.8)	930,632	13,271	1.8	930,632	13,271
Balance as at March 28, 2021	28,129,271	164,605	74.0	9,903,655	137,491	26.0	38,032,926	302,096

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

⁽²⁾ The number of common shares does not include any LP units exchangeable for common shares of Trade Marks in respect of the remaining consideration payable to Food Services for the January 5, 2021 adjustment to the Royalty Pool, which LP units, if any, are held back until the number of LP units is determined in December 2021 based on the actual annual sales reported by the new restaurants. See "Adjustment to the Royalty Pool".

OWNERSHIP OF THE FUND

The ownership of the Fund as of March 28, 2021 and December 31, 2020, on a fully-diluted basis, is as follows:

	March 28, 2021		December 31, 2020	
	Number of units	%	Number of units	%
Fund units held by public unitholders	14,064,673	73.5	14,064,673	75.8
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services ⁽¹⁾	5,068,157	26.5	4,486,512	24.2
Total equivalent units	19,132,830	100.0	18,551,185	100.0

⁽¹⁾ Common shares of Trade Marks held by Food Services may be exchanged for units of the Fund on the basis of two common shares for one unit of the Fund.

FINANCIAL RESULTS

INCOME

Royalty income for the first quarter of 2021 was \$9,322,000 based on gross sales reported by restaurants in the Royalty Pool⁽ⁱⁱ⁾ of \$310,726,000, compared to royalty income of \$9,260,000 and gross sales reported by A&W restaurants in the Royalty Pool⁽ⁱⁱ⁾ of \$308,679,000 for the first quarter of 2020. The increase in royalty income and gross sales for the quarter is due to the additional net 23 new restaurants added to the Royalty Pool on January 5, 2021 and the five additional sales days in the first quarter of 2021. The increase was partially offset by the decline in Same Store Sales⁽ⁱ⁾ as a result of the impact of COVID-19. See “Impact of COVID-19”, “Risks and Uncertainties” and “Outlook”.

EXPENSES

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

(dollars in thousands)	Period from Jan 1, 2021 to Mar 28, 2021	Period from Jan 1, 2020 to Mar 22, 2020
General and administrative	\$206	\$193
Net interest on term loan and other	\$606	\$509

General and administrative expenses for the first quarter of 2021 increased by \$13,000 to \$206,000 from \$193,000 for the first quarter of 2020. The increase in general and administrative expenses is attributable to higher insurance premiums as result of a market-wide increase in insurance costs due to COVID-19.

Net interest on the term loan and other was \$606,000 for the first quarter of 2021, \$97,000 higher compared to the first quarter of 2020. The increase was due to a higher effective interest rate. An interest rate swap agreement is used to manage risks from fluctuations in interest rates and facilitate uniform monthly distributions when paid. See “Liquidity and Capital Resources”.

UNREALIZED (GAIN) LOSS ON INTEREST RATE SWAP

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

(dollars in thousands)	Period from Jan 1, 2021 to Mar 28, 2021	Period from Jan 1, 2020 to Mar 22, 2020
Unrealized (gain) loss on interest rate swap	(\$364)	\$1,837

See “Liquidity and Capital Resources”.

INCOME TAXES

The Fund's provision for (recovery of) income taxes was as follows:

(dollars in thousands)	Period from Jan 1, 2021 to Mar 28, 2021	Period from Jan 1, 2020 to Mar 22, 2020
Current		
Current income tax provision	\$2,032	\$1,030
Refundable income tax	354	(177)
Deferred	(259)	312
Total provision for income taxes	\$2,127	\$1,165

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

Trade Marks' taxable income is taxed at an effective rate of 20.0% (2020 – 20.0%), plus an additional tax of 30.67% (2020 – 30.67%) on investment income which is refundable at a rate of 38.33% (2020 – 38.33%) for each dollar Trade Marks pays out in taxable dividends to its shareholders. Trade Marks' provision for income taxes for the first quarter of 2021 includes a payable of refundable income tax of \$56,000 based on its first quarter share of annual estimated taxable income and dividends paid in 2021, as well as an adjustment of \$298,000 related to 2020 refundable income tax payable. Under IFRS, refundable income tax is recognized on the income statement when it is paid or payable and subsequently when it is received or receivable. Management expects that the net refundable income tax paid in prior years will be recovered in future years when sufficient dividends are paid by Trade Marks.

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

NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income was as follows:

(dollars in thousands)	Period from Jan 1, 2021 to Mar 28, 2021	Period from Jan 1, 2020 to Mar 22, 2020
Net income and comprehensive income attributable to unitholders of the Fund	\$4,994	\$4,250
Net income and comprehensive income attributable to Food Services' non-controlling interest in Trade Marks	1,745	1,298
Total net income and comprehensive income	\$6,739	\$5,548

DISTRIBUTABLE CASH

The measures “distributable cash”, “distributable cash per equivalent unit”, “total distributions declared and accrued per equivalent unit” and “payout ratio” are reported by the Fund as they identify the amount of actual cash generated to pay distributions to unitholders and dividends to Food Services and provide information regarding the extent to which the Fund distributes cash. “Distributable cash”, “distributable cash per equivalent unit”, “total distributions declared and accrued per equivalent unit” and “payout ratio” are non-IFRS measures – see “Non-IFRS Measures”.

Distributable cash is calculated as the operating cash flows of the Fund, adjusted for 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. No deduction is made for capital expenditures as the Fund has no capital expenditures. Distributable cash per equivalent unit is calculated as distributable cash divided by the weighted average number units of the Fund outstanding during the relevant period on a fully diluted basis. There are no restrictions on distributions by the Fund arising from compliance with financial covenants. Total distributions and dividends declared and accrued per equivalent unit 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 such period. The payout ratio is calculated by dividing total distributions declared and accrued per equivalent unit, by the distributable cash per equivalent unit generated in that period.

As discussed under “Income Taxes”, Trade Marks’ provision for income taxes includes refundable income tax paid or recoverable. This refundable income tax is not deducted in calculating the amount of distributable cash generated, in order to more accurately reflect the actual amount of cash generated by the business to pay distributions to unitholders and dividends to Food Services. Management expects that net refundable income tax paid in prior years will be recovered in future years when sufficient dividends are paid by Trade Marks.

The following chart reconciles distributable cash to net cash generated from operating activities including net changes in items of working capital, the most directly comparable measure calculated in accordance with IFRS.

(dollars in thousands)	Period from Jan 1, 2021 to Mar 28, 2021	Period from Jan 1, 2020 to Mar 22, 2020
Net cash generated from operating activities	\$4,818	\$7,285
Changes in non-cash working capital including interest and tax	1,660	243
Distributable cash ⁽ⁱⁱⁱ⁾	\$6,478	\$7,528
Cumulative surplus – beginning of period	8,967	7,429
Distributable cash ⁽ⁱⁱⁱ⁾ for unitholders at current annual distribution rate (2021 – \$1.620 per unit, 2020 - \$1.908 per unit)	(5,314)	(6,012)
Distributable cash ⁽ⁱⁱⁱ⁾ for Food Services at equivalent annual distribution rate (2021 – \$1.585 per equivalent unit, 2020 - \$1.908 per equivalent unit)	(1,915)	(1,920)
Refundable income tax (see “Income Taxes”)	(354)	177
Cumulative surplus – end of period	\$7,862	\$7,202
Number of equivalent units ^(iv)	19,132,830	18,556,378
Distributable cash ⁽ⁱⁱⁱ⁾ per equivalent unit ^(iv)	\$0.339	\$0.406
Monthly distributions declared per unit ⁽¹⁾	\$0.235	\$0.318
Total distributions and dividends declared and accrued per equivalent unit ⁽ⁱⁱⁱ⁾	\$0.378	\$0.427
Payout ratio ⁽ⁱⁱⁱ⁾	111.5%	105.2%

(1) 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.

(iii) (iv) Refer to footnotes on page 4.

Distributable cash generated in the first quarter of 2021 to pay distributions to unitholders and dividends to Food Services was \$6,478,000 compared to \$7,528,000 in the first quarter of 2020. The \$1,050,000 decrease in distributable cash was attributable to the \$1,002,000 increase in the current income tax provision (excluding refundable income tax), the \$97,000 increase in net interest expense and the \$13,000 increase in general and administrative expenses, partially offset by the \$62,000 increase in royalty income.

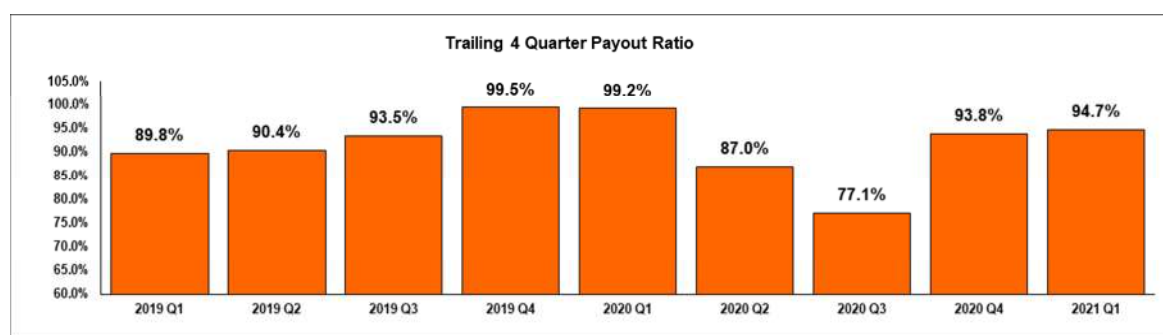
Distributable cash per equivalent unit decreased by 6.7 cents to 33.9 cents per unit in the first quarter of 2021 from 40.6 cents per unit for the first quarter of 2020. The decrease in distributable cash per equivalent unit is a result of the increases in current income taxes, net

interest expense and general and administrative expenses as well as the increase in the number of equivalent units, partially offset by the increase in royalty income.

Two monthly distributions totaling 23.5 cents per unit were declared in first quarter of 2021 compared to 31.8 cents per unit in the same quarter of 2020. Total distributions declared and accrued per equivalent unit for the quarter were 37.8 cents compared to 42.7 cents for the first quarter of 2020.

The payout ratio for the first quarter of 2021 was 111.5% compared to 105.2% for the same quarter of 2020. The Fund's long-term objective is to maintain an annual payout ratio at or below 100%; however, as the Fund strives to provide unitholders with regular monthly distributions (absent unique circumstances, such as those resulting in the declaration of Special distributions), and as a result of seasonality of sales in A&W restaurants, the Fund historically experiences seasonal fluctuations in its payout ratio.

The following table shows the trailing four quarter payout ratios for 2019, 2020 and 2021. Payout ratio is a non-IFRS measure - see "Non-IFRS Measures".



The cumulative surplus of distributable cash on reserve at the end of the first quarter of 2021 was \$7,862,000, compared to a cumulative surplus of distributable cash on reserve of \$8,967,000 at the beginning of the year, a decrease of \$1,105,000.

DISTRIBUTIONS TO UNITHOLDERS

Distributions declared and paid during 2021 were as follows:

(dollars in thousands except per unit amounts)			
Month	Record date	Amount	Per unit
January	February 15, 2021	\$1,406	\$0.100
February	March 15, 2021	1,898	0.135
		\$3,304	\$0.235

The February 2021 distribution was declared on March 3, 2021 and paid on March 31, 2021, and is reported as a current liability as at March 28, 2021.

TAX TREATMENT OF DISTRIBUTIONS

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

DIVIDENDS ON TRADE MARKS' COMMON SHARES

During 2021 year to date, Trade Marks declared and paid dividends on its voting and non-voting common shares as follows:

(dollars in thousands except per share amounts)		Aggregate	Aggregate
Month declared/paid	Per share	amount paid to the Fund	amount paid/payable to Food Services
January	\$0.0500	\$1,406	\$496
February	0.0675	1,898	668
	\$0.1175	\$3,304	\$1,164

The February dividend was declared on March 3, 2021 and paid on March 31, 2021 and Food Services' share of \$668,000 is reported as a current liability as at March 28, 2021.

SUMMARY OF QUARTERLY RESULTS

The following selected quarterly results, other than “Distributable cash” and “Distributable cash per equivalent unit”, have been prepared in accordance with IFRS and all dollar amounts are reported in Canadian currency. See “Non-IFRS Measures”.

(dollars in thousands except per unit amounts)	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Number of restaurants in the Royalty Pool	994	971	971	971
Royalty income	\$9,322	\$13,350	\$10,216	\$7,596
General and administrative expenses	206	463	124	214
Net interest on term loan and other	606	681	444	543
Amortization of deferred financing fees	8	11	7	8
Unrealized (gain) loss on interest rate swap	(364)	(342)	(232)	99
Current income tax expense	2,032	2,798	1,447	1,967
Refundable income tax expense (recovery)	354	(1,165)	507	1,145
Deferred income tax expense (recovery)	(259)	(290)	527	(620)
Net income	\$6,739	\$11,194	\$7,392	\$4,240
Distributable cash ⁽¹⁾	\$6,478	\$9,408	\$8,201	\$4,872
Number of equivalent units ^(iv)	19,132,830	18,551,185	18,556,378	18,556,378
Distributable cash per equivalent unit ^{(1)(iv)}	\$0.339	\$0.508	\$0.442	\$0.262
Distributions and dividends declared per equivalent unit ⁽²⁾	\$0.235	\$0.900	\$0.300	-
Number of days in the quarter	87	116	84	84
(dollars in thousands except per unit amounts)	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Number of restaurants in the Royalty Pool	971	934	934	934
Royalty income	\$9,260	\$13,539	\$11,111	\$10,555
General and administrative expenses	193	342	51	117
Net interest on term loan and other	509	545	573	577
Amortization of deferred financing fees	8	10	8	7
Unrealized (gain) loss on interest rate swap	1,837	(720)	(203)	287
Current income tax expense	1,030	2,442	2,125	1,997
Refundable income tax recovery	(177)	(36)	(67)	100
Deferred income tax expense	312	231	11	(84)
Net income	\$5,548	\$10,725	\$8,613	\$7,554
Distributable cash ⁽¹⁾	\$7,528	\$10,210	\$8,362	\$7,864
Number of equivalent units ^(iv)	18,556,378	17,791,555	17,659,154	17,659,154
Distributable cash per equivalent unit ^{(1)(iv)}	\$0.406	\$0.574	\$0.474	\$0.445
Distributions and dividends declared per equivalent unit ⁽²⁾	\$0.318	\$0.636	\$0.472	\$0.455
Number of days in the quarter	82	114	84	84

⁽¹⁾ Distributable cash and distributable cash per equivalent unit are non-IFRS measures. See “Non-IFRS Measures” and “Distributable Cash”.

⁽²⁾ The distribution for December of each year, which is paid on the last business day of January of the following year, is declared and recorded in the year in which it is earned. Therefore, four monthly distributions are declared in the fourth quarter of each year, and two monthly distributions are declared in the first quarter of each year. No distributions were declared in the second quarter of 2020 due to the impact of COVID-19. The Trustees approved the resumption of monthly distributions on July 7, 2020 commencing with the June distribution of 10 cents per unit that was paid on July 31, 2020 to unitholders of record as of the close of business on July 15, 2020.

^(iv) Refer to footnotes on page 4.

SEASONALITY

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

LIQUIDITY AND CAPITAL RESOURCES

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

The Fund’s normal policy is to distribute all available cash, after allowing for reasonable reserves, in order to maximize returns to unitholders over time. In light of seasonal variances inherent to the restaurant industry and fluctuations in business performance, the Fund’s normal policy is to make equal distribution payments to unitholders on a monthly basis (absent unique circumstances, such as those resulting in the declaration of the Special Distribution) in order to smooth out these fluctuations. The Fund’s 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 \$2,000,000 demand operating loan facility with a Canadian chartered bank (the Bank) 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 May 4, 2021 and March 28, 2021, the amount of the facility available was \$2,000,000 (December 31, 2020- \$2,000,000).

Trade Marks has a \$60,000,000 term loan with the Bank in the form of a banker’s acceptance. The term loan is repayable on December 22, 2022. 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 May 4, 2021, March 28, 2021 and December 31, 2020.

Trade Marks uses interest rate swap agreements to manage risks from fluctuations in interest rates. To manage the interest rate risk associated with the \$60,000,000 term loan, Trade Marks has entered into an interest rate swap, with an effective date of December 22, 2015 and a maturity date of December 22, 2022. Under this interest rate swap, as at March 28, 2021, the term loan’s

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

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

The fair value of the interest rate swap as at March 28, 2021 was \$2,307,000 unfavourable (December 31, 2020 - \$2,671,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income as an unrealized gain on interest rate swaps.

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

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

<u>Payments due by period (dollars in thousands)</u>	<u>Total</u>	<u>Less than 1 year</u>	<u>1 – 3 years</u>	<u>4 – 5 years</u>	<u>After 5 years</u>
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

In the first quarter of 2021, royalty income of \$9,322,000 (2020 - \$9,260,000) was earned from Food Services of which \$3,275,000 is receivable from Food Services at March 28, 2021 (December 31, 2020 - \$3,452,000).

During the quarter, Trade Marks declared common share dividends payable to Food Services of \$1,164,000 (2020 - \$1,380,000). The \$668,000 dividend declared on March 3, 2021 and paid to Food Services on March 31, 2021 is reported as a current liability as at March 28, 2021 (December 31, 2020 - \$nil).

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Significant areas requiring the use of a management estimate are the fair value of the interest rate swap and of the indefinite life intangible assets. The fair value of the interest rate swap 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 interest rate swap as at March 28, 2021 was \$2,307,000 unfavourable (December 31, 2020 - \$2,671,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income as an unrealized gain on interest rate swaps.

FINANCIAL INSTRUMENTS

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

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

Management estimates that the fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, distributions payable to unitholders, income taxes payable, and the term loan approximate their carrying values given the short term to maturity of these instruments. The fair value of the interest rate swap is \$2,307,000 unfavourable (December 31, 2020- \$2,671,000 unfavourable).

The Fund’s trustees have oversight responsibilities for risk management policies. The Fund’s 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 March 28, 2021 relate to royalties due from Food Services to the Partnership which were paid in full by Food Services on April 23, 2021.

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 an interest rate swap 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 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 distributions paid to its unitholders.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

RISKS AND UNCERTAINTIES

COVID-19

Since March 2020, the COVID-19 pandemic has had significant impacts on the Canadian economy, the QSR industry, and the willingness of the general public to dine outside their homes

and travel. These have negatively impacted Food Services, its franchisees and the Fund (including Trade Marks and the Partnership), and have adversely affected each of their respective investments, results of operations and financial condition. Restrictions on the operations of A&W restaurants in response to COVID-19, as well as temporary restaurant closures, continues to impact system sales at A&W restaurants in 2021. System sales drive the fees payable to Food Services by its franchisees and the amount of royalties payable to the Fund (through the Partnership), and correspondingly, the funds available to be paid as dividends by Trade Marks to Food Services and the Fund and available to distribute to unitholders of the Fund. Food Services may become liable for the lease obligations of certain of its franchisees, if such franchisees default on their leases as a result of the impacts of COVID-19 or otherwise, and such obligations may be significant and Food Services may be unsuccessful in seeking recovery from such franchisees, all of which may adversely affect Food Services' investments, results of operations and financial condition. Food Services' projections may be inaccurate, and do not represent a financial forecast and actual results may differ materially from those anticipated by the projections. Monthly distributions on units are not guaranteed and may be reduced, suspended or terminated at any time. Recent sales improvements for restaurants in the Royalty Pool may not continue and may slow or regress. Certain A&W restaurants that are currently temporarily closed may not reopen, and further locations may close temporarily or permanently due to the impacts of COVID-19. Government restrictions related to COVID-19 may have their durations extended, or may be reinstated in the case of those that have recently been lifted, which measures may restrict the ability of A&W restaurants to operate, or result in forced closures, further reduced guest traffic, supply interruptions or staff shortages. Government programs expected to be helpful to A&W franchisees may not be available to some franchisees, and may not be available in amounts expected for those franchisees for which such programs are available and may be terminated at any time. As at May 4, 2021, 45 restaurants in the Royalty Pool are temporarily closed due to COVID-19. See "Impact of COVID-19".

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 and worsening or volatile economic conditions, which could continue to adversely affect Food Services' and A&W franchisees' business.

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, commodity costs and labor availability and cost.

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 of the Fund or that are currently not considered to be material may also impair the Fund's business operations.

If any of the risks actually occur, the Fund's business, results of operations and financial condition, and the amount of cash available for distribution to unitholders, could be adversely affected.

OUTLOOK

Food Services believes that the food service industry, and more particularly the quick service restaurant (QSR) segment of the industry, will recover from the impact of COVID-19. However, the timing and strength of the recovery cannot yet be predicted with any degree of certainty. Against this backdrop, the success of the A&W brand and individual franchised A&W restaurants is paramount to the long-term success of the overall A&W system and, in turn, to the Fund. Both Food Services and its franchisees have worked diligently to develop and implement plans and programs to mitigate the effects of the COVID-19 pandemic. Food Services' objective is to ensure that as many as possible of A&W's 1,009 restaurants are able to safely operate (as permitted by health authorities and government regulations mandated from time to time) with the objective of emerging from this period of uncertainty in 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 rebound from the impact of COVID-19. Strategic initiatives, including repositioning and differentiating the A&W brand through the use of natural ingredients; continued new restaurant growth, and delivering an industry leading guest experience, have all contributed to A&W's strong appeal and the trust it has built with Canadian consumers over many years. These strengths will be key to delivering strong results and improved market share as the QSR industry and the QSR burger market resume growth.

A&W is proud to be a Canadian company, 100% Canadian owned and operated, and a leader in sourcing simple, great-tasting ingredients, farmed with care. In 2013, Food Services became the first and only national burger chain in Canada to serve beef raised without artificial hormones or steroids, and since then Food Services has introduced countless other natural ingredient firsts; including chicken raised without the use of antibiotics, Organic Fairtrade coffee, eggs from hens fed a diet without animal by-products, bacon from pork raised without the use of antibiotics, real cheese on all burgers and breakfast sandwiches, and A&W Root Beer served in restaurants made from natural cane sugar and all-natural flavours.

In 2018, A&W further strengthened its positioning as a leader in food and innovation with the introduction of the BEYOND MEAT⁽¹⁾ branded plant-based burger. Food Services was very excited to be the first national burger chain in Canada to offer burger lovers across Canada this burger patty made using 100% plant-based protein with peas, rice, mung beans, coconut oil, pomegranates, potatoes, apples and beets. A&W continues to enhance its position as a leader in great tasting plant-based options with regular introductions of new recipes and products to its plant-based line-up.

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

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

A&W continues to innovate to serve the increasing number of guests that are mobile app users and offered its mobile app users unlimited free coffee for the month of March 2021 through a trial of the A&W ‘Sipscription’, a coffee subscription program. On April 1, 2021 Food Services announced that it is expanding the beverage offerings at A&W restaurants with the phased rollout of the A&W Brew Bar. The A&W Brew Bar offers a variety of frozen beverages as well as hot and cold espresso-based beverages.

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

Food Services has continued to grow new A&W restaurants, particularly in the key Ontario and Quebec markets. Six new restaurants were opened across the country in the first quarter of 2021. As at March 28, 2021, an additional 50 restaurants are under construction or in varying stages of permitting.

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

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

NON-IFRS MEASURES

The Fund believes that disclosing certain non-IFRS financial 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 the most closely comparable IFRS measure, if any, 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 Fund uses “Same Store Sales”, “Same Store Sales Growth”, “Distributable cash”, “Distributable cash per equivalent unit”, “Total distributions and dividends declared and accrued per equivalent unit”, “Payout Ratio” and “net income, excluding non-cash items” as non-IFRS measures in this report. These measures 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. For further details, including how such measures are calculated by the Fund, see “Key Updates” and “Distributable Cash” above.

FORWARD LOOKING INFORMATION

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

The forward-looking information in this MD&A includes, but is not limited to: the expectation that currently closed A&W restaurants will reopen when they are able to do so; the expectation that the Fund’s 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; expectations with respect to timing for the payment of the remaining \$3,318,000 by the Partnership to Food Services and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants; the impact of COVID-19, including its impact on the global economy in general and on the businesses of Food Services and A&W franchisees in particular; statements with respect to government restrictions on business operations, and in particular restaurants; statements regarding the extent to which COVID-19 will alter consumer behaviour and demand for QSR services; expectations regarding improvements in sales trends at the A&W restaurants in the Royalty Pool; statements regarding the duration of various government support programs; Food Services’ expectation that the food service industry, and more particularly the QSR segment, will recover; the success of the A&W brand and individual franchised restaurants being paramount to the long-term success of the overall A&W system and, in turn, to the unitholders of the Fund; Food Services’ objectives with respect to the A&W restaurants and its planned strategies to achieve those objectives; statements regarding future restrictions on the operations of A&W restaurants as well as temporary restaurant closures and the corresponding reductions to the amounts of royalties payable to and earned by the Fund, as well as funds available to distribute to unitholders of the Fund; the expectation that Trade Marks will remain in compliance with all covenants related to its term debt based on current projections; management’s expectation that its refundable income tax will be recovered in future years when sufficient dividends are paid by Trade Marks; the Fund’s long-term objective to maintain an annual payout ratio at or below 100%; Food Services’ belief that its mission “to become #1 with millennial burger lovers, chosen and trusted for truly good food and the convenience they crave” will help it to rebound from the impact of COVID-19; Food Services’ belief that strategic initiatives will be key to delivering strong results and improved market share as the QSR industry and the QSR burger market resume growth; growth of new locations, industry leading innovation, a safe and stable supply chain, and continued efforts to consistently deliver great food and a better guest experience are all expected to contribute to building loyalty and enhancing performance over the long term; Food Services remaining committed to the long-term health and success of its franchise network and the Fund; the Fund’s expectations that future distributions will continue to be funded entirely by cash flow from operations and the cash reserve; and statements regarding the stability and predictability of the operating and administrative expenses of the Fund, Trade Marks and the Partnership.

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

- the general risks that affect the restaurant industry will not arise, other than those related to COVID-19;
- there are no changes in availability of experienced management and hourly employees;
- there are no material changes in government regulations concerning menu labelling and disclosure and drive-thru restrictions;
- no publicity from any food borne illness;
- no material changes in competition;
- no material increases in food and labour costs;
- the continued availability of quality raw materials;
- continued additional franchise sales and maintenance of franchise operations;

- Food Services is able to maintain and grow the current system of franchises;
- Food Services is able to locate new retail sites in desirable locations;
- Food Services is able to obtain qualified operators to become A&W franchisees;
- no material impact from new or increased sales taxes upon gross sales;
- continued availability of key personnel;
- continued ability to preserve intellectual property;
- no material litigation from guests at A&W restaurants;
- Food Services continues to pay the royalty;
- Food Services can continue to comply with its obligations under its credit arrangements;
- Trade Marks can continue to comply with its obligations and covenants under its credit arrangements;
- current store closures will be temporary and restaurant performance will continue to improve;
- the Fund will receive sufficient revenue in the future (in the form of royalty payments from Food Services) to maintain the payment of monthly distributions;
- the projections for the A&W business provided by Food Services are accurate;
- the impacts of the COVID-19 pandemic on the A&W system will not significantly worsen; and
- Food Services will be successful in executing on its business strategies and such strategies will achieve their intended results.

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

- the general risks that affect the restaurant industry in general and the quick service segment in particular, including competition with other well-capitalized franchisors and operators of quick service restaurants;
- changes in consumer preferences that adversely affect the consumption of quick service restaurant hamburgers, chicken, fries, breakfast items or soft drinks;
- negative publicity, litigation or complaints from perceived or actual food safety events or other events involving the foodservice industry in general or A&W restaurants in particular;
- changes in the availability and quality of raw materials, including A&W's natural ingredients;
- the possible lack of success of new products and advertising campaigns;
- changes in climate or increases in environmental regulation;
- changes in Food Services' ability to continue to grow same store sales, locate new retail sites in desirable locations and obtain qualified operators to become A&W franchisees;
- increases in closures of A&W restaurants adversely affecting the royalty;
- decreases in traffic at shopping centres and other retail modes;
- changes in Food Services' ability to pay the royalty due to changes in A&W franchisees' ability to generate sales and pay franchise fees and other amounts to Food Services;
- changes in government regulation that affect the restaurant industry in general or the quick service restaurant industry in particular, including franchise legislation and sales tax legislation;
- changes in the availability of key personnel, including qualified franchise operators;
- changes in the ability to enforce or maintain intellectual property;
- technological breakdowns, cybersecurity breaches and the security of consumer and personal information;
- the amplificatory effects of media and social media;
- risks related to global health crises, disease outbreaks (including COVID-19), and other unexpected events which could affect Food Services' and A&W franchisees' supply chains, business continuity, and financial results;
- the availability and adequacy of insurance coverage;
- occurrence of catastrophic events; and

- risks related to COVID-19 set forth in this MD&A, including under the headings “Risks and Uncertainties – COVID-19” and “Impact of COVID-19”.

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

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

These risks, uncertainties and other factors are more particularly described above under the heading “Risks and Uncertainties” and in the Fund’s most recent Annual Information Form under the heading “Risk Factors”.

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

A&W Revenue Royalties Income Fund

Interim Condensed Consolidated Balance Sheets

Unaudited

(in thousands of dollars)

	Note	March 28 2021	December 31 2020
Assets			
Current assets			
Cash and cash equivalents		\$ 10,058	\$ 8,548
Accounts receivable	9	3,275	3,530
Prepaid interest		245	191
Income taxes recoverable		118	-
		13,696	12,269
Non-current assets			
Intangible assets	3	357,295	340,707
Total assets		\$ 370,991	\$ 352,976
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 534	\$ 670
Dividends payable to A&W Food Services of Canada Inc.	9	668	-
Distributions payable to Unitholders	7	1,898	1,406
Income taxes payable		-	1,253
		3,100	3,329
Non-current liabilities			
Term loan	4	59,942	59,935
Fair value of interest rate swaps	4	2,307	2,671
Deferred income tax liabilities		13,694	13,953
		82,361	79,888
Unitholders' Equity			
Fund Units	5	332,950	332,950
Accumulated deficit		(179,896)	(181,586)
		153,054	151,364
Non-controlling interest			
		135,576	121,724
Total equity		288,630	273,088
Total liabilities and equity		\$ 370,991	\$ 352,976

Subsequent events

10

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

A&W Revenue Royalties Income Fund

Interim Condensed Consolidated Statement of Income and Comprehensive Income

Unaudited

(in thousands of dollars except per Unit amounts)

	Note	Period from Jan 1, 2021 to Mar 28, 2021	Period from Jan 1, 2020 to Mar 22, 2020
Royalty income	9	\$ 9,322	\$ 9,260
Expenses			
General and administrative		206	193
Interest expense			
Term loan and other		606	509
Amortization of financing fees		8	8
		820	710
Operating income		8,502	8,550
(Gain) loss on interest rate swaps	4	(364)	1,837
Net income before income taxes		8,866	6,713
Provision for (recovery of) income taxes	6		
Current			
Current income tax provision		2,032	1,030
Refundable income tax		354	(177)
Deferred		(259)	312
		2,127	1,165
Net income and comprehensive income for the period		\$ 6,739	\$ 5,548
Net income and comprehensive income attributable to:			
Unitholders of A&W Revenue Royalties Income Fund		\$ 4,994	\$ 4,250
A&W Food Services of Canada Inc.'s non-controlling interest in A&W Trade Marks Inc.		1,745	1,298
		\$ 6,739	\$ 5,548
Basic and diluted income per weighted average Unit outstanding		\$ 0.355	\$ 0.302
Weighted average number of Units outstanding		14,064,673	14,064,673

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

A&W Revenue Royalties Income Fund

Interim Condensed Consolidated Statement of Unitholders' Equity

Unaudited

(in thousands of dollars)

	Note	Fund Units	Accumulated deficit	Total	Non-controlling interest	Total equity
Balance - December 31, 2019		\$ 332,950	\$ (181,744)	\$ 151,206	\$ 92,788	\$ 243,994
Net income for the period		-	4,250	4,250	1,298	5,548
Distributions on Units		-	(4,473)	(4,473)	-	(4,473)
Dividends on common shares		-	-	-	(1,380)	(1,380)
Issue of common shares		-	-	-	23,263	23,263
Balance - March 22, 2020		\$ 332,950	\$ (181,967)	\$ 150,983	\$ 115,969	\$ 266,952
Net income for the period		-	17,258	17,258	5,568	22,826
Distributions on Units		-	(16,877)	(16,877)	-	(16,877)
Dividends on common shares		-	-	-	(5,431)	(5,431)
Issue of common shares		-	-	-	5,618	5,618
Balance - December 31, 2020		\$ 332,950	\$ (181,586)	\$ 151,364	\$ 121,724	\$ 273,088
Net income for the period		-	4,994	4,994	1,745	6,739
Distributions on Units	7	-	(3,304)	(3,304)	-	(3,304)
Dividends on common shares	9	-	-	-	(1,164)	(1,164)
Issue of common shares	3	-	-	-	13,271	13,271
Balance - March 28, 2021		\$ 332,950	\$ (179,896)	\$ 153,054	\$ 135,576	\$ 288,630

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

A&W Revenue Royalties Income Fund
Interim Condensed Consolidated Statement of Cash Flows
Unaudited

(in thousands of dollars)

		Period from Jan 1, 2021 to Mar 28, 2021	Period from Jan 1, 2020 to Mar 22, 2020
	Note		
Operating activities			
Net income for the period		\$ 6,739	\$ 5,548
Adjustments for:			
Non-cash (gain) loss on interest rate swaps	4	(364)	1,837
Amortization of financing fees		8	8
Deferred income taxes		(259)	312
Refundable income tax		354	(177)
Interest expense		606	509
Current income tax provision		2,032	1,030
Net changes in items of non-cash working capital		119	303
Interest paid		(661)	(74)
Income tax paid		(3,756)	(2,011)
Net cash generated from operating activities		4,818	7,285
Financing activities			
Dividends paid to non-controlling interest		(496)	(690)
Distributions paid to Unitholders		(2,812)	(4,472)
Net cash used in financing activities		(3,308)	(5,162)
Increase in cash and cash equivalents		1,510	2,123
Cash and cash equivalents - beginning of period		8,548	7,130
Cash and cash equivalents - end of period		\$ 10,058	\$ 9,253

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

(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 Trust Units (“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, BC. 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.

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as applicable to interim financial reports including International Accounting Standards (“IAS”) 34, Interim Financial Reporting. The interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the Fund’s audited annual consolidated financial statements as at December 31, 2020.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Fund’s annual consolidated financial statements for the year ended December 31, 2020.

These interim condensed consolidated financial statements were authorized for issue by the Board of Trustees of the Fund on May 4, 2021.

3. Intangible assets

	Royalty Pool	Amount \$
Balance as at December 31, 2020	971	340,707
Annual adjustment January 5, 2021	23	16,588
Balance as at March 28, 2021	994	357,295

The intangible assets are 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 sales reported to Food Services by specific A&W restaurants (the “Royalty Pool”).

A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 28, 2021

(in thousands of dollars)

The gross sales reported by the 994 (2020 - 971) A&W restaurants in the Royalty Pool for the period ended March 28, 2021 were \$310,726,000 (period ended March 22, 2020 - \$308,679,000).

The Fund performed its annual impairment test on the indefinite life intangible asset as at December 31, 2020, using a value-in-use model to determine the recoverable amount of the indefinite life intangible assets. The calculations were based on the Fund's and Food Services' internal forecasts and represent management's best estimates at a specific point in time, and as a result are subject to estimation uncertainty. In arriving at its estimated future cash flows, the Fund and Food Services considered past experience, economic trends and forecasted industry trends. The Fund projected royalties from the gross sales of A&W restaurants in the Royalty Pool, gross profit and cash flows for a period of five years and extrapolated cash flows beyond that using an estimated terminal growth rate of 2%. The Fund assumed a pre-tax discount rate of 10.2% in order to calculate the present value of its projected cash flows. As a result of this test, it was concluded that no impairment was required. There was no impairment as at March 28, 2021.

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

The 2021 annual adjustment to the Royalty Pool took place on January 5, 2021. The number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants less 11 restaurants that permanently closed during 2020. The estimated annual sales of the 34 new A&W restaurants are \$45,248,000 at the time they were added to the Royalty Pool and annual sales for the 11 permanently closed restaurants were \$6,199,000 based on their sales during the first year such restaurants were included in the Royalty Pool. The initial consideration for the estimated additional royalty stream was \$16,588,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the units of the Fund for the 20 trading days ending October 26, 2020. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$13,271,000, by issuance of 465,316 LP units which were subsequently exchanged for 930,632 non-voting common shares of Trade Marks. The remaining consideration payable to Food Services for the January 5, 2021

(in thousands of dollars)

adjustment to the Royalty Pool, if any, is to be paid by issuance of additional LP units, which issuance is held back until the number of LP units is determined in December 2021 based on the actual annual sales reported by the new restaurants. The actual amount of the consideration paid in December 2021 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

4. Term loan, operating loan facility and interest rate swap

Trade Marks has a \$2,000,000 demand operating loan facility with HSBC Bank Canada (the “Bank”) 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 March 28, 2021, the amount of the facility available was \$2,000,000 (December 31, 2020 - \$2,000,000).

Trade Marks has a \$60,000,000 term loan with the Bank in the form of a banker’s acceptance. The term loan is repayable on December 22, 2022. 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 March 28, 2021 and December 31, 2020.

Trade Marks uses interest rate swap agreements to manage risks from fluctuations in interest rates. To manage the interest rate risk associated with the \$60,000,000 term loan Trade Marks has entered into an interest rate swap, with an effective date of December 22, 2015 and a maturity date of December 22, 2022. Under this interest rate swap, as at March 28, 2021, the term loan’s effective interest rate was 4.20% per annum (December 31, 2020 – 4.20%), comprising 2.80% per annum which is fixed under the swap agreement until December 22, 2022 plus a 1.40% per annum stamping fee. The stamping fee ranges from 0.90% and 1.40%, depending on Trade Mark’s debt to EBITDA ratio. The fair value of this interest rate swap as at March 28, 2021 was \$2,307,000 unfavourable (December 31, 2020 - \$2,671,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income and comprehensive income as a \$354,000 gain on interest rate swaps for the period ended March 28, 2021 (loss of \$1,837,000 for the period ended March 22, 2020).

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 the indebtedness, covenants and obligations of Trade Marks to the Bank.

A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 28, 2021

(in thousands of dollars)

The term loan comprises:

	March 28, 2021	December 31, 2020
	\$	\$
Term loan	60,000	60,000
Financing fees	(58)	(65)
	<u>59,942</u>	<u>59,935</u>

5. Fund Units

	Number of Units	Equity \$
Balance - December 31, 2020	<u>14,064,673</u>	<u>332,950</u>
Balance – March 28, 2021	<u>14,064,673</u>	<u>332,950</u>

On April 16, 2021, subsequent to the period end, Food Services exchanged 1,042,000 common shares of Trade Marks for 521,000 Units of the Fund and then sold the Units to A&W of Canada Inc., an indirect shareholder of Food Services. After the exchange and sale of Units and as at May 4, 2021, there were 14,585,673 Fund Units outstanding. Refer to “Subsequent events” (Note 10b).

6. Income taxes

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 shown in the consolidated statements of income is the expected current and deferred tax payable by Trade Marks, and differs from the amount obtained by applying statutory tax rates to Trade Marks’ income before income taxes for the following reasons:

	Period from Jan 1, 2021 to Mar 28, 2021	Period from Jan 1, 2020 to Mar 22, 2020
	\$	\$
Statutory combined federal and provincial income tax rates on investment income	<u>20.0%</u>	<u>20.0%</u>
Provision for current income taxes	2,032	1,030
Provision for deferred income taxes	<u>(259)</u>	<u>312</u>
Provision for income taxes based on statutory income tax rates	1,773	1,342
Adjustment to prior year refundable income tax	298	-
Refundable income tax	<u>56</u>	<u>(177)</u>
Provision for income taxes	<u>2,127</u>	<u>1,165</u>

A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 28, 2021

(in thousands of dollars)

Trade Marks' taxable income is taxed at an effective rate of 20.0% (2020 – 20.0%), plus an additional tax of 30.67% on investment income that has not been distributed to its shareholders as dividends. This additional tax is refundable in a future year when Trade Marks pays sufficient dividends. Under IFRS, refundable income tax is required to be expensed on the income statement when paid or payable. Subsequently, these amounts are recognized on the income statement as income taxes recoverable when received or receivable.

7. Distributions

During the period ended March 28, 2021, the Fund declared distributions to its Unitholders of \$3,304,000 or \$0.235 per Unit. The record dates and amounts of these distributions are as follows:

Month	Record date	Amount \$	Per unit \$
January 2021	February 15, 2021	1,406	0.100
February 2021	March 15, 2021	1,898	0.135
		<u>3,304</u>	<u>0.235</u>

The February 2021 distribution was declared on March 3, 2021 and paid subsequent to the period end on March 31, 2021, and is reported as a current liability as at March 28, 2021 (December 31, 2020 - \$nil).

8. Compensation to key management

Key management personnel are the Trustees of the Fund. During the quarter, the Trustees earned \$32,000 (2020 - \$32,000).

9. Related party transactions and balances

During the quarter, royalty income of \$9,322,000 (2020 - \$9,260,000) was earned from Food Services of which \$3,275,000 is receivable at March 28, 2021 (December 31, 2020 - \$3,452,000).

During the quarter, Trade Marks declared common share dividends payable to Food Services of \$1,164,000 (2020 - \$1,380,000). The \$668,000 dividend declared on March 3, 2021 was paid to Food Services subsequent to the period end on March 31, 2021 is reported as a current liability as at March 28, 2021 (December 31, 2020 - \$nil).

Other related party transactions and balances are referred to elsewhere in these notes.

(in thousands of dollars)

10. Subsequent events

- a) On April 6, 2021, the Fund declared a distribution to Unitholders of \$0.135 per unit or \$1,898,000 payable on April 30, 2021 to unitholders of record as at April 15, 2021.

On April 6, 2021, Trade Marks declared dividends of \$2,567,000 on its common shares held by the Fund and Food Services.

- b) 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 long-standing 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 of the Fund, which were then purchased by shareholders of A&W Canada at a price of \$36.42 per unit. The 521,000 Units sold are subject to a four-month statutory hold period under applicable securities laws. After the exchange and sale of these Units, and as at May 4, 2021, there were 14,585,673 Fund Units outstanding.

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

Prior to the Reorganization, Food Services owned 26.0% of the outstanding voting securities of the Fund on a fully diluted basis. Following the Reorganization, but excluding the issuance of the excess units that represent the remaining 20% of the initial consideration for the January 5, 2021 Adjustment to the Royalty Pool that are payable in December 2021, Food Services owned approximately 23.3% of the outstanding voting securities of the Fund on a fully diluted basis. Including the issuance of the excess units that represent the remaining 20% of the initial consideration for the January 5, 2021 payable in December 2021, Food Services' ownership in the Fund is approximately 23.8% on a fully diluted basis (26.5% prior to the Reorganization). Overall, the Reorganization was not dilutive to unitholders of the Fund because the calculation of the number of the fully diluted Fund Units did not change. Post Reorganization, Food Services holds both Limited Voting Units in the Fund and exchangeable common shares of Trade Marks, whereas prior to the Reorganization, Food Services only held exchangeable common shares of Trade Marks.

A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 28, 2021

(in thousands of dollars)

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

Unitholder Information

Corporate Head Office

A&W Trade Marks Inc.

Registered Office and Records Office:

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

Mailing Address

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

A&W Revenue Royalties Income Fund Board of Trustees

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

A&W Trade Marks Inc. Board of Directors

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

Committees of the Board

⁽¹⁾ Audit Committee and

⁽²⁾ Governance Committee

Market Information

Units Listed: Toronto Stock Exchange
Symbol: AW.UN

Registrar and Transfer Agent

Computershare Investor Services Inc.

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