



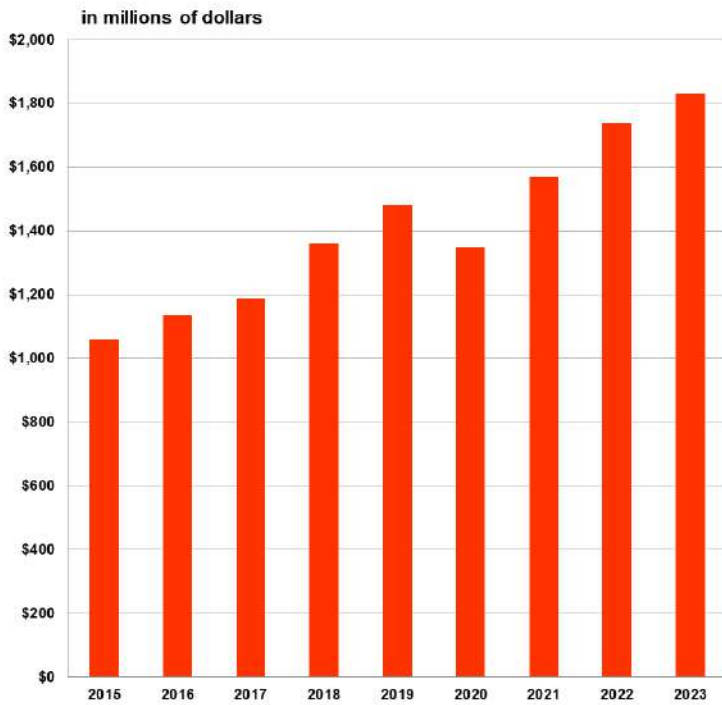
A&W REVENUE ROYALTIES INCOME FUND



ANNUAL REPORT
2023

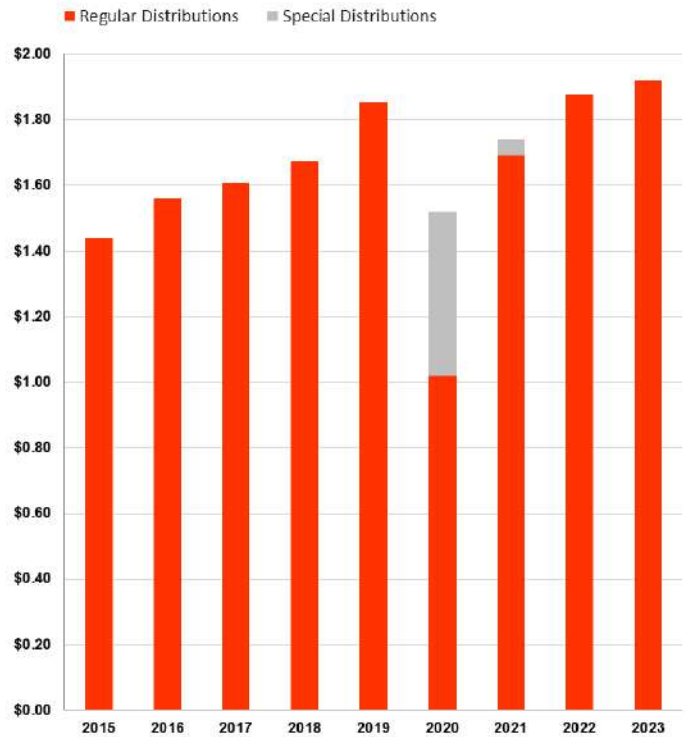


Gross Sales reported by A&W restaurants in the Royalty Pool ⁽¹⁾

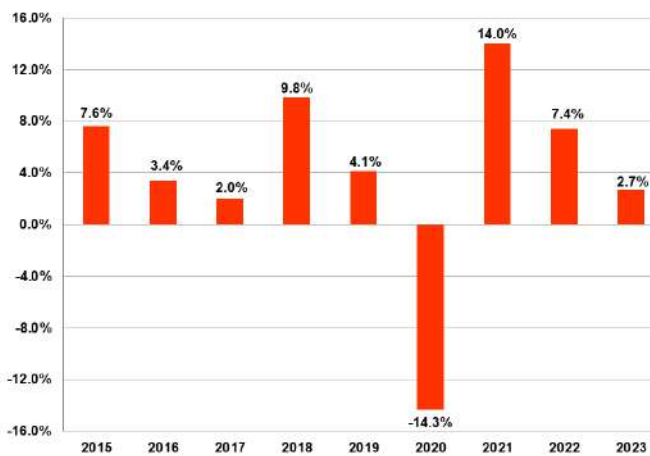


⁽¹⁾ "Gross Sales reported by A&W restaurants in the Royalty Pool" is a non-IFRS supplementary financial measure. See the "Non-IFRS Measures" section of the Fund's MD&A for the fourth quarter ended December 31, 2023, for further details on how this measure is calculated and used to assess the Fund's performance.

Distributions to Shareholders

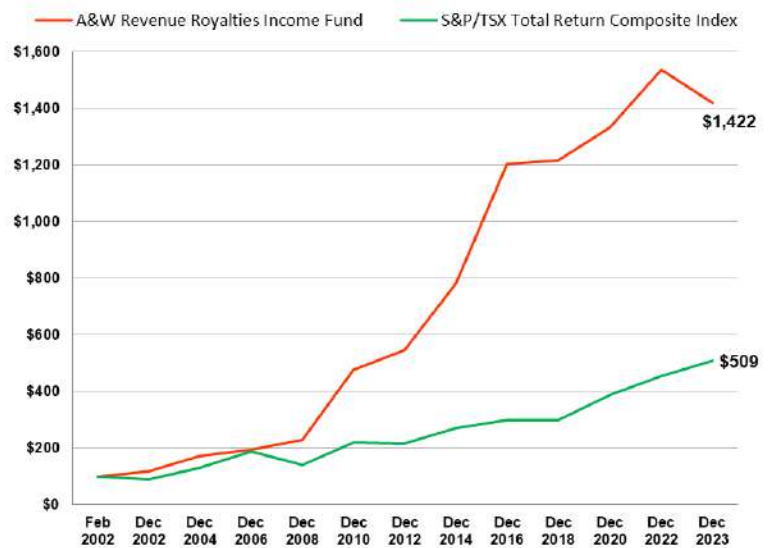


Royalty Pool Same Store Sales Growth ⁽²⁾



⁽²⁾ "Royalty Pool Same Store Sales Growth" is a non-IFRS supplementary financial measure. See the "Non-IFRS Measures" section of the Fund's MD&A for the fourth quarter ended December 31, 2023, for further details on how this measure is calculated and used to assess the Fund's performance.

Comparison of Total Unitholders' Return ⁽³⁾



⁽³⁾ Assuming an investment of \$100 on February 15, 2002 and reinvestment of distributions through 2023.

Chairman's Report to Unitholders

On behalf of the trustees (the "Trustees") of the A&W Revenue Royalties Income Fund (the "Fund"), it is my pleasure to report the results for the fourth quarter and full year ended December 31, 2023.

The Fund's royalty income increased by 5.1% in the fourth quarter of 2023 and 5.3% for the year, as compared to the comparable periods in 2022. The increase in income was driven by the Royalty Pool Same Store Sales Growth⁽¹⁾ of 2.7% for the year and additional gross sales from 22 net new restaurants that were added to the Royalty Pool on January 5, 2023.

Another noteworthy event in 2023 was the updating of the A&W strategy and the mission statement, which now is as follows:

"Together, to excite Canada's most avid burger lovers, wherever they are, with the best tasting burgers they crave, earning even more of their visits and making A&W restaurants even more successful".

The Trustees are very excited by the new A&W strategy, which includes creating a "can't wait to come back" appeal and a highly convenient guest experience making it easier for franchisees and their teams to operate successful restaurants. Successfully executed, this strategy will be key to delivering continued strong results and improved market share, and increased income for the Fund.

On behalf of the Trustees, I sincerely thank A&W's guests, franchisees, employees and Fund Unitholders for their continued support and loyalty to A&W.

(signed) Kevin Mahoney
Chairman
A&W Revenue Royalties Income Fund

⁽¹⁾ "Royalty Pool Same Store Sales Growth" is a non-IFRS supplementary financial measures. See the "Non-IFRS Measures" section of the Fund's MD&A for the year ended December 31, 2023, for further details on how this measure is calculated and used to assess the Fund's performance.

Report to Fund Unitholders

We are pleased with our sales results in 2023, achieving Royalty Pool Same Store Sales Growth⁽¹⁾ of 2.7% which is attributable to modest increases in average check size due to industry-wide inflation on goods, services, and labour, a rebound in sales at shopping center and urban locations and innovative new menu items such as the A&W Brew BarTM.

In 2023 we also opened 19 new A&W restaurants, bringing the total number of restaurants in the chain to 1,054 as at December 31, 2023. In 2023, we continued with the national rollout of the A&W Brew Bar, which offers a variety of frozen beverages as well as hot and cold espresso-based drinks. Guests can now enjoy the A&W Brew Bar at over 620 A&W restaurants across the country. In 2023, A&W also continued to introduce the Pret A Manger (“Pret”) brand within A&W restaurants in select markets across Canada. As at December 31, 2023, 5 A&W locations (3 in Vancouver and 2 in Toronto) were offering a range of Pret products in their restaurants with another 20 locations across the country offering Pret coffee and pastries.

In August, A&W was proud to once again partner with MS Canada on its annual Burgers to Beat MS Day. Through the generosity of our guests and the commitment of our restaurant teams, the campaign raised \$1.6 million in 2023 and has raised more than \$20 million since inception. These funds help support world-class MS research, programs, services, and advocacy efforts that improve the quality of life for Canadians living with and affected by the disease.

We have been focusing efforts on our core strategic initiatives in the year and believe our mission “Together, to excite Canada’s most avid burger lovers, wherever they are, with the best tasting burgers they crave, earning even more of their visits and making A&W restaurants even more successful” will help us continue to grow and strengthen our positioning. The talent and experience of our operators and franchisees have contributed significantly to our ability to achieve these goals and our continued success.

(signed) Susan Senecal

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

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

⁽¹⁾ “Royalty Pool Same Store Sales Growth” is a non-IFRS supplementary financial measures. See the “Non-IFRS Measures” section of the Fund’s MD&A for the year ended December 31, 2023, for further details on how this measure is calculated and used to assess the Fund’s performance.



A&W Revenue Royalties Income Fund Management Discussion and Analysis

This Management Discussion and Analysis (“MD&A”) covers the fourth quarter period from September 11, 2023 to December 31, 2023 and the year ended December 31, 2023. This MD&A is dated February 27, 2024. This MD&A should be read in conjunction with the audited annual consolidated financial statements of the A&W Revenue Royalties Income Fund (the “Fund”) for the year ended December 31, 2023. Readers are also referred to the audited annual consolidated financial statements of A&W Food Services of Canada Inc. (“Food Services”) for the 52-week period ended December 31, 2023. Such financial statements and additional information about the Fund and Food Services are available at www.sedarplus.ca or www.awincomefund.ca.

The financial results reported in this MD&A are derived from the audited annual consolidated financial statements of the Fund, which are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IFRS Accounting Standards”). The accounting policies applied in the audited annual consolidated financial statements for the year ended December 31, 2023 and this MD&A have been consistently applied to all years presented.

The Fund uses a fiscal year ending December 31. Food Services uses a fiscal year comprising a 52- or 53-week period ending on the Sunday nearest December 31. Food Services’ fiscal 2023 year was 52 weeks and ended December 31, 2023 (2022 – 52 weeks ended January 1, 2023). The Fund aligns its quarterly financial reporting with that of Food Services. Readers should be aware that the 2023 annual and quarterly results are not directly comparable to the 2022 quarterly and annual results. There were 85 days in the first quarter of 2023 compared to 86 days in first quarter of 2022. The second and third quarters of both years had 84 days. The fourth quarter of 2023 had 112 days compared to 111 days in the fourth quarter of 2022. The year ended December 31, 2023 and December 31, 2022 both had 365 days. Royalty Pool Same Store Sales Growth is based on an equal number of days in the quarter and year.

HIGHLIGHTS

- Royalty income increased by 5.3% year-over-year and 5.1% in Q4 2023.
- Royalty Pool Same Store Sales Growth⁽ⁱ⁾ was +2.7% for the year and +2.1% for Q4 2023. The distributions declared by the Fund in 2023 increased by 2.4% from 2022. The current distribution rate translates to an annualized distribution rate of \$1.92 per Unit.

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

SELECTED INFORMATION

The following selected information, other than “Royalty Pool Same Store Sales Growth”, “Gross sales reported by A&W restaurants in the Royalty Pool”, “Distributable cash generated”, “Distributable cash per

equivalent unit”, “Distributions and dividends declared per equivalent unit” and information with respect to numbers of restaurants and equivalent units have been derived from financial statements prepared in accordance with IFRS and all dollar amounts are reported in Canadian currency. See “Non-IFRS Measures”.

(dollars in thousands except per unit amounts)	Period from Sep 11, 2023 to Dec 31, 2023	Period from Sep 12, 2022 to Dec 31, 2022	Period from Jan 1, 2023 to Dec 31, 2023	Period from Jan 1, 2022 to Dec 31, 2022
Royalty Pool Same Store Sales Growth ⁽ⁱ⁾	2.1%	4.3%	2.7%	7.4%
Number of restaurants in the Royalty Pool	1,037	1,015	1,037	1,015
Gross sales reported by A&W restaurants in the Royalty Pool ⁽ⁱ⁾	\$568,161	\$540,598	\$1,832,069	\$1,739,377
Royalty income	\$17,045	\$16,218	\$54,962	\$52,181
General and administrative expenses	\$452	\$476	\$961	\$983
Term loan and other interest (net)	\$332	\$530	\$1,204	\$2,113
Current income tax provision	\$2,914	\$2,650	\$10,170	\$10,471
Distributable cash generated ⁽ⁱⁱ⁾	\$13,347	\$12,562	\$42,627	\$38,614
Number of equivalent units ⁽ⁱⁱⁱ⁾	20,383,114	19,893,414	20,383,114	19,893,414
Distributable cash per equivalent unit ^(iv)	\$0.655	\$0.631	\$2.091	\$1.941
Distributions and dividends declared per equivalent unit ^(iv)	\$0.640	\$0.635	\$1.920	\$1.875
Distributions and dividends declared and accrued per equivalent unit ^(iv)	\$0.589	\$0.570	\$1.920	\$1.875
Payout ratio ^(iv)	89.9%	90.3%	91.8%	96.6%
Net cash generated from operating activities	\$12,555	\$13,185	\$34,183	\$44,264
Net income ^(v)	\$11,161	\$11,861	\$40,663	\$41,389

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

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

⁽ⁱⁱⁱ⁾ Equivalent units include Units and Limited Voting Units of the Fund (“Limited Voting Units” and together with the Units, the “Trust Units”) and common shares of Trade Marks (as defined below) that are exchangeable for Trust Units. The number of equivalent units in 2023 is calculated on a fully-diluted basis and includes the 109,332 LP units (as defined below) exchanged for 218,664 common shares of Trade Marks representing the remaining consideration paid in December 2023 for the January 5, 2023 adjustment to the Royalty Pool (as defined below). The number of equivalent units in 2022 is calculated on a fully-diluted basis and includes 190,903 LP units, exchanged for 381,806 common shares of Trade Marks representing the remaining consideration paid in December 2022 for the January 5, 2022 adjustment to the Royalty Pool.

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

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

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

(dollars in thousands)	Period from Sep 11, 2023 to Dec 31, 2023	Period from Sep 12, 2022 to Dec 31, 2022	Period from Jan 1, 2023 to Dec 31, 2023	Period from Jan 1, 2022 to Dec 31, 2022
Net cash generated from operating activities	\$12,555	\$13,185	\$34,183	\$44,264
Term loan and other interest (net)	(332)	(530)	(1,204)	(2,113)
Current income tax provision	(2,914)	(2,650)	(10,170)	(10,471)
Net changes in items of non-cash working capital	(632)	(774)	332	508
Interest paid	670	1,332	1,298	2,763
Income tax paid	4,000	1,999	18,188	3,663
Distributable cash generated	\$13,347	\$12,562	\$42,627	\$38,614

NON-IFRS MEASURES

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

Non-IFRS financial measures

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

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

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

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

Non-IFRS ratios

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

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

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

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

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

Non-IFRS supplementary financial measures:

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

Gross sales reported by A&W restaurants in the Royalty Pool. Gross sales reported by A&W restaurants in the Royalty Pool (the “Royalty Pool”) reflects the sum of (i) the gross sales reported to Food Services by franchisees of A&W restaurants that are in the Royalty Pool without audit, verification or other form of independent assurance and (ii) the gross sales of A&W restaurants owned and operated by Food Services

that are in the Royalty Pool. The Gross sales reported by A&W restaurants in the Royalty Pool reflect sales after deducting amounts for discounts for coupons and other promotional offerings and applicable sales taxes. Gross sales reported by A&W restaurants in the Royalty Pool is the basis for which the royalty is payable by Food Services to A&W Trade Marks Limited Partnership (the “Partnership”) and therefore is a key performance indicator for the Fund.

Royalty Pool Same Store Sales Growth. Royalty Pool Same Store Sales Growth in 2023 versus 2022 reflects the change in gross sales of A&W restaurants in the Royalty Pool that operated during the entire quarter and years ending December 31, 2023 and December 31, 2022, and is based on an equal number of days in each quarter. This measure is a key performance indicator for the Fund as it highlights the performance of the existing A&W restaurants in the Royalty Pool.

SALES PERFORMANCE

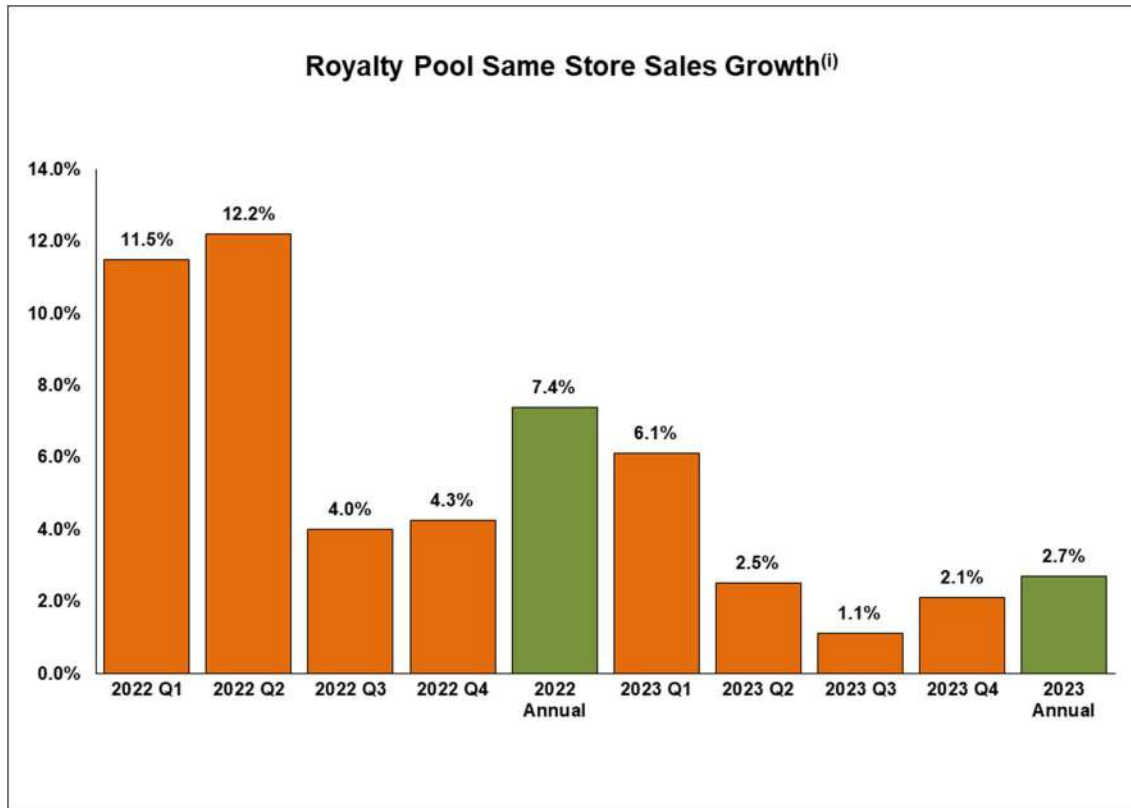
Royalty Pool Same Store Sales Growth⁽ⁱ⁾ for the fourth quarter of 2023 was +2.1% as compared to the same quarter of 2022. Annual Royalty Pool Same Store Sales Growth⁽ⁱ⁾ for 2023 was +2.7% as compared to 2022. Royalty Pool Same Store Sales Growth is a function of changes in guest counts and check size, both of which are impacted by sales mix and menu price changes.

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

Gross sales reported by A&W restaurants in the Royalty Pool⁽ⁱ⁾ for the fourth quarter of 2023 were \$568,161,000, an 5.1% increase against gross sales of \$540,598,000 for the fourth quarter of 2022. Annual Gross sales reported by A&W restaurants in the Royalty Pool⁽ⁱ⁾ were \$1,832,069,000, a 5.3% increase from annual gross sales reported by A&W restaurants in the Royalty Pool⁽ⁱ⁾ of \$1,739,377,000 for 2022.

The increase in Gross sales reported by A&W restaurants in the Royalty Pool is driven by the Royalty Pool Same Store Sales Growth in addition to the gross sales from the 22 net new restaurants added to the Royalty Pool on January 5, 2023. The increase in the quarter was also impacted by there being one additional day in the fourth quarter of 2023 as compared to the fourth quarter of 2022. See “Adjustment to the Royalty Pool”.

The chart below shows the Royalty Pool Same Store Sales Growth by A&W restaurants in the Royalty Pool for the eight most recently completed quarters and two most recently completed years. COVID-19 related impacts had an effect on the quarterly results in 2022 and the reader is directed to look to the 2022 annual report which provides more details on the quarterly results for that year. Such financial information is available at www.sedarplus.ca or www.awincomefund.ca.



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

OVERVIEW

The Fund is a limited purpose trust established in 2001 under the laws of the Province of British Columbia pursuant to the Amended and Restated Declaration of Trust (the “Declaration of Trust”). The Units trade on the Toronto Stock Exchange under the symbol AW.UN. The Fund’s place of business is located at 300 – 171 West Esplanade, North Vancouver, BC. The Fund was established to invest in Trade Marks, which through its ownership interest in the Partnership, owns the A&W trade-marks used in the A&W quick service restaurant business in Canada. The Partnership has granted Food Services a licence (the “Amended and Restated Licence and Royalty Agreement”) to use the A&W trade-marks in Canada for a term expiring December 30, 2100, for which Food Services is required to pay a royalty of 3% of the gross sales reported to Food Services by A&W restaurants in the Royalty Pool. Food Services is a leading franchisor of hamburger quick service restaurants in Canada.

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

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

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

Another important aspect of the Fund is that, as at December 31, 2023, Food Services owned the equivalent of 28.4% (December 31, 2022 – 26.7%) of the Units on a fully-diluted basis through its ownership of Limited Voting Units and common shares of Trade Marks, both of which are exchangeable, at the option of Food Services, for Units. As a result, the interests of Food Services are closely aligned with the interests of unitholders.

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

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

ADJUSTMENT TO THE ROYALTY POOL

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

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

On January 5, 2024, the number of A&W restaurants in the Royalty Pool was increased by 19 new restaurants, less 9 restaurants that permanently closed. The initial consideration for the estimated royalty revenue from the net 10 restaurants added to the Royalty Pool is \$8,307,000. The Partnership paid Food Services \$6,646,000 by issuance of 218,029 LP units, representing 80% of the initial consideration. The LP units were exchanged for 436,058 non-voting common shares of Trade Marks. The remaining 20% or \$1,661,000 and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be paid in December 2024 by issuance of additional LP units, which may be exchanged for non voting common shares of Trade Marks.

COMMON SHARES OF TRADE MARKS

The common shares of Trade Marks are owned by the Fund and Food Services, with their respective ownership as at the end of the three most recently completed financial years:

(dollars in thousands)	Fund			Food Services			Total	
	Number of shares	Trade Marks' book value		Number of shares	Trade Marks' book value		Number of shares	Trade Marks' book value
		\$	%		\$	%		
Balance as at December 31, 2021	32,185,311	227,798	83.5	6,330,981	81,191	16.5	38,516,292	308,989
January 5, 2022 adjustment to the Royalty Pool ⁽¹⁾	-	-	(2.6)	1,270,460	24,558	2.6	1,270,460	24,558
Balance as at December 31, 2022	32,185,311	227,798	80.9	7,601,441	105,749	19.1	39,786,752	333,547
January 5, 2023 adjustment to the Royalty Pool ⁽²⁾	-	-	(1.9)	979,400	16,600	1.9	979,400	16,600
Balance as at December 31, 2023	32,185,311	227,798	79.0	8,580,841	122,349	21.0	40,766,152	350,147

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

⁽²⁾ The number of common shares includes the 109,332 LP units exchanged for 218,664 common shares of Trade Marks representing the remaining consideration paid in December 2023 for the January 5, 2023 adjustment to the Royalty Pool.

OWNERSHIP OF THE FUND

The table below shows the ownership of the Fund as of December 31, 2023 and December 31, 2022 on a fully-diluted basis.

	December 31, 2023		December 31, 2022	
	Number of units	%	Number of units	%
Units held by public unitholders	14,585,673	71.6	14,585,673	73.3
Limited Voting Units held by Food Services ⁽¹⁾	1,507,020	7.4	1,507,020	7.6
Number of Trust Units issuable upon exchange of securities of Trade Marks held by Food Services ⁽²⁾	4,290,421	21.0	3,800,721	19.1
Total equivalent units	20,383,114	100.0	19,893,414	100.0

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

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

The chart below shows the ownership of the Fund, on a fully-diluted basis, after the initial consideration for the January 5, 2024 adjustment to the Royalty Pool but before the issuance of the excess exchangeable LP units that represent the remaining 20% of the initial consideration for the January 5, 2024 adjustment to the Royalty Pool that are payable in December 2024.

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

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

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

FINANCIAL RESULTS

INCOME

Royalty income for the fourth quarter of 2023 was \$17,045,000 based on Gross sales reported by restaurants in the Royalty Pool⁽ⁱ⁾ of \$568,161,000, compared to royalty income of \$16,218,000 and Gross sales reported by A&W restaurants in the Royalty Pool⁽ⁱ⁾ of \$540,598,000 for the fourth quarter of 2022. Annual royalty income for 2023 was \$54,962,000 based on gross sales reported by restaurants in the Royalty Pool⁽ⁱ⁾ of \$1,832,069,000, compared to royalty income of \$52,181,000 and gross sales reported by A&W restaurants in the Royalty Pool⁽ⁱ⁾ of \$1,739,377,000 for 2022.

The increase in royalty income is driven by the Royalty Pool Same Store Sales Growth and the gross sales from the 22 net new restaurants added to the Royalty Pool on January 5, 2023. See “Sales Performance”, “Risks and Uncertainties” and “Outlook”.

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

EXPENSES

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

(dollars in thousands)	Period from Sep 11, 2023 to Dec 31, 2023	Period from Sep 12, 2022 to Dec 31, 2022	Period from Jan 1, 2023 to Dec 31, 2023	Period from Jan 1, 2022 to Dec 31, 2022
General and administrative expenses	\$452	\$476	\$961	\$983
Term loan and other interest (net)	\$332	\$530	\$1,204	\$2,113

General and administrative expenses are consistent year over year.

The \$909,000 year over year decrease in term loan and other interest (net) was due to a lower effective interest rate on the Current Swap (as defined below) as compared to the prior year interest rate and a \$279,000 increase in interest income due to increased interest rates on cash held on deposit. An interest rate swap agreement is used to manage risks from fluctuations in interest rates and facilitate uniform monthly distributions when paid. See “Unrealized Gain/Loss on Interest Rate Swaps” and “Liquidity and Capital Resources”.

UNREALIZED GAIN/LOSS ON INTEREST RATE SWAPS

Trade Marks uses an interest rate swap agreements to manage risks from fluctuations in interest rates. To manage the interest rate risk associated with the \$60,000,000 term loan Trade Marks had entered into an interest rate swap arrangement (the “Current Swap”). See “Liquidity and Capital Resources”.

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

(dollars in thousands)	Period from Sep 11, 2023 to Dec 31, 2023	Period from Sep 12, 2022 to Dec 31, 2022	Period from Jan 1, 2023 to Dec 31, 2023	Period from Jan 1, 2022 to Dec 31, 2022
Loss (gain) on matured swap	-	\$187	-	\$(983)
Loss (gain) on Current Swap	\$1,898	\$(438)	\$1,194	\$(3,921)
Total loss (gain) on interest rate swaps	\$1,898	\$(251)	\$1,194	\$(4,904)

INCOME TAXES

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

(dollars in thousands)	Period from Sep 11, 2023 to Dec 31, 2023	Period from Sept 12, 2022 to Dec 31, 2022	Period from Jan 1, 2023 to Dec 31, 2023	Period from Jan 1, 2022 to Dec 31, 2022
Current				
Current income tax provision	\$2,914	\$2,650	\$10,170	\$10,471
Refundable income tax	321	492	592	1,732
Deferred	(44)	439	144	330
Total provision for income taxes	\$3,191	\$3,581	\$10,906	\$12,533

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

Trade Marks' taxable income is taxed at an effective rate of 20.0% (2022 – 20.0%), plus an additional tax of 30.67% (2022 – 30.67%) on investment income which is refundable at a rate of 38.33% (2022 – 38.33%) for each dollar Trade Marks pays out in taxable dividends to its shareholders. Trade Marks' provision for income taxes for 2023 includes a payable of refundable income tax of \$592,000 based on its taxable income and dividends paid in 2023. Under IFRS, refundable income tax is recognized on the income statement when it is paid or payable or when it is received or receivable. Management expects that the net refundable income tax paid in prior years will be recovered in future years when sufficient dividends are paid by Trade Marks.

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

NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income was as follows:

(dollars in thousands)	Period from Sep 11, 2023 to Dec 31, 2023	Period from Sept 12, 2022 to Dec 31, 2022	Period from Jan 1, 2023 to Dec 31, 2023	Period from Jan 1, 2022 to Dec 31, 2022
Net income and comprehensive income attributable to public unitholders of the Fund	\$8,022	\$8,762	\$29,260	\$30,636
Net income and comprehensive income attributable to Food Services' ownership of Limited Voting Units	829	905	3,023	3,165
Net income and comprehensive income attributable to Food Services' non-controlling interest that arises from Food Services' ownership of common shares of Trade Marks	2,310	2,194	8,380	7,588
Total net income and comprehensive income	\$11,161	\$11,861	\$40,663	\$41,389

DISTRIBUTABLE CASH

(dollars in thousands)	Period from Sep 11, 2023 to Dec 31, 2023	Period from Sept 12, 2022 to Dec 31, 2022	Period from Jan 1, 2023 to Dec 31, 2023	Period from Jan 1, 2022 to Dec 31, 2022
Distributable cash generated ⁽ⁱⁱ⁾	\$13,347	\$12,562	\$42,627	\$38,614
Number of equivalent units	20,383,114	19,893,414	20,383,114	19,893,414
Distributable cash per equivalent unit ^(iv)	\$0.655	\$0.631	\$2.091	\$1.941
Distributions and dividends declared per equivalent unit ^{(i) (iv)}	\$0.640	\$0.635	\$1.920	\$1.875
Distributions and dividends declared and accrued per equivalent unit ^(iv)	\$0.589	\$0.570	\$1.920	\$1.875
Payout ratio ^(iv)	89.9%	90.3%	91.8%	96.6%

Distributable cash generated⁽ⁱⁱ⁾ in the fourth quarter of 2023 to pay distributions to unitholders and dividends to Food Services was \$13,347,000 compared to \$12,562,000 in the fourth quarter of 2022. Distributable cash generated⁽ⁱⁱ⁾ in 2023 was \$42,627,000 compared to \$38,614,000 in 2022. The \$4,013,000 year over year increase in Distributable cash generated⁽ⁱⁱ⁾ was attributable to the \$2,781,000 increase in royalty income and \$909,000 decrease in term loan and other.

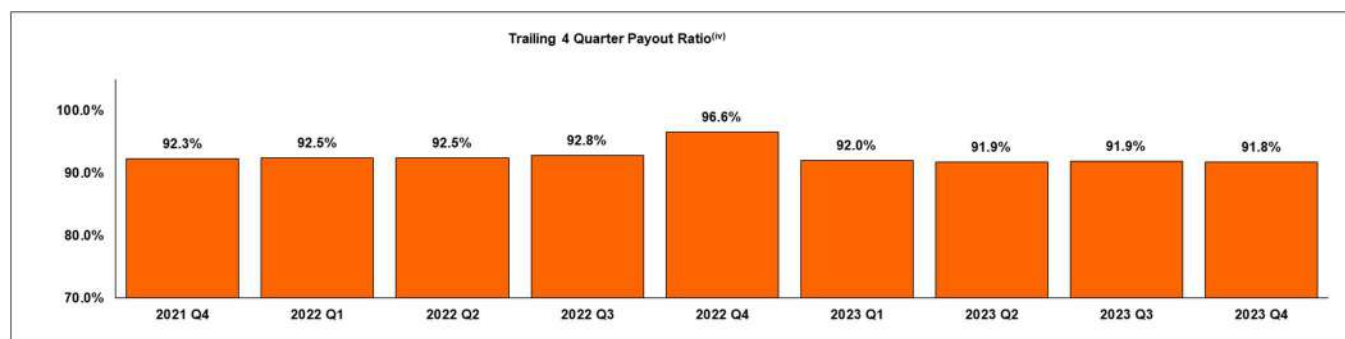
Distributable cash per equivalent unit^(iv) increased by 2.4¢ to 65.5¢ per Unit in the fourth quarter of 2023 compared to the fourth quarter of 2022. Distributable cash per equivalent unit^(iv) for the year increased by 15.0¢ to \$2.091 per Unit for 2023 from \$1.941 per Unit for 2022. The increase in Distributable cash per equivalent unit is a result of the increase in Distributable cash generated discussed above, partially offset by

the increase in the number of equivalent units that is a result of the 2023 annual adjustment to the Royalty Pool. See “Adjustment to the Royalty Pool”.

Four monthly distributions totaling 64.0¢ per Unit were declared in the fourth quarter of 2023 compared to four monthly distributions totaling 63.5¢ per Unit in the fourth quarter of 2022. Twelve monthly distributions totaling \$1.920 per Unit were declared in 2023 compared to twelve monthly distributions totaling \$1.875 per Unit in 2022.

The Payout ratio^(iv) for the fourth quarter of 2023 was 89.9% compared to 90.3% for the fourth quarter of 2022. The annual Payout ratio^(iv) for 2023 was 91.8% compared to 96.6% in 2022. 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, and as a result of seasonality of sales in A&W restaurants, which was less pronounced in 2022 as a result of the COVID-19 pandemic, and the timing of current income taxes, the Fund historically experiences seasonal fluctuations in its Payout ratio.

The following table shows the trailing four quarter Payout ratios for 2021, 2022 and 2023.



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

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

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

DISTRIBUTIONS TO UNITHOLDERS

Distributions declared during 2023 were as follows:

(dollars in thousands except per unit amounts)

Month	Record date	Per Trust Unit	Amount paid/payable to public Unitholders	Amount paid/payable to Food Services	Total amount paid/payable
January	February 15, 2023	\$0.160	\$2,334	\$241	\$2,575
February	March 15, 2023	0.160	2,334	241	2,575
March	April 15, 2023	0.160	2,334	241	2,575
April	May 15, 2023	0.160	2,334	241	2,575
May	June 15, 2023	0.160	2,334	241	2,575
June	July 15, 2023	0.160	2,334	241	2,575
July	August 15, 2023	0.160	2,332	242	2,574
August	September 15, 2023	0.160	2,334	241	2,575
September	October 15, 2023	0.160	2,334	241	2,575
October	November 15, 2023	0.160	2,334	241	2,575
November	December 15, 2023	0.160	2,334	241	2,575
December	December 31, 2023	0.160	2,334	241	2,575
		\$1.920	\$28,006	\$2,893	\$30,899

The December 2023 distribution of \$2,575,000 was declared on December 7, 2023 and paid subsequent to quarter end on January 31, 2024, and is reported as a current liability as at December 31, 2023.

On February 2, 2024, the Fund declared a distribution to unitholders of \$0.160 per Trust Unit or \$2,575,000 payable on February 29, 2024 to unitholders of record as at February 15, 2024.

TAX TREATMENT OF DISTRIBUTIONS

All of the distributions declared in 2023 are designated as non-eligible dividends.

DIVIDENDS ON TRADE MARKS' COMMON SHARES

Trade Marks declared and paid non-eligible dividends on its voting and non-voting common shares during 2023 as follows:

(dollars in thousands except per unit amounts)				
Month declared/paid	Per Share	Amount paid/payable to the Fund	Amount paid/payable to Food Services	Total amount paid/payable
January	\$0.0800	\$2,575	\$669	\$3,244
February	0.0800	2,575	669	3,244
March	0.0800	2,575	669	3,244
April	0.0800	2,575	670	3,245
May	0.0800	2,575	669	3,244
June	0.0800	2,575	669	3,244
July	0.0800	2,574	669	3,243
August	0.0800	2,575	669	3,244
September	0.0800	2,575	668	3,243
October	0.0800	2,575	668	3,243
November	0.0800	2,575	686	3,261
December	0.0800	2,575	686	3,261
		\$30,899	8,061	\$38,960

In addition to the dividends on voting and non-voting common shares above, on December 7, 2023 Trade Marks declared to Food Services a special dividend of \$175,000 that was paid on December 29, 2023, representing the dividends that Food Services would have received on the 218,664 non-voting common shares issued to Food Services on December 7, 2023 in relation to the final consideration for the January 5, 2023 adjustment to the Royalty Pool, had such shares been issued on January 5, 2023.

On February 2, 2024, Trade Marks declared dividends on its voting and non-voting common shares equal to \$0.080 per share, or \$3,296,000, payable to Food Services and the Fund on February 29, 2024.

SUMMARY OF QUARTERLY RESULTS

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

	Q4	Q3	Q2	Q1
(dollars in thousands except per unit amounts)	2023	2023	2023	2023
Number of restaurants in the Royalty Pool	1,037	1,037	1,037	1,037
Royalty income	\$17,045	\$13,705	\$12,773	\$11,439
General and administrative expenses	452	134	126	249
Term loan and other interest (net)	332	272	295	305
Amortization of financing fees	11	7	8	8
Loss (gain) on interest rate swaps	1,898	(116)	(1,883)	1,295
Current income tax provision	2,914	2,223	2,220	2,813
Refundable income tax expense	321	90	88	93
Deferred income tax expense (recovery)	(44)	459	626	(897)
Net income	\$11,161	\$10,636	\$11,293	\$7,573
Net cash generated from operating activities	\$12,555	\$10,077	\$9,253	\$2,298
Distributable cash generated ⁽ⁱⁱ⁾	\$13,347	\$11,076	\$10,132	\$8,072
Number of equivalent units	20,383,114	20,368,874	20,368,874	20,368,874
Distributable cash per equivalent unit ^(iv)	\$0.655	\$0.544	\$0.497	\$0.396
Distributions and dividends declared per equivalent unit ^{(iii)(iv)}	\$0.640	\$0.480	\$0.480	\$0.320
Number of days in the quarter	112	84	84	85
	Q4	Q3	Q2	Q1
(dollars in thousands except per unit amounts)	2022	2022	2022	2022
Number of restaurants in the Royalty Pool	1,015	1,015	1,015	1,015
Royalty income	\$16,218	\$13,198	\$12,187	\$10,578
General and administrative expenses	476	121	120	266
Term loan and other interest (net)	530	489	520	574
Amortization of financing fees	21	15	15	16
Gain on interest rate swaps	(251)	101	(1,817)	(2,937)
Current income tax provision	2,650	2,036	2,030	3,755
Refundable income tax expense (recovery)	492	410	408	422
Deferred income tax expense (recovery)	439	458	639	(1,206)
Net income	\$11,861	\$9,568	\$10,272	\$9,688
Net cash generated from operating activities	\$13,185	\$10,678	\$12,459	\$7,942
Distributable cash generated ⁽ⁱⁱ⁾	\$12,562	\$10,552	\$9,517	\$5,983
Number of equivalent units	19,893,414	19,813,593	19,813,593	19,813,593
Distributable cash per equivalent unit ^(iv)	\$0.631	\$0.533	\$0.480	\$0.302
Distributions and dividends declared per equivalent unit ^{(iii)(iv)}	\$0.635	\$0.465	\$0.465	\$0.310
Number of days in the quarter	111	84	84	86

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

details on how it is used to assess the Fund's performance.

- (iii) The distribution for December of each year, which is paid on the last business day of January of the following year, is declared and recorded in the year in which it is earned. Therefore, four monthly distributions are declared in the fourth quarter of each year, and two monthly distributions are declared in the first quarter of each year.
- (iv) "Distributable cash per equivalent unit" and "Distributions and dividends declared per equivalent unit" are non-IFRS ratios. Refer to the "Non-IFRS Measures" section of this MD&A for further details on how these ratios are calculated and used to assess the Fund's performance.

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

(dollars in thousands)	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Net cash generated from operating activities	\$12,555	\$10,077	\$9,253	\$2,298
Term loan and other interest (net)	(332)	(272)	(295)	(305)
Current income tax provision	(2,914)	(2,223)	(2,220)	(2,813)
Net changes in items of non-cash working capital	(632)	136	498	330
Interest paid (received)	670	358	(104)	374
Income tax paid	4,000	3,000	3,000	8,188
Distributable cash generated	\$13,347	\$11,076	\$10,132	\$8,072
(dollars in thousands)	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Net cash generated from operating activities	\$13,185	\$10,678	\$12,459	\$7,942
Term loan and other interest (net)	(530)	(489)	(520)	(574)
Current income tax provision	(2,650)	(2,036)	(2,030)	(3,755)
Net changes in items of non-cash working capital	(775)	137	800	346
Interest paid (received)	1,332	762	(15)	684
Income tax (recovered) paid	2,000	1,500	(1,177)	1,340
Distributable cash generated	\$12,562	\$10,552	\$9,517	\$5,983

SELECTED ANNUAL INFORMATION

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

(dollars in thousands except per unit amounts)	2023	2022	2021
Royalty Pool Same Store Sales Growth ⁽ⁱ⁾	2.7%	7.4%	14.0%
Number of restaurants in the Royalty Pool	1,037	1,015	994
Gross sales reported by A&W restaurants in the Royalty Pool ⁽ⁱ⁾	\$1,832,069	\$1,739,377	\$1,569,377
Royalty income	\$54,962	\$52,181	\$47,081
Distributable cash generated ⁽ⁱⁱ⁾	\$42,627	\$38,614	\$36,298
Distributions and dividends declared per equivalent unit ^(iv)	\$1.920	\$1.875	\$1.740
Net income	\$40,663	\$41,389	\$37,854
Basic and diluted income per weighted average Trust Unit outstanding	\$2.006	\$2.100	\$1.938
Total assets	\$423,743	\$411,658	\$377,374
Trade Marks’ term loan	\$59,905	\$59,870	\$59,806

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

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

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

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

(dollars in thousands)	2023	2022	2021
Net cash generated from operating	\$34,183	\$44,264	\$34,113
Interest expense	(1,204)	(2,113)	(2,514)
Current income tax provision	(10,170)	(10,471)	(7,277)
Net changes in items of non-cash working capital	332	508	(159)
Financing fees paid	-	-	(175)
Interest paid	1,298	2,763	2,520
Income tax paid	18,188	3,663	9,790
Distributable cash generated	\$42,627	\$38,614	\$36,298

SEASONALITY

Sales at A&W restaurants typically fluctuate seasonally however, because of COVID-19, the impact of seasonality was less pronounced in the 2022 quarterly results. In typical years for A&W restaurants in shopping centres, sales tend to fluctuate due to, among other things, higher traffic during the back-to-school, “Black Friday” and Christmas shopping seasons. In the freestanding and other concepts of A&W restaurants, weather and summer travel, among other things, typically impact sales.

LIQUIDITY AND CAPITAL RESOURCES

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

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

The \$2,000,000 demand operating loan facility is used to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the Bank’s prime rate plus 0.4% and are repayable on demand. As at December 31, 2023, the amount of the facility available was \$2,000,000 (December 31, 2022 - \$2,000,000).

The \$60,000,000 term loan with the Bank is in the form of a banker’s acceptance. The term loan is repayable on September 10, 2026. The term loan contains covenants including the requirement to meet certain earnings before interest, taxes, depreciation, amortization and non-cash charges/income

(“EBITDA”) levels and debt to EBITDA ratios during each trailing four quarter period. Interest only is payable, providing that Trade Marks’ EBITDA tested quarterly on a trailing four quarter basis is not less than specified amounts. In the event that EBITDA is less than these specified amounts, the term loan will be fully amortized over the greater of three years and the remaining term and repayment will be by way of blended monthly instalments of principal and interest. Trade Marks was in compliance with all of its financial covenants as at February 27, 2024, December 31, 2023 and December 31, 2022.

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

Trade Marks uses an interest rate swap agreement to manage risks from fluctuations in interest rates. To manage the interest rate risk associated with the \$60,000,000 term loan, Trade Marks had entered into an interest rate swap arrangement (the “Current Swap”). Under the Current Swap, as at December 31, 2023, the term loan’s effective interest rate was 2.85% per annum (December 31, 2022 – 2.85%), comprising 1.74% per annum which is fixed under the Current Swap agreement until September 10, 2026 plus a 1.15% per annum stamping fee. The stamping fee ranges from 0.90% to 1.40%, depending on Trade Mark’s debt to EBITDA ratio.

<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

A general security agreement over the assets of Trade Marks has been provided as collateral for the demand operating loan facility and term loan. The Partnership has provided its guarantee in favour of the Bank of all of the indebtedness, covenants and obligations of Trade Marks to the Bank. Trade Marks is currently, and based upon projections, expects to remain, in compliance with all covenants related to its term loan.

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

<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

During the year ended December 31, 2023 royalty income of \$54,962,000 (2022 - \$52,181,000) was earned from Food Services of which \$4,094,000 is receivable at December 31, 2023 (December 31, 2022 - \$3,792,000). Royalty income earned during the quarter was \$17,045,000 (2022 - \$16,218,000).

During the year ended December 31, 2023, Trade Marks paid dividends to Food Services \$8,237,000 (2022 - \$7,126,000) as a result of Food Services' ownership of Trade Marks' common shares. The dividends paid to Food Services in 2023 include special dividends of \$175,000 representing the dividends that Food Services would have received on the 218,664 non-voting common shares issued to Food Services on December 7, 2023 in relation to the final consideration for the January 5, 2023 adjustment to the Royalty Pool, had they been issued on January 5, 2023. In 2022, Trade Marks paid special dividends of \$297,000 to Food Services representing the dividends that Food Services would have received on the 381,806 non-voting common shares issued to Food Services on December 8, 2022 in relation to the final consideration for the January 5, 2022 adjustment to the Royalty Pool, had they been issued on January 5, 2022.

During the year ended December 31, 2023, the Fund declared distributions payable to Food Services totaling \$2,893,000 (2022 - \$2,826,000) as a result of Food Services' ownership of Limited Voting Units. The \$241,000 distribution declared on December 7, 2023 was paid to Food Services subsequent to the period end on January 31, 2024 is reported as a current liability as at December 31, 2023 (December 31, 2022 - \$241,000).

During the year ended December 31, 2023, Trade Marks recognized an expense of \$190,000 (2022 - \$175,000) related to administrative services received from Food Services. During the fourth quarter, Trade Marks recognized an expense of \$48,000 related to administrative services received from Food Services (2022 - \$44,000), all of which was paid as at December 31, 2023 (December 31, 2022 - \$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 Current Swap as at December 31, 2023 was \$3,287,000 favourable (December 31, 2022 - \$4,481,000 favourable). The change in fair value of the swap is recorded as a loss on interest rate swap in the consolidated statements of income and comprehensive income.

FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable to Food Services, distributions payable to unitholders, income taxes payable/recoverable, the demand operating loan facility, the term loan, and interest rate 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, demand operating loan facility and the term loan as financial liabilities at amortized cost. Accounts payable and accrued liabilities and income taxes payable are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Dividends payable to Food Services and distributions payable to unitholders are recognized at the amount required to be paid. The term loan is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.
- Derivatives as financial assets/liabilities at fair value through profit or loss. The Fund's derivative is an interest rate swap with changes in fair value recorded in the consolidated statements of income.

Management estimates that the fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable to Food Services, distributions payable to unitholders, income taxes payable, demand operating loan facility and the term loan approximate their carrying values given the short term to maturity of these instruments. The fair value of the Current Swap as at December 31, 2023 was \$3,287,000 favourable (December 31, 2022 - \$4,481,000 favourable).

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

The Fund's exposure to credit risk is as indicated by the carrying amount of its accounts receivable. All of the accounts receivable as at December 31, 2023 relate to royalties due from Food Services to the Partnership which were paid in full by Food Services on January 25, 2024.

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

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

CAPITAL DISCLOSURE

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

maintain or adjust the capital structure, the Fund may adjust the amount of distributions paid to its unitholders.

DISCLOSURE CONTROLS

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

As at December 31, 2023, an evaluation of the effectiveness of the Fund's disclosure controls and procedures, as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109) issued by the Canadian Securities Administrators, was carried out under the supervision of and with the participation of management, including the CEO and CFO. Based upon that evaluation, the CEO and the CFO have concluded that as at December 31, 2023, the design and operation of these disclosure controls and procedures were effective in providing reasonable assurance that (i) material information relating to the Fund is made known to the Fund's management, including its CEO and CFO particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Fund in its annual filings, interim filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

As at December 31, 2023, an evaluation of the effectiveness of the Fund's internal controls over financial reporting, as defined in NI 52-109, was carried out under the supervision of and with the participation of management, including the CEO and CFO. Based upon that evaluation, the CEO and the CFO have concluded that as at December 31, 2023, that the Fund's internal controls over financial reporting were operating effectively.

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

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

RISKS AND UNCERTAINTIES

Economic Conditions

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

International Conflict

International conflict and other geopolitical tensions and events, including war, military action, terrorism, trade disputes, and international responses thereto have historically led to, and may in the future lead to, uncertainty or volatility in the global supply chain and financial markets. Currently, there are various factors that impact geopolitical risk and uncertainty, including but not limited to the elevated geopolitical risk exemplified by ongoing active conflicts in the Middle East, between Israel and Palestine, and in Europe, between Russia and Ukraine, as well as risks associated with China-Taiwan tensions. The imposition of strict economic sanctions by Canada, the United States, the European Union, the United Kingdom and others in response to such conflict may have a destabilizing effect on commodity prices, supply chain and global economies more broadly. Supply chain disruptions may adversely affect the business, financial condition, and results of operations for Food Services, its franchisees and the Fund. The extent and duration of international conflicts, geopolitical tensions and related international action cannot be accurately predicted and the effects of such conflicts may magnify the impact of the other risks identified herein and in the Fund's most recent Annual Information Form, available on the Fund's SEDAR+ profile at www.sedarplus.ca.

OUTLOOK

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

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

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

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

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

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

In 2021, Food Services announced that it was expanding the beverage offerings at A&W restaurants with the phased rollout of the A&W Brew Bar. The A&W Brew Bar offers a variety of frozen beverages as well as hot and cold espresso-based beverages. The A&W Brew Bar is now available in over 620 A&W restaurants across the country.

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

A&W is committed to reducing its environmental impact through conscious use of packaging, waste, energy and water. For example, high-efficiency equipment has been introduced into A&W restaurants to use less energy and A&W was the first Canadian QSR national chain to switch to the use of all paper straws in its restaurants. A&W also launched the “A&W One CupTM” nationwide in late 2023, an exchangeable cup program.

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

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

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

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

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

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

FORWARD LOOKING INFORMATION

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

The forward-looking information in this MD&A includes, but is not limited to: the expectation net cumulative refundable income tax paid will be recovered in future years when sufficient dividends are paid by Trade Marks; estimates regarding annual sales; the expectation that the Trustees will continue to review distribution levels on a regular basis and that any change in monthly distributions will be implemented with a view to maintain the continuity of uniform monthly distributions; timing for the payout of distributions; expectations regarding improvements in sales trends at the A&W restaurants in the Royalty Pool; statements regarding future adjustments to the Royalty Pool; Food Services’ expectation that the food service industry, and more particularly the QSR segment, will continue to recover and grow; the success of the A&W brand and individual franchised restaurants being paramount to the long-term success of the overall A&W system and, in turn, to the unitholders of the Fund; statements regarding the potential impact of international conflicts; Food Services’ objectives with respect to the A&W restaurants and its planned strategies to achieve those objectives; the expectation that Trade Marks will remain in compliance with all covenants related to its term debt based on current projections; the Fund’s long-term objective to maintain an annual Payout ratio at or below 100%; Food Services’ ability to continue to grow and better position it to withstand the risks associated with the current economic conditions; delivering strong results and improved market share as the QSR industry and the QSR burger market continue to grow; future introductions of new recipes and products to its plant-based line-up; a reduction in environmental impact through conscious use of packaging, waste, energy and water, and high-efficiency equipment resulting in a reduction in energy usage; Food Services’ commitment to the long-term health and success of its franchise network and the Fund; expectations for increased loyalty and enhancing performance over the long term; the potential expansion of the Pret brand across Canada; success of the Trial Phase and the Royalty being earned by the Fund on the sales of any Pret products made within A&W restaurants; and the Fund’s expectations that future distributions will continue to be funded entirely by cash flow from operations and the cash reserve; and statements regarding the stability and predictability of the operating and administrative expenses of the Fund, Trade Marks and the Partnership.

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

- there are no changes in availability of experienced management and hourly employees;
- there are no material changes in government regulations concerning menu labelling and disclosure and drive-thru restrictions;
- no publicity from any food borne illness;
- no material changes in competition;
- no material increases in food and labour costs;
- the continued availability of quality raw materials;
- continued additional franchise sales and maintenance of franchise operations;
- Food Services is able to maintain and grow the current system of franchises;
- Food Services is able to locate new retail sites in desirable locations;
- Food Services is able to obtain qualified operators to become A&W franchisees;
- existing franchisees are able to successfully operate and grow their businesses and maintain profitability;
- no material impact from new or increased sales taxes upon gross sales;
- continued availability of key personnel;
- continued ability to preserve intellectual property;
- no material litigation from guests at A&W restaurants;
- Food Services continues to pay the royalty;
- Food Services can continue to comply with its obligations under its credit arrangements;
- Trade Marks can continue to comply with its obligations and covenants under its credit arrangements;
- the Fund will receive sufficient revenue in the future (in the form of royalty payments from Food Services) to maintain the payment of monthly distributions;
- the projections for the A&W business provided by Food Services are accurate; 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 risks that affect the restaurant industry in general and the quick service segment in particular, including competition with other well-capitalized franchisors and operators of quick service restaurants;
- changes in consumer preferences that adversely affect the consumption of quick service restaurant hamburgers, chicken, fries, breakfast items or soft drinks;
- failure to anticipate and address industry trends;
- the impacts of fluctuations in consumer discretionary spending;
- negative publicity, litigation or complaints from perceived or actual food safety events or other events involving the foodservice industry in general or A&W restaurants in particular;
- changes in the availability and quality of raw materials, including A&W's natural ingredients;
- the possible lack of success of new products and advertising campaigns;
- changes in climate or increases in environmental regulation;
- changes in Food Services' ability to continue to grow same store sales, locate new retail sites in desirable locations and obtain qualified operators to become A&W franchisees;
- increases in closures of A&W restaurants adversely affecting the royalty;

- decreases in traffic at shopping centres and other retail modes;
- changes in Food Services' ability to pay the royalty due to changes in A&W franchisees' ability to generate sales and pay franchise fees and other amounts to Food Services;
- changes in government regulation that affect the restaurant industry in general or the quick service restaurant industry in particular, including franchise legislation and sales tax legislation;
- changes in the availability of key personnel, including qualified franchise operators;
- changes in the ability to enforce or maintain intellectual property;
- technological breakdowns, cybersecurity breaches and the security of consumer and personal information;
- the amplificatory effects of media and social media;
- risks related to global health crises, disease outbreaks and other unexpected events which could affect Food Services' and A&W franchisees' supply chains, business continuity, and financial results;
- risks related to international conflicts;
- risks related to inflation;
- the availability and adequacy of insurance coverage;
- occurrence of catastrophic events; and
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates and household debt, political uncertainty, interest rates, currency exchange rates or derivative and commodity prices.

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

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

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

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

A&W Revenue Royalties Income Fund

Consolidated Financial Statements
December 31, 2023 and 2022
(in thousands of dollars)



Independent auditor's report

To the Unitholders of A&W Revenue Royalties Income Fund

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of A&W Revenue Royalties Income Fund and its subsidiaries (together, the Fund) as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

What we have audited

The Fund's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2023 and 2022;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of unitholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were

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



addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="254 556 873 598">Impairment assessment of the intangible assets</p> <p data-bbox="254 619 873 745"><i>Refer to note 3 – Significant accounting policies, judgments and estimation uncertainty and note 4 – Intangible asset to the consolidated financial statements.</i></p> <p data-bbox="254 777 873 1039">The Fund had \$402 million of intangible assets as at December 31, 2023. The intangible assets are the A&W trade-marks which have an indefinite life. An impairment assessment is conducted annually at the year-end balance sheet date or earlier if events and circumstances dictate. An impairment loss is recognized if the carrying amount of the intangible assets exceeds its recoverable amount.</p> <p data-bbox="254 1071 873 1417">The recoverable amount is the higher of the intangible assets' fair value less costs to sell and value-in-use. Management used a value-in-use model to determine the recoverable amount of the intangible assets. The assumptions applied by management in estimating the recoverable amount included projected royalties from the gross sales of A&W restaurants in the Royalty Pool, the revenue growth rates, terminal growth rate and the discount rate. No impairment loss was recorded during the year.</p> <p data-bbox="254 1449 873 1768">We considered this a key audit matter due to the significant judgments made by management in developing assumptions to determine the recoverable amount as at December 31, 2023. This in turn resulted in significant audit effort and subjectivity in performing audit procedures to test the recoverable amount determined by management. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.</p>	<p data-bbox="873 556 1529 619">Our approach to addressing the matter included the following procedures, among others:</p> <ul data-bbox="873 651 1529 1522" style="list-style-type: none"><li data-bbox="873 651 1529 787">• Tested how management determined the recoverable amount of the intangible assets as at December 31, 2023, which included the following:<ul data-bbox="941 819 1529 1396" style="list-style-type: none"><li data-bbox="941 819 1529 913">– Evaluated the appropriateness of the method applied and the value-in-use model.<li data-bbox="941 934 1529 1165">– Tested the reasonableness of the projected royalties from the gross sales of A&W restaurants in the Royalty Pool, revenue growth rates and terminal growth rate by comparing them to the current and past performance of the A&W restaurants in the Royalty Pool.<li data-bbox="941 1186 1529 1312">– With the assistance of professionals with specialized skill and knowledge in the field of valuation, assessed the appropriateness of the discount rate applied.<li data-bbox="941 1333 1529 1396">– Tested underlying data used in the value-in-use model.<li data-bbox="873 1428 1529 1522">• Examined the disclosures made in the consolidated financial statements related to the intangible assets.



Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



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

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

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

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



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

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
February 27, 2024

A&W Revenue Royalties Income Fund

Consolidated Balance Sheets

As at December 31, 2023 and 2022

(in thousands of dollars)

	Note	2023 \$	2022 \$
Assets			
Current assets			
Cash and cash equivalents		12,156	17,109
Accounts receivable	14	4,094	3,792
Prepaid interest		941	847
Income taxes recoverable		1,236	-
		<u>18,427</u>	<u>21,748</u>
Non-current assets			
Derivative financial assets	5	3,287	4,481
Intangible asset	4	<u>402,029</u>	<u>385,429</u>
Total assets		<u>423,743</u>	<u>411,658</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	14	552	583
Distributions payable to Unitholders	12, 14	2,575	2,575
Income taxes payable		-	6,190
		<u>3,127</u>	<u>9,348</u>
Non-current liabilities			
Term loan	5	59,905	59,870
Deferred income tax liabilities	7	<u>16,340</u>	<u>16,196</u>
		<u>79,372</u>	<u>85,414</u>
Unitholders' Equity			
Trust Units	8	398,884	398,884
Accumulated deficit		<u>(176,516)</u>	<u>(177,900)</u>
		222,368	220,984
Non-controlling interest		<u>122,003</u>	<u>105,260</u>
Total equity		<u>344,371</u>	<u>326,244</u>
Total liabilities and equity		<u>423,743</u>	<u>411,658</u>
Subsequent events	17		

On behalf of the Board of Trustees

Trustee

Trustee

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

A&W Revenue Royalties Income Fund
Consolidated Statements of Income and Comprehensive Income
For the years ended December 31, 2023 and 2022

(in thousands of dollars except per Unit amounts)

	Note	2023 \$	2022 \$
Royalty income	14	54,962	52,181
Expenses			
General and administrative		961	983
Interest expense			
Term loan and other	6	1,204	2,113
Amortization of financing fees		34	67
		2,199	3,163
Operating income		52,763	49,018
Loss (gain) on interest rate swaps	5	1,194	(4,904)
Income before income taxes		51,569	53,922
Provision for income taxes			
Current			
Current income tax provision	7	10,170	10,471
Refundable income tax	7	592	1,732
Deferred	7	144	330
		10,906	12,533
Net income and comprehensive income for the year		40,663	41,389
Net income and comprehensive income attributable to			
Unitholders of A&W Revenue Royalties Income Fund		32,283	33,801
A&W Food Services of Canada Inc.'s non-controlling interest in A&W Trade Marks Inc.		8,380	7,588
		40,663	41,389
Basic and diluted income per weighted average Trust Unit outstanding		2.006	2.100
Weighted average number of Trust Units outstanding		16,092,693	16,092,693

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

A&W Revenue Royalties Income Fund

Consolidated Statements of Unitholders' Equity

For the years ended December 31, 2023 and 2022

(in thousands of dollars)

	Note	Trust Units \$	Accumulated deficit \$	Total \$	Non- controlling interest \$	Total equity \$
Balance as at December 31, 2021		398,884	(181,527)	217,357	80,240	297,597
Net income and comprehensive income for the year		-	33,801	33,801	7,588	41,389
Distributions on Trust Units	12	-	(30,174)	(30,174)	-	(30,174)
Dividends on common shares	14	-	-	-	(7,126)	(7,126)
Issue of common shares	4	-	-	-	24,558	24,558
Balance as at December 31, 2022		398,884	(177,900)	220,984	105,260	326,244
Net income and comprehensive income for the year		-	32,283	32,283	8,380	40,663
Distributions on Trust Units	12	-	(30,899)	(30,899)	-	(30,899)
Dividends on common shares	14	-	-	-	(8,237)	(8,237)
Issue of common shares	4	-	-	-	16,600	16,600
Balance as at December 31, 2023		398,884	(176,516)	222,368	122,003	344,371

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

A&W Revenue Royalties Income Fund

Consolidated Statements of Cash Flows

For the years ended December 31, 2023 and 2022

(in thousands of dollars)

	Note	2023 \$	2022 \$
Cash provided by (used in)			
Operating activities			
Net income and comprehensive income for the year		40,663	41,389
Adjustments for:			
Realized gain on interest rate swap	5	-	(983)
Unrealized loss (gain) on interest rate swap		1,194	(3,921)
Amortization of financing fees		34	67
Interest expense	6	1,204	2,113
Deferred income tax expense	7	144	330
Refundable income tax expense	7	592	1,732
Current income tax provision	7	10,170	10,471
Net changes in items of non-cash working capital	11	(332)	(508)
Interest paid		(1,298)	(2,763)
Income taxes paid		(18,188)	(3,663)
Net cash provided by operating activities		34,183	44,264
Financing activities			
Dividends paid to non-controlling interest	14	(8,237)	(7,126)
Distributions paid to Unitholders		(30,899)	(30,093)
Net cash used in financing activities		(39,136)	(37,219)
(Decrease) increase in cash and cash equivalents during the year		(4,953)	7,045
Cash and cash equivalents – Beginning of year		17,109	10,064
Cash and cash equivalents – End of year		12,156	17,109

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

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(figures in tables are expressed in thousands of dollars)

1 General information

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

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

2 Basis of preparation

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

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

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

These consolidated financial statements were authorized for issue by the Board of Trustees of the Fund on February 27, 2024.

3 Material accounting policy information

Basis of measurement

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

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(figures in tables are expressed in thousands of dollars)

Consolidation

The consolidated financial statements include the accounts of the Fund and its 79.0% interest in Trade Marks and its subsidiary, the Partnership (together, the subsidiaries). The Fund controls its subsidiaries when it is exposed to or it has rights to variable returns from its involvement with its subsidiaries and has the ability to affect those returns through its power over the subsidiaries.

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

Non-controlling interest

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

Functional and presentation currency

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

Use of estimates

The preparation of consolidated financial statements in conformity with IFRS Accounting Standards requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant areas requiring the use of management estimates are the fair value of the interest rate swaps and the impairment of testing of intangible asset. The fair value of the interest rate swaps estimate is not a "critical accounting estimate" as (i) it does not require the Fund to make assumptions about matters that are highly uncertain at the time the estimate is made, and (ii) a different estimate that could have been used, or changes in the accounting estimate that are reasonably likely to occur from period-to-period, would not have had a material impact on the Fund's financial condition, changes in financial condition or financial performance. Estimates may differ from actuals and those differences could be material.

Cash and cash equivalents

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

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(figures in tables are expressed in thousands of dollars)

Accounts receivable

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

Intangible asset – trade-marks

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

Impairment of financial assets

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

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

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

Income per Fund Trust Unit

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

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(figures in tables are expressed in thousands of dollars)

Interest rate swaps

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

Income taxes

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

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

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

Revenue recognition

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

Interest

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

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(figures in tables are expressed in thousands of dollars)

Financial instruments

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

The Fund classifies its financial instruments in the following categories:

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

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

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

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

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

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(figures in tables are expressed in thousands of dollars)

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

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

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

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

4 Intangible asset

	Number of new restaurants	Number of closed restaurants	Number of restaurants in Royalty Pool	Amount \$
Balance as at December 31, 2021	1,151	(157)	994	360,871
Annual adjustment January 5, 2022	34	(13)	21	24,558
Balance as at December 31, 2022	1,185	(170)	1,015	385,429
Annual adjustment January 5, 2023	29	(7)	22	16,600
Balance as at December 31, 2023	1,214	(177)	1,037	402,029

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(figures in tables are expressed in thousands of dollars)

Annual gross sales reported by the 1037 (2022 – 1,015) A&W restaurants in the Royalty Pool were \$1,832,069,000 (2022 – \$1,739,377,000).

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

Annual adjustment to the Royalty Pool

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

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

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

The Fund performed its annual impairment test on the indefinite life intangible asset as at December 31, 2023, using a value-in-use model to determine the recoverable amount of the indefinite life intangible asset. The calculations were based on the Fund's and Food Services' internal forecasts and represent management's best estimates at a specific point in time, and, as a result, are subject to estimation uncertainty. In arriving at its estimated future cash flows, the Fund and Food Services considered past experience, economic trends and forecasted industry trends. The Fund projected royalties from the gross sales of A&W restaurants in the Royalty Pool, gross profit and cash flows for a period of five years and extrapolated cash flows beyond that using an estimated terminal growth rate of 2% (2022 – 2%). The Fund assumed a pre-tax discount rate of 12.6% (2022 – 12.0%) in order to calculate the present value of its projected cash flows. As a result of this test, it was concluded that no impairment was required.

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(figures in tables are expressed in thousands of dollars)

The Fund performed a sensitivity analysis on the most sensitive assumptions, which were revenue growth rates (2%) and the discount rate. A 1% increase in the discount rate would have decreased the amount by which the recoverable amount exceeded the carrying amount by approximately \$47,000,000, and would not have resulted in impairment. A 1% decrease in the estimated revenue growth rate would have decreased the amount by which the recoverable amount exceeded the carrying amount by approximately \$69,000,000 and would not have resulted in impairment.

5 Term loan and operating loan facility

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

The \$2,000,000 demand operating loan facility is used to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the Bank's prime rate plus 0.4% and are repayable on demand. As at December 31, 2023, the amount of the facility available was \$2,000,000 (December 31, 2022 – \$2,000,000).

The \$60,000,000 term loan with the Bank is in the form of a banker's acceptance. The term loan is repayable on September 10, 2026. The term loan contains covenants, including the requirement to meet certain earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) levels and debt to EBITDA ratios during each trailing four-quarter period. Interest only is payable monthly, providing that Trade Marks' EBITDA tested quarterly on a trailing four-quarter basis is not less than specified amounts. In the event that EBITDA is less than these specified amounts, the term loan will be fully amortized over the greater of three years and the remaining term and repayment will be by way of blended monthly instalments of principal and interest. Trade Marks was in compliance with all of its financial covenants as at February 27, 2024, December 31, 2023 and December 31, 2022.

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

Trade Marks uses interest rate swap agreements to manage risks from fluctuations in interest rates. To manage the interest rate risk associated with the \$60,000,000 term loan, Trade Marks entered into an interest rate swap arrangement (the Current Swap).

Under the Current Swap, which was effective December 22, 2022, the term loan's effective interest rate is 2.85% per annum, comprising of 1.74% per annum, which is fixed under the Current Swap agreement until September 10, 2026 plus a 1.15% per annum stamping fee. The stamping fee ranges from 0.90% to 1.40%, depending on Trade Mark's debt to EBITDA ratio. The fair value of the Current Swap as at December 31, 2023 was \$3,287,000 favourable (December 31, 2022 – \$4,481,000 favourable) and the change in fair value is recorded in the consolidated statements of income and comprehensive income.

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(figures in tables are expressed in thousands of dollars)

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

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

	2023 \$	2022 \$
Gain on Matured Swap	-	983
(Loss) gain on Current Swap	(1,194)	3,921
	<u>(1,194)</u>	<u>4,904</u>

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

The term loan comprises:

	2023 \$	2022 \$
Term loan	60,000	60,000
Financing fees	(95)	(130)
	<u>59,905</u>	<u>59,870</u>

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(figures in tables are expressed in thousands of dollars)

6 Term loan and other interest

	2023 \$	2022 \$
Interest income – cash	(534)	(254)
Standby fees	5	5
Interest expense – term loan	1,733	2,362
	<u>1,204</u>	<u>2,113</u>

7 Income taxes

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

	2023	2022
Statutory combined federal and provincial income tax rates on investment income	20%	20%
	\$	\$
Provision for income taxes based on statutory income tax rates	10,314	10,801
Refundable tax	592	1,732
Provision for income taxes	<u>10,906</u>	<u>12,533</u>

- b) Deferred income tax liabilities comprise the following:

	2023 \$	2022 \$
Timing difference of income of A&W Trade Marks Limited Partnership	(752)	(654)
Fair value of interest rate swap	(657)	(896)
Intangible asset	(14,931)	(14,646)
	<u>(16,340)</u>	<u>(16,196)</u>

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(figures in tables are expressed in thousands of dollars)

8 Trust Units

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

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

As at December 31, 2023, Food Services owned 21.0% (2022 – 19.1%) of the common shares of Trade Marks and 9.4% (2022 – 9.4%) of the Trust Units. Taken together, Food Services' ownership of exchangeable common shares of Trade Marks and Trust Units equated to Food Services owning 28.4% (2022 – 26.7%) of the total outstanding voting securities of the Fund on a fully diluted basis.

	Number of Units	Number of Limited Voting Units	Total number of Trust Units
Balance as at December 31, 2021	14,585,673	1,507,020	16,092,693
Balance as at December 31, 2022	14,585,673	1,507,020	16,092,693
Balance as at December 31, 2023	14,585,673	1,507,020	16,092,693

	Equity – Units	Equity – Limited Voting Units	Total equity – Trust Units
Balance as at December 31, 2021	351,925	46,959	398,884
Balance as at December 31, 2022	351,925	46,959	398,884
Balance as at December 31, 2023	351,925	46,959	398,884

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(figures in tables are expressed in thousands of dollars)

9 A&W Trade Marks Inc.

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

	The Fund			Food Services			Total	
	Number of shares	Amount \$	%	Number of shares	Amount \$	%	Number of shares	Amount \$
Balance as at December 31, 2021	32,185,311	227,798	83.6	6,330,981	81,191	16.4	38,516,292	308,989
January 5, 2022 adjustment to the Royalty Pool	-	-	(2.7)	1,270,460	24,558	2.7	1,270,460	24,558
Balance as at December 31, 2022	32,185,311	227,798	80.9	7,601,441	105,749	19.1	39,786,752	333,547
January 5, 2023 adjustment to the Royalty Pool	-	-	(1.9)	979,400	16,600	1.9	979,400	16,600
Balance as at December 31, 2023	32,185,311	227,798	79.0	8,580,841	122,349	21.0	40,766,152	350,147

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

The summarized financial information of Trade Marks is as follows:

	2023 \$	2022 \$
Current assets	14,634	19,189
Non-current assets	405,316	389,909
Current liabilities	683	6,772
Non-current liabilities	76,245	76,066
Revenue	54,962	52,181
Net income and comprehensive income	40,663	41,389

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(figures in tables are expressed in thousands of dollars)

10 Ownership of the Fund

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

	2023		2022	
	Number of units	%	Number of units	%
Units held by public unitholders (note 8)	14,585,673	71.6	14,585,673	73.3
Limited Voting Units held by Food Services (note 8)	1,507,020	7.4	1,507,020	7.6
Number of Trust Units issuable on exchange of securities of Trade Marks held by Food Services (note 9)	4,290,421	21.0	3,800,721	19.1
Total equivalent units	20,383,114	100.0	19,893,414	100.0

11 Working capital

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

	2023 \$	2022 \$
Accounts receivable	(302)	(460)
Accounts payable and accrued liabilities	(30)	(48)
	<u>(332)</u>	<u>(508)</u>

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(figures in tables are expressed in thousands of dollars)

12 Distributions

During the year ended December 31, 2023, the Fund declared distributions to its Unitholders of \$30,899,000 or \$1.92 per Unit (2022 – \$30,174,000 or \$1.875 per Unit). The record dates and amounts of these distributions are as follows:

Month	Record date	Amount \$	Per Unit \$
January 2023	February 15, 2023	2,575	0.160
February 2023	March 15, 2023	2,575	0.160
March 2023	April 15, 2023	2,575	0.160
April 2023	May 15, 2023	2,575	0.160
May 2023	June 15, 2023	2,575	0.160
June 2023	July 15, 2023	2,575	0.160
July 2023	August 15, 2023	2,574	0.160
August 2023	September 15, 2023	2,575	0.160
September 2023	October 15, 2023	2,575	0.160
October 2023	November 15, 2023	2,575	0.160
November 2023	December 15, 2023	2,575	0.160
December 2023	December 31, 2023	2,575	0.160
		<hr/>	
		30,899	1.920

The December 2023 distribution was declared on December 7, 2023 and paid on January 31, 2024, and was reported as a current liability as at December 31, 2023. The December 2022 distribution of \$2,575,000 was declared on December 8, 2022 and paid on January 31, 2023 and was reported as a current liability as at December 31, 2022.

13 Compensation to key management

Key management personnel are the Trustees of the Fund and Directors of Trade Marks. During the year, the Trustees and Directors earned \$135,000 (2022 – \$138,000).

14 Related party transactions and balances

During the year, royalty income of \$54,962,000 (2022 – \$52,181,000) was earned from Food Services, of which \$4,094,000 (2022 – \$3,792,000) was receivable from Food Services as at December 31, 2023.

During the year, Trade Marks paid dividends to Food Services of \$8,237,000 (December 31, 2022 – \$7,126,000). The dividends paid to Food Services in 2023 include special dividends of \$175,000 representing the dividends that Food Services would have received on the 218,664 non-voting common shares issued to Food Services on December 7, 2023 in relation to the final consideration for the January 5, 2023 adjustment to the Royalty Pool (note 4), had they been issued on January 5, 2023. In 2022, Trade Marks paid special dividends of \$297,000 to Food Services representing the dividends that Food Services would have received on the 381,806 non-voting common shares issued to Food Services on December 8, 2022 in relation to the final consideration for the January 5, 2022 adjustment to the Royalty Pool had they been issued on January 5, 2022.

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(figures in tables are expressed in thousands of dollars)

During the year, the Fund declared distributions payable to Food Services of \$2,893,000 (December 31, 2022 – \$2,826,000) as a result of Food Services' ownership of Limited Voting Units in the Fund. The \$241,000 distribution declared on December 7, 2023 paid to Food Services subsequent to the period-end on January 31, 2024 was reported as a current liability as at December 31, 2023 (December 31, 2022 – \$241,000).

On April 8, 2022, Trade Marks and Food Services entered into an agreement for Food Services to provide administrative services to Trade Marks (the Services Agreement). Under the terms of the Services Agreement, Food Services is entitled to be paid an annual fee, on a quarterly basis, for the services provided in each fiscal year in an amount approved by the board of directors of Trade Marks that is based on a prescribed time and effort computation. The Services Agreement will remain in effect for the duration of the Administration Agreement dated February 15, 2002 between Trade Marks and the Fund, unless terminated by either party by giving five years advance written notice to the other party. During the year, Trade Marks recognized an expense of \$190,000 (December 31, 2022 – \$175,000) related to administrative and advisory services received from Food Services.

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

15 Financial instruments and financial risk management

Fair values

Management estimates that the fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, distributions payable to Unitholders, the demand operating loan facility and the term loan approximate their carrying values given the short term to maturity of these instruments. The fair value of the Current Swap as at December 31, 2023 was \$3,287,000 favourable (December 31, 2022 – \$4,481,000 favourable).

Fair value estimation

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

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

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

A&W Revenue Royalties Income Fund

Notes to Consolidated Financial Statements

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(figures in tables are expressed in thousands of dollars)

Credit risk

The Fund's exposure to credit risk is as indicated by the carrying amount of its accounts receivable. All of the accounts receivable relate to royalties due from Food Services to the Partnership, which were paid on January 25, 2024.

Liquidity risk

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

Interest rate risk

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

16 Capital disclosures

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

17 Subsequent events

On January 5, 2024, the number of A&W restaurants in the Royalty Pool was increased by 19 new restaurants less 9 restaurants that permanently closed. The initial consideration for the estimated royalty revenue from the net 10 restaurants added to the Royalty Pool is \$8,307,000. The Partnership paid Food Services \$6,646,000 by issuance of 218,029 LP units, representing 80% of the initial consideration. The LP units were exchanged for 436,058 non-voting common shares of Trade Marks. The remaining 20% or \$1,661,000 and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be paid in December 2024 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks.

On February 2, 2024, Trade Marks declared dividends on its voting and non-voting common shares of \$3,296,000 payable to Food Services and the Fund on February 29, 2024.

On February 2, 2024, the Fund declared a distribution to Unitholders of \$0.160 per Trust Unit or \$2,575,000, payable on February 29, 2024 to Unitholders of record as at February 15, 2024.

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

Kevin Mahoney ⁽¹⁾⁽²⁾
Fern Glowinsky ⁽¹⁾⁽²⁾
Andrew W. Dunn ⁽¹⁾⁽²⁾

A&W Trade Marks Inc. Board of Directors

Kevin Mahoney (Chairman)
Fern Glowinsky
Andrew W. Dunn
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.

Investor Enquiries

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