

A&W Revenue Royalties Income Fund

Q1

First Quarter Report to Unitholders
for the period ended
March 24, 2024



A&W Revenue Royalties Income Fund Management Discussion and Analysis

This Management Discussion and Analysis (“MD&A”) covers the first quarter period from January 1, 2024 to March 24, 2024. This MD&A is dated May 8, 2024. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of the A&W Revenue Royalties Income Fund (the “Fund”) for the quarter ended March 24, 2024 and the audited annual consolidated financial statements of the Fund for the year ended December 31, 2023. Readers are also referred to the unaudited interim condensed consolidated financial statements of A&W Food Services of Canada Inc. (“Food Services”) for the quarter ended March 24, 2024 and the audited annual consolidated financial statements of Food Services for the 52 week year ended December 31, 2023. Such financial statements and additional information about the Fund and Food Services are available at www.sedarplus.com or www.awincomefund.ca.

The financial results reported in this MD&A are derived from the unaudited interim condensed consolidated financial statements of the Fund, which are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS” or “IFRS Accounting Standards”). The accounting policies applied in the unaudited interim condensed consolidated financial statements and this MD&A are consistent with those followed in the preparation of the Fund’s annual consolidated financial statements for the year ended December 31, 2023.

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 and therefore the Fund’s first quarter of 2024 ended March 24, 2024 (2023 – March 26, 2023), 12 weeks after Food Services’ fiscal year end. Readers should be aware that the 2024 quarterly results are not directly comparable to the 2023 quarterly results, as there were 84 days of sales in Q1 2024 compared to 85 days of sales in Q1 2023. Royalty Pool Same Store Sales Growth is based on an equal number of days in the quarter.

KEY UPDATES

- Royalty income increased by 1.0% in Q1 2024 as compared to Q1 2023.
- Royalty Pool Same Store Sales Growth⁽ⁱ⁾ was +0.6% for Q1 2024 as compared to Q1 2023.

⁽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 Jan 1, 2024 to Mar 24, 2024	Period from Jan 1, 2023 to Mar 26, 2023
Royalty Pool Same Store Sales Growth ⁽ⁱ⁾	0.6%	6.1%
Number of restaurants in the Royalty Pool	1,047	1,037
Gross sales reported by A&W restaurants in the Royalty Pool ⁽ⁱ⁾	\$385,097	\$381,298
Royalty income	\$11,553	\$11,439
General and administrative expenses	\$237	\$249
Term loan and other interest (net)	\$301	\$305
Current income tax provision	\$3,028	\$2,813
Distributable cash generated ⁽ⁱⁱ⁾	\$7,987	\$8,072
Number of equivalent units ⁽ⁱⁱⁱ⁾	20,655,650	20,368,874
Distributable cash per equivalent unit ^(iv)	\$0.387	\$0.396
Distributions and dividends declared per equivalent unit ^(iv)	\$0.320	\$0.320
Distributions and dividends declared and accrued per equivalent unit ^(iv)	\$0.441	\$0.447
Payout ratio ^(iv)	114.0%	112.9%
Net cash generated from operating activities	\$9,161	\$2,298
Net income ^(v)	\$8,835	\$7,573

⁽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 2024 is calculated on a fully-diluted basis and includes the 54,507 LP units (as defined below) that are exchangeable for 109,014 common shares of Trade Marks representing the remaining 20% of the initial consideration for the January 5, 2024 adjustment to the Royalty Pool (as defined below), which LP units are held back until the number of LP units is determined in December 2024 based on the actual annual sales reported by the new restaurants. See “Adjustment to the Royalty

Pool”. The number of equivalent units in 2023 is calculated on a fully-diluted basis and includes 95,092 LP units, exchangeable for 190,184 common shares of Trade Marks representing the remaining 20% of the initial consideration for the January 5, 2023 adjustment to the Royalty Pool but does not include the adjustment to increase the final consideration by 14,240 LP units, equivalent to 28,480 common shares of Trade Marks, made in December 2023 based on the actual system sales for the A&W Restaurants added to the Royalty Pool as part of the January 5, 2023 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 swap, 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 Jan 1, 2024 to Mar 24, 2024	Period from Jan 1, 2023 to Mar 26, 2023
Net cash generated from operating activities	\$9,161	\$2,298
Term loan and other interest (net)	(301)	(305)
Current income tax provision	(3,028)	(2,813)
Net changes in items of non-cash working capital	(190)	330
Interest paid	443	475
Interest received	(98)	(101)
Income tax paid	2,000	8,188
Distributable cash generated	\$7,987	\$8,072

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 reflects the change in gross sales of A&W restaurants in the Royalty Pool that operated during the entirety of the first quarters ending March 24, 2024 and March 26, 2023, 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

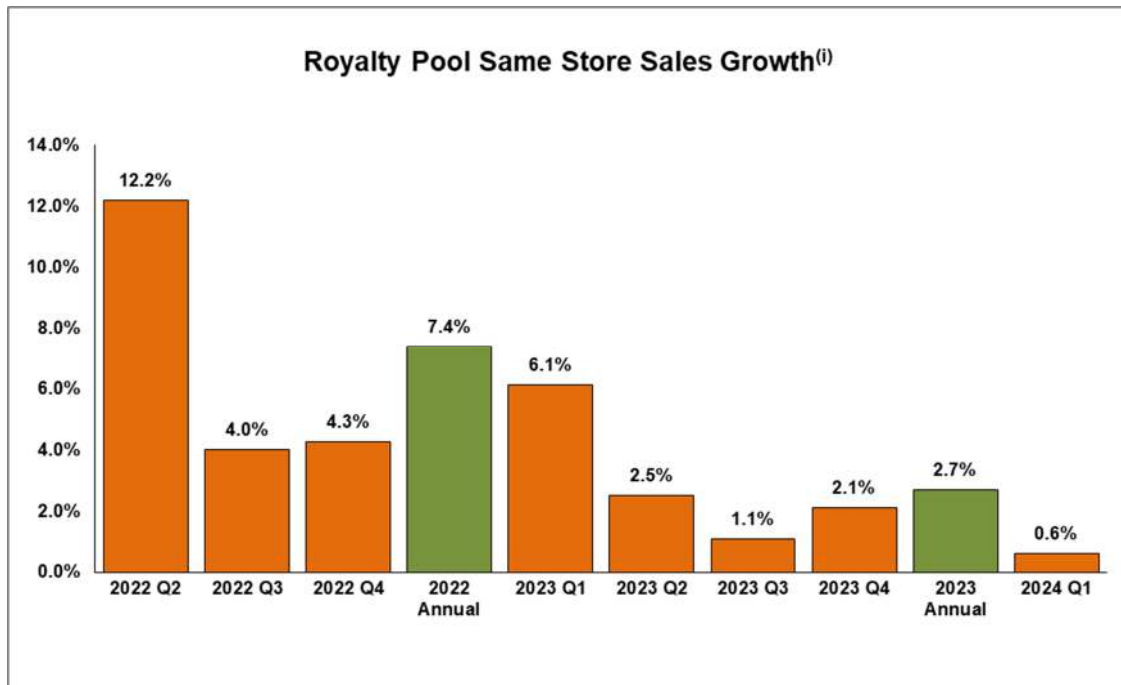
Royalty Pool Same Store Sales Growth⁽ⁱ⁾ for the first quarter of 2024 was +0.6% as compared to the same quarter of 2023. Royalty Pool Same Store Sales Growth is a function of changes in guest counts and check size, both of which are impacted by sales mix and menu price changes.

The Q1 2024 Royalty Pool Same Store Sales Growth⁽ⁱ⁾ of +0.6% was a product of an increase in average check size due to industry-wide inflation on goods, services, and labour, partially offset by a decline in guest traffic. Food Services believes that the decline in guest traffic is primarily attributable to increased interest rates and inflation, which have impacted consumer discretionary spending. In response to these economic conditions, Food Services continues to seek new and innovative ways to offer A&W’s guests a delicious and affordable experience and in turn increase guest traffic.

Gross sales reported by A&W restaurants in the Royalty Pool⁽ⁱ⁾ for the first quarter of 2024 were \$385,097,000, an 1.0% increase against gross sales of \$381,298,000 for the first quarter of 2023.

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 10 net new restaurants added to the Royalty Pool on January 5, 2024. The increase was partially offset by there being one day less in the first quarter of 2024 as compared to the first quarter of 2023. 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 March 24, 2024, Food Services owned the equivalent of 29.2% (December 31, 2023 – 28.4%) 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 2024 annual adjustment to the Royalty Pool took place on January 5, 2024. The number of A&W restaurants in the Royalty Pool was increased by 19 new restaurants less nine restaurants that permanently closed. The estimated annual sales of the 19 new A&W restaurants were \$28,626,000 at the time they were added to the Royalty Pool and annual sales for the 9 permanently closed restaurants were \$5,144,000 based on their sales during the first year such restaurants were included in the Royalty Pool. The initial consideration for the estimated additional royalty stream was \$8,307,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the Units for the 20 trading days ended October 30, 2023. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$6,646,000, by issuance of 218,029 LP units which were subsequently exchanged for 436,058 non-voting common shares of Trade Marks. The

remaining consideration payable to Food Services for the January 5, 2024 adjustment to the Royalty Pool of \$1,661,000 is to be paid by issuance of additional LP units, which issuance is held back until the number of LP units is determined in December 2024 based on the actual annual sales reported by the new restaurants. The Fund has recorded the \$1,661,000 as a current liability as at March 24, 2024 (December 31, 2023 - \$nil). The actual amount of the consideration paid in December 2024 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

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, 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⁾	-	-	(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
January 5, 2024 adjustment to the Royalty Pool ⁽²⁾	-	-	(0.9)	436,058	6,646	0.9	436,058	6,646
Balance as at March 24, 2024	32,185,311	227,798	78.1	9,016,899	128,995	21.9	41,202,210	356,793

⁽¹⁾ 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.

⁽²⁾ The number of common shares does not include any LP units exchangeable for common shares of Trade Marks in respect of the remaining consideration payable to Food Services for the January 5, 2024 adjustment to the Royalty Pool, which LP units, if any, are held back until the number of LP units is determined in December 2024 based on the actual annual sales reported by the new restaurants. See "Adjustment to the Royalty Pool".

OWNERSHIP OF THE FUND

The table below shows the ownership of the Fund as of March 24, 2024 and December 31, 2023 on a fully-diluted basis, where the ownership of the Fund as at March 24, 2024 includes 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 to Food Services in December 2024.

	March 24, 2024		December 31, 2023	
	Number of units	%	Number of units	%
Units held by public unitholders	14,585,673	70.6	14,585,673	71.6
Limited Voting Units held by Food Services ⁽¹⁾	1,507,020	7.3	1,507,020	7.4
Number of Trust Units issuable upon exchange of securities of Trade Marks held by Food Services ⁽²⁾	4,562,957	22.1	4,290,421	21.0
Total equivalent units	20,655,650	100.0	20,383,114	100.0

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

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

FINANCIAL RESULTS

INCOME

Royalty income for the first quarter of 2024 was \$11,553,000 based on Gross sales reported by restaurants in the Royalty Pool⁽ⁱ⁾ of \$385,097,000, compared to royalty income of \$11,439,000 and Gross sales reported by A&W restaurants in the Royalty Pool⁽ⁱ⁾ of \$381,298,000 for the first quarter of 2023.

The increase in royalty income is driven by the Royalty Pool Same Store Sales Growth and the gross sales from the 10 net new restaurants added to the Royalty Pool on January 5, 2024. 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 Jan 1, 2024 to Mar 24, 2024	Period from Jan 1, 2023 to Mar 26, 2023
General and administrative expenses	\$237	\$249
Term loan and other interest (net)	\$301	\$305

General and administrative expenses and term loan and other interest (net) are consistent year over year. 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 Swap” and

“Liquidity and Capital Resources”.

UNREALIZED GAIN/LOSS ON INTEREST RATE SWAP

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 “Swap”). See “Liquidity and Capital Resources”.

The Fund’s net income included unrealized gains and losses on the 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. The unrealized gain on the Swap for the first quarter of 2024 was \$247,000 compared to an unrealized loss of \$1,295,000 for the first quarter of 2023.

INCOME TAXES

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

(dollars in thousands)	Period from Jan 1, 2024 to Mar 24, 2024	Period from Jan 1, 2023 to Mar 26, 2023
Current		
Current income tax provision	\$3,028	\$2,813
Refundable income tax	168	93
Deferred	(777)	(897)
Total provision for income taxes	text-align: right;"> \$2,419	text-align: right;">\$2,009

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% (2023 – 20.0%), plus an additional tax of 30.67% (2023 – 30.67%) on investment income which is refundable at a rate of 38.33% (2023 – 38.33%) for each dollar Trade Marks pays out in taxable dividends to its shareholders. Trade Marks’ provision for income taxes for 2024 includes a payable of refundable income tax of \$168,000 based on its taxable income and dividends paid in 2024. 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 Jan 1, 2024 to Mar 24, 2024	Period from Jan 1, 2023 to Mar 26, 2023
Net income and comprehensive income attributable to public unitholders of the Fund	\$6,262	\$5,457
Net income and comprehensive income attributable to Food Services' ownership of Limited Voting Units	647	564
Net income and comprehensive income attributable to Food Services' non-controlling interest that arises from Food Services' ownership of common shares of Trade Marks	1,926	1,552
Total net income and comprehensive income	\$8,835	\$7,573

DISTRIBUTABLE CASH

(dollars in thousands)	Period from Jan 1, 2024 to Mar 24, 2024	Period from Jan 1, 2023 to Mar 26, 2023
Distributable cash generated ⁽ⁱⁱ⁾	\$7,987	\$8,072
Number of equivalent units	20,655,650	20,368,874
Distributable cash per equivalent unit ^(iv)	\$0.387	\$0.396
Distributions and dividends declared per equivalent unit ^{(i)(iv)}	\$0.320	\$0.320
Distributions and dividends declared and accrued per equivalent unit ^(iv)	\$0.441	\$0.447
Payout ratio ^(iv)	114.0%	112.9%

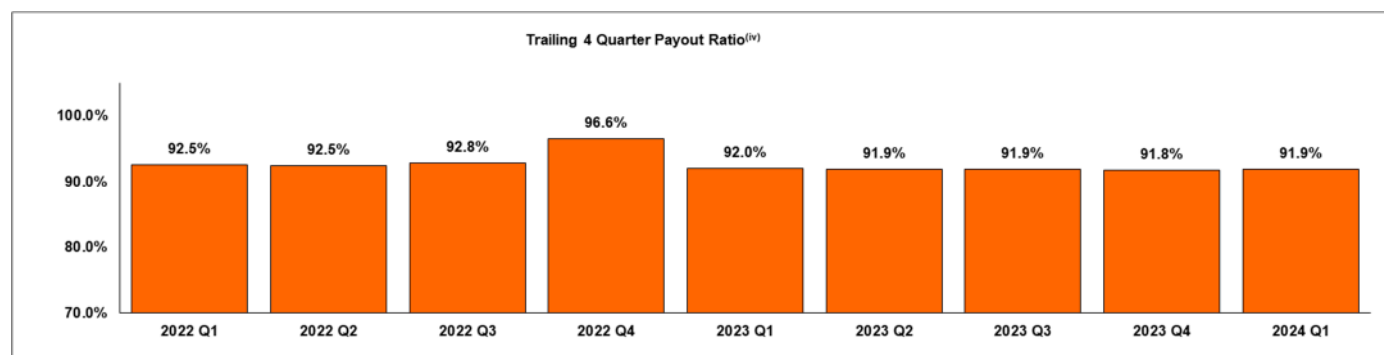
Distributable cash generated⁽ⁱⁱ⁾ in the first quarter of 2024 to pay distributions to unitholders and dividends to Food Services was \$7,987,000 compared to \$8,072,000 in the first quarter of 2023. The \$85,000 decrease in Distributable cash generated⁽ⁱⁱ⁾ was attributable to the \$215,000 increase in the current tax expense, partially offset by the \$114,000 increase in royalty income and \$16,000 decrease in expenses. The increase in the current tax expense in 2024 is largely driven by timing differences related to when income from the Partnership is captured in Trade Mark's taxable income. Refer to the "Income" and "Expenses" sections above for explanations on the movement in royalty income and expenses.

Distributable cash per equivalent unit^(iv) decreased by 0.9¢ to 38.7¢ per Unit in the first quarter of 2024 from 39.6¢ per Unit for the first quarter of 2023. The decrease in Distributable cash per equivalent unit is a result of the decrease in Distributable cash generated discussed above and the increase in the number of equivalent units that is a result of the 2024 annual adjustment to the Royalty Pool. (See "Adjustment to the Royalty Pool").

Two monthly distributions totaling 32.0¢ per Unit were declared in the first quarter of both 2024 and 2023.

The Payout ratio^(iv) for the first quarter of 2024 was 114.0% compared to 112.9% for the first quarter of 2023. 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 Payout ratio^(iv) for the first quarter of 2024 of 114.0% is higher than the trailing four quarter Payout ratio^(iv) of 91.9% is due to both the seasonality of sales and the timing impact of current income taxes.

The following table shows the trailing four quarter Payout ratios for 2022, 2023 and 2024.



⁽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 2024 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, 2024	\$0.160	\$2,334	\$241	\$2,575
February	March 15, 2024	0.160	2,334	241	2,575
		\$0.320	\$4,668	\$482	\$5,150

The February 2024 distribution of \$2,575,000 was declared on March 4, 2024 and paid subsequent to quarter end on March 29, 2024, and is reported as a current liability as at March 24, 2024.

On April 3, 2024, the Fund declared a distribution to Unitholders of \$0.160 per Trust Unit or \$2,575,000 payable on April 30, 2024 to unitholders of record as at April 15, 2024.

TAX TREATMENT OF DISTRIBUTIONS

All of the distributions declared in 2024 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 2024 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	\$0.080	\$2,575	\$722	\$3,297
February	0.080	2,575	721	3,296
	\$0.160	\$5,150	\$1,443	\$6,593

On April 3, 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 April 30, 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”.

	Q1	Q4	Q3	Q2
(dollars in thousands except per unit amounts)	2024	2023	2023	2023
Number of restaurants in the Royalty Pool	1,047	1,037	1,037	1,037
Royalty income	\$11,553	\$17,045	\$13,705	\$12,773
General and administrative expenses	\$237	452	134	126
Term loan and other interest (net)	\$301	332	272	295
Amortization of financing fees	8	11	7	8
(Gain) loss on interest rate swap	(247)	1,898	(116)	(1,883)
Current income tax provision	3,028	2,914	2,223	2,220
Refundable income tax expense	168	321	90	88
Deferred income tax (recovery) expense	(777)	(44)	459	626
Net income	\$8,835	\$11,161	\$10,636	\$11,293
Net cash generated from operating activities	\$9,161	\$12,555	\$10,077	\$9,253
Distributable cash generated ⁽ⁱⁱ⁾	\$7,987	\$13,347	\$11,076	\$10,132
Number of equivalent units	20,655,650	20,383,114	20,368,874	20,368,874
Distributable cash per equivalent unit ^(iv)	\$0.387	\$0.655	\$0.544	\$0.497
Distributions and dividends declared per equivalent unit ^{(iii)(iv)}	\$0.320	\$0.640	\$0.480	\$0.480
Number of days in the quarter	84	112	84	84
	Q1	Q4	Q3	Q2
(dollars in thousands except per unit amounts)	2023	2022	2022	2022
Number of restaurants in the Royalty Pool	1,037	1,015	1,015	1,015
Royalty income	\$11,439	\$16,218	\$13,198	\$12,187
General and administrative expenses	249	476	121	120
Term loan and other interest (net)	305	530	489	520
Amortization of financing fees	8	21	15	15
(Gain) loss on interest rate swap	1,295	(251)	101	(1,817)
Current income tax provision	2,813	2,650	2,036	2,030
Refundable income tax expense	93	492	410	408
Deferred income tax (recovery) expense	(897)	439	458	639
Net income	\$7,573	\$11,861	\$9,568	\$10,272
Net cash generated from operating activities	\$2,298	\$13,185	\$10,678	\$12,459
Distributable cash generated ⁽ⁱⁱ⁾	\$8,072	\$12,562	\$10,552	\$9,517
Number of equivalent units	20,368,874	19,893,414	19,813,593	19,813,593
Distributable cash per equivalent unit ^(iv)	\$0.396	\$0.631	\$0.533	\$0.480
Distributions and dividends declared per equivalent unit ^{(iii)(iv)}	\$0.320	\$0.635	\$0.465	\$0.465
Number of days in the quarter	85	111	84	84

⁽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)	Q1 2024	Q4 2023	Q3 2023	Q2 2023
Net cash generated from operating activities	\$9,161	\$12,555	\$10,077	\$9,253
Term loan and other interest (net)	(301)	(332)	(272)	(295)
Current income tax provision	(3,028)	(2,914)	(2,223)	(2,220)
Net changes in items of non-cash working capital	(190)	(632)	136	498
Interest paid (received)	345	670	358	(104)
Income tax paid	2,000	4,000	3,000	3,000
Distributable cash generated	\$7,987	\$13,347	\$11,076	\$10,132
(dollars in thousands)	Q1 2023	Q4 2022	Q3 2022	Q2 2022
Net cash generated from operating activities	\$2,298	\$13,185	\$10,678	\$12,459
Term loan and other interest (net)	(305)	(530)	(489)	(520)
Current income tax provision	(2,813)	(2,650)	(2,036)	(2,030)
Net changes in items of non-cash working capital	330	(775)	137	800
Interest paid (received)	374	1,332	762	(15)
Income tax (recovered) paid	8,188	2,000	1,500	(1,177)
Distributable cash generated	\$8,072	\$12,562	\$10,552	\$9,517

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”), which, subsequent to the quarter end on March 28, 2024, was acquired by Royal Bank of Canada.

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 May 8, 2024 and March 24, 2024, the amount of the facility available was \$2,000,000 (December 31, 2023 - \$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 May 8, 2024, March 24, 2024 and December 31, 2023.

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 the

Swap. Under the Swap, as at March 24, 2024 and December 31, 2023, the term loan's effective interest rate was 2.85% per annum, comprising 1.74% per annum which is fixed under the 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.

On May 8, 2024, Trade Marks received approval from its Board of Directors to amend the Credit Facility to transition the \$60,000,000 term loan from bankers acceptances, in which the interest rate benchmark is Canadian Dollar Offered Rate ("CDOR"), to CORRA (as defined below) loans, in which the interest rate benchmark is Canadian Overnight Repo Rate Average ("CORRA"). The amendment is in response to the pending cessation of CDOR. The remaining terms and conditions are consistent with those of the previous Credit Facility in place with the Bank. The fixed interest rate on the Swap remains unchanged as a result of the amendment.

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS AND BALANCES

During the first quarter of 2024 royalty income of \$11,553,000 (2023 - \$11,439,000) was earned from Food Services of which \$4,028,000 is receivable at March 24, 2024 (December 31, 2023 - \$4,094,000) and paid to the Partnership subsequent to the quarter end on April 18, 2024.

During the first quarter of 2024, Trade Marks declared two dividends payable to Food Services totaling \$1,443,000 (2023 - \$1,338,000) as a result of Food Services' ownership of Trade Marks' common shares. The second dividend amounted to \$721,000 and was declared on March 4, 2024 but paid to Food Services

on March 29, 2024, subsequent to the quarter end, and is therefore reported as a current liability as at March 24, 2024 (December 31, 2023 – \$nil).

During the first quarter of 2024, the Fund declared two distributions payable to Food Services totaling \$482,000 (2023 – \$482,000) as a result of Food Services' ownership of Limited Voting Units. The second distribution amounted to \$241,000 and was declared on March 4, 2024 but paid to Food Services on March 29, 2024, subsequent to the quarter end, and is therefore reported as a current liability as at March 24, 2024 (December 31, 2023 – \$241,000).

During the first quarter of 2024, Trade Marks recognized an expense of \$48,000 (2023 - \$48,000) related to administrative services received from Food Services, all of which is reported in accounts payable and accrued liabilities as at March 24, 2024 (December 31, 2023 – \$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 Swap as at March 24, 2024 was \$3,534,000 favourable (December 31, 2023 – \$3,287,000 favourable). The change in fair value of the Swap is recorded as a gain 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 Swap as at March 24, 2024 was \$3,534,000 favourable (December 31, 2023 – \$3,287,000 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 March 24, 2024 relate to royalties due from Food Services to the Partnership which were paid in full by Food Services on April 18, 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.

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.

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

During the first quarter of 2024 A&W experienced a continuation of the challenging general economic conditions that arose post pandemic. Interest rate increases, rates of inflation, consumer confidence and diminishing disposable income continue to impact consumer discretionary spending.

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

and the trust it has built with Canadian consumers and franchisees over many years. These strengths will be key to delivering strong results and improved market share as the quick service restaurant industry and the quick service restaurant 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 BarTM. The A&W Brew BarTM offers a variety of frozen beverages as well as hot and cold espresso-based beverages. The A&W Brew BarTM is now available in over 645 A&W restaurants across the country.

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 quick service restaurant 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, which has a goal of saving one million cups from landfill.

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. Six new A&W restaurants opened during the first quarter of 2024 and an additional ten restaurants were under construction as at March 24, 2024.

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. On January 26, 2024 Pret and Food Services agreed to supplement the Country Agreement with a plan to roll out Pret coffee to all A&W restaurants and a select menu of Pret pastry products to a subset of A&W restaurants under the same terms and conditions as outlined in the Country Agreement.

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 March 24, 2024, Food Services was operating one standalone Pret location that was opened in January 2024 in Toronto and there were four A&W franchised locations (three in Vancouver and one in Toronto) offering a range of Pret products in their restaurants. As at March 24, 2024 there were another 21 A&W 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. The royalty payable to the Fund does not apply to products sold within standalone Pret restaurants.

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; plans to increase guest traffic; statements regarding future adjustments to the Royalty Pool; Food Services’ expectation that the food service industry, and more particularly the quick service restaurant 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 quick service restaurant industry and the quick service restaurant burger market continue to grow; future introductions of new recipes and products to its plant-based line-up; a reduction in environmental impact through conscious use of packaging, waste, energy and water, and high-efficiency equipment resulting in a reduction in energy usage; Food Services’ commitment to the long-term health and success of its franchise network and the

Fund; expectations for increased loyalty and enhancing performance over the long term; the potential expansion of the Pret brand across Canada; the rollout of additional Pret products under the Country Agreement; 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 or the one Pret restaurant;
- 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, soft drinks or coffee based 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 and the one Pret restaurant 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

Interim Condensed Consolidated Financial Statements (Unaudited)

For the First Quarter ended March 24, 2024
with comparative figures

For the First Quarter ended March 26, 2023

(in thousands of Canadian dollars)

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

A&W Revenue Royalties Income Fund
Interim Condensed Consolidated Balance Sheets
Unaudited

(in thousands of dollars)

	Note	March 24, 2024	December 31, 2023
Assets			
Current assets			
Cash and cash equivalents		\$ 15,445	\$ 12,156
Accounts receivable	11	4,028	4,094
Prepaid interest		985	941
Income tax recoverable		74	1,236
		20,532	18,427
Non-current assets			
Derivative financial assets	4	3,534	3,287
Intangible asset	3	410,336	402,029
Total assets		\$ 434,402	\$ 423,743
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 676	\$ 552
Dividends payable to A&W Food Services of Canada Inc.	11	721	-
Distributions payable to Unitholders	9, 11	2,575	2,575
Other liabilities	3	1,661	-
		5,633	3,127
Non-current liabilities			
Term loan	4	59,913	59,905
Deferred income tax liabilities	7	15,597	16,340
		81,143	79,372
Unitholders' Equity			
Trust Units	6	398,884	398,884
Accumulated deficit		(174,757)	(176,516)
		224,127	222,368
Non-controlling interest			
		129,132	122,003
Total equity		353,259	344,371
Total liabilities and equity		\$ 434,402	\$ 423,743

Subsequent events

12

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

A&W Revenue Royalties Income Fund

Interim Condensed Consolidated Statement of Income and Comprehensive Income

Unaudited

(in thousands of dollars except per Unit amounts)

	Note	Period from Jan 1, 2024 to Mar 24, 2024	Period from Jan 1, 2023 to Mar 26, 2023
Royalty income	11	\$ 11,553	\$ 11,439
Expenses			
General and administrative		237	249
Interest expense			
Term loan and other interest (net)	5	301	305
Amortization of financing fees		8	8
		546	562
Operating income		11,007	10,877
(Gain) loss on interest rate swaps	4	(247)	1,295
Net income before income taxes		11,254	9,582
Provision for (recovery of) income taxes			
Current			
Current income tax provision	7	3,028	2,813
Refundable income tax	7	168	93
Deferred	7	(777)	(897)
		2,419	2,009
Net income and comprehensive income for the period		\$ 8,835	\$ 7,573
Net income and comprehensive income attributable to:			
Unitholders of A&W Revenue Royalties Income Fund		\$ 6,909	\$ 6,021
A&W Food Services of Canada Inc.'s non-controlling interest in A&W Trade Marks Inc.		1,926	1,552
		\$ 8,835	\$ 7,573
Basic and diluted income per weighted average Trust Unit outstanding		\$ 0.429	\$ 0.374
Weighted average number of Trust Units outstanding		16,092,693	16,092,693

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

A&W Revenue Royalties Income Fund
Interim Condensed Consolidated Statement of Unitholders' Equity
Unaudited

(in thousands of dollars)

	Note	Trust Units	Accumulated deficit	Total	Non-controlling interest	Total equity
Balance - December 31, 2022		\$ 398,884	\$ (177,900)	\$ 220,984	\$ 105,260	\$ 326,244
Net income for the period		-	6,021	6,021	1,552	7,573
Distributions on Trust Units		-	(5,150)	(5,150)	-	(5,150)
Dividends on common shares of a subsidiary	11	-	-	-	(1,338)	(1,338)
Issue of common shares of a subsidiary		-	-	-	12,895	12,895
Balance - March 26, 2023		\$ 398,884	\$ (177,029)	\$ 221,855	\$ 118,369	\$ 340,224
Net income for the period		-	26,262	26,262	6,828	33,090
Distributions on Trust Units		-	(25,749)	(25,749)	-	(25,749)
Dividends on common shares of a subsidiary		-	-	-	(6,899)	(6,899)
Issue of common shares of a subsidiary		-	-	-	3,705	3,705
Balance - December 31, 2023		\$ 398,884	\$ (176,516)	\$ 222,368	\$ 122,003	\$ 344,371
Net income for the period		-	6,909	6,909	1,926	8,835
Distributions on Trust Units	9	-	(5,150)	(5,150)	-	(5,150)
Dividends on common shares of a subsidiary	11	-	-	-	(1,443)	(1,443)
Issue of common shares of a subsidiary	3	-	-	-	6,646	6,646
Balance - March 24, 2024		\$ 398,884	\$ (174,757)	\$ 224,127	\$ 129,132	\$ 353,259

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

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

(in thousands of dollars)

		Period from Jan 1, 2024 to Mar 24, 2024	Period from Jan 1, 2023 to Mar 26, 2023
Operating activities			
Net income for the period	\$	8,835	\$ 7,573
Adjustments for:			
Unrealized (gain) loss on interest rate swap	4	(247)	1,295
Amortization of financing fees		8	8
Interest expense	5	301	305
Deferred income tax expense	7	(777)	(897)
Refundable income tax expense	7	168	93
Current income tax provision	7	3,028	2,813
Net changes in items of non-cash working capital	8	190	(330)
Interest paid		(443)	(475)
Interest received		98	101
Income tax paid		(2,000)	(8,188)
Net cash generated from operating activities		9,161	2,298
Financing activities			
Dividends paid to non-controlling interest	11	(722)	(669)
Distributions paid to Unitholders		(5,150)	(5,150)
Net cash used in financing activities		(5,872)	(5,819)
Increase (decrease) in cash and cash equivalents		3,289	(3,521)
Cash and cash equivalents - beginning of period		12,156	17,109
Cash and cash equivalents - end of period	\$	15,445	\$ 13,588

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

A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 24, 2024

(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 (the “Units”) and limited voting units (the “Limited Voting Units” and collectively with the Units, 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, BC. The Fund was established to invest in A&W Trade Marks Inc. (“Trade Marks”), which through its ownership interest in A&W Trade Marks Limited Partnership (“the Partnership”) owns the A&W trade-marks used in the A&W quick service restaurant business in Canada.

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”), and applicable to interim financial reports including International Accounting Standards 34, Interim Financial Reporting. The interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the Fund’s audited annual consolidated financial statements as at December 31, 2023.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Fund’s annual consolidated financial statements for the year ended December 31, 2023.

In 2020 the International Accounting Standards Board IASB published amendments to IAS 1 Presentation of Financial Statements that clarify the criteria for classifying liabilities with covenants as current or non-current. The amendments also require companies to provide additional note disclosure on non-current liabilities with covenants. The effective date is for annual periods beginning on or after January 1, 2024, with early adoption permissible. The Fund adopted this amendment effective the 2024 fiscal period with no impact on the disclosure of its accounting policies.

These interim condensed consolidated financial statements were authorized for issue by the Board of Trustees of the Fund on May 8, 2024.

A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 24, 2024

(figures in tables are expressed in thousands of dollars)

3. Intangible asset

	Number of restaurants in Royalty Pool	Amount \$
Balance as at December 31, 2023	1,037	402,029
Annual adjustment January 5, 2024	10	8,307
Balance as at March 24, 2024	<u>1,047</u>	<u>410,336</u>

The intangible asset is 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 on December 30, 2100, for which Food Services pays a royalty of 3% of sales reported to Food Services by specific A&W restaurants (the “Royalty Pool”).

The gross sales reported by the 1,047 (2023 – 1,037) A&W restaurants in the Royalty Pool for the period ended March 24, 2024 were \$385,097,000 (2023 - \$381,298,000).

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%. The Fund assumed a pre-tax discount rate of 12.6% in order to calculate the present value of its projected cash flows. As a result of this test, it was concluded that no impairment was required. There were no indicators of impairment identified during the period ended March 24, 2024 therefore no impairment testing was performed and no impairment was required.

Annual Adjustment to the Royalty Pool

The Royalty Pool is adjusted annually to reflect sales from new A&W restaurants, net of the sales of any A&W restaurants that have permanently closed. Food Services is paid for the additional royalty stream related to the sales of the net new restaurants, based on a formula set out in the Amended and Restated Licence and Royalty Agreement. The formula provides for a payment to Food Services based on 92.5% of the amount of estimated sales from the net new restaurants and the current yield on the Units, adjusted for income taxes payable by Trade Marks. The consideration is paid to Food Services in the form of additional limited partnership units (“LP units”). The additional LP units are, at the

A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 24, 2024

(figures in tables are expressed in thousands of dollars)

option of Food Services, exchangeable for additional shares of Trade Marks which are in turn exchangeable for Trust Units on the basis of two common shares of Trade Marks for one Trust Unit. 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 2024 annual adjustment to the Royalty Pool took place 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 estimated annual sales of the 19 new A&W restaurants were \$28,626,000 at the time they were added to the Royalty Pool and annual sales for the 9 permanently closed restaurants were \$5,144,000 based on their sales during the first year such restaurants were included in the Royalty Pool. The initial consideration for the estimated additional royalty stream was \$8,307,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the Units for the 20 trading days ended October 30, 2023. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$6,646,000, by issuance of 218,029 LP units which were subsequently exchanged for 436,058 non-voting common shares of Trade Marks. The remaining consideration payable to Food Services for the January 5, 2024 adjustment to the Royalty Pool of \$1,661,000 is to be paid by issuance of additional LP units, which issuance is held back until the number of LP units is determined in December 2024 based on the actual annual sales reported by the new restaurants. The Fund has recorded the \$1,661,000 as a current liability as at March 24, 2024 (December 31, 2023 - \$nil). The actual amount of the consideration paid in December 2024 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

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

Trade Marks has a \$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") which, subsequent to the period end, on March 28, 2024, was acquired by Royal Bank of Canada.

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 March 24, 2024, the available amount of the facility was \$2,000,000 (December 31, 2023 - \$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

A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 24, 2024

(figures in tables are expressed in thousands of dollars)

payable monthly, providing that Trade Marks' EBITDA tested quarterly on a trailing four quarter basis is not less than specified amounts. In the event that EBITDA is less than these specified amounts, the term loan will be fully amortized over the greater of three years and the remaining term and repayment will be by way of blended monthly instalments of principal and interest. Trade Marks was in compliance with all of its financial covenants as at March 24, 2024 and December 31, 2023.

Trade Marks uses interest rate swap agreements to manage risks from fluctuations in interest rates. To manage the interest rate risk associated with the \$60,000,000 term loan Trade Marks has entered into an interest rate swap arrangement (the "Swap"). Under the Swap, as at March 24, 2024, the term loan's effective interest rate is 2.85% per annum (December 31, 2023 – 2.85%), comprising 1.74% per annum which is fixed under the 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 Marks' debt to EBITDA ratio. The fair value of the Swap as at March 24, 2024 was \$3,534,000 favourable (December 31, 2023 - \$3,287,000 favourable). The \$247,000 gain on the Swap (2023 – loss of \$1,295,000), representing the change in the fair value of the Swap, is recorded in the interim condensed consolidated statements of income and comprehensive income.

In response to the pending cessation of Canadian Dollar Offered Rate ("CDOR"), the benchmark interest rate on bankers acceptances, the Credit Facility was amended on April X, 2024. The amendment transitions the \$60,000,000 term loan from bankers acceptances to CORRA loans, in which the interest rate benchmark is Canadian Overnight Repo Rate Average ("CORRA"). The remaining terms and conditions are consistent with those of the previous Credit Facility in place with the Bank. The fixed interest rate on the Swap remains unchanged as a result of the amendment.

Financing fees of \$176,000 that were incurred related to the September 10, 2021 Credit Facility amendment were capitalized in 2021 and are being amortised over the term of the Credit Facility. The unamortized balance is presented as a reduction to the carrying amount of the \$60,000,000 term loan.

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

The term loan comprises:

	Mar 24, 2024	Dec 31, 2023
	\$	\$
Term loan	60,000	60,000
Financing fees	(87)	(95)
	<u>59,913</u>	<u>59,905</u>

A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 24, 2024

(figures in tables are expressed in thousands of dollars)

5. Term loan and other interest (net)

	Period from Jan 1, 2024 to Mar 24, 2024	Period from Jan 1, 2023 to Mar 26, 2023
	\$	\$
Interest income on cash	(98)	(101)
Standby fees	1	1
Interest expense - term loan	398	405
Term loan and other interest (net)	<u>301</u>	<u>305</u>

6. 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.

Following the 2024 annual adjustment to the Royalty Pool on January 5, 2024 (note 3), but excluding 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 is payable in December 2024, Food Services owned 21.9% of the exchangeable common shares of Trade Marks and 9.4% of the Trust Units. Taken together, as at March 24, 2024, Food Services' ownership of exchangeable common shares of Trade Marks and Trust Units equated to Food Services owning 29.2% of the total outstanding voting securities of the Fund on a fully diluted basis, before the inclusion of the issuance of the excess exchangeable LP units.

	Number of Units	Number of Limited Voting Units	Total Number of Trust Units
Balance as at December 31, 2023	14,585,673	1,507,020	16,092,693
Balance as at March 24, 2024	<u>14,585,673</u>	<u>1,507,020</u>	<u>16,092,693</u>

A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 24, 2024

(figures in tables are expressed in thousands of dollars)

	Equity – Units \$	Equity - Limited Voting Units \$	Total Equity - Trust Units \$
Balance as at December 31, 2023	351,925	46,959	398,884
Balance as at March 24, 2024	351,925	46,959	398,884

7. Income taxes

The Fund as a legal entity is not subject to the Specified Investment Flow-Through (“SIFT”) tax, as its only source of income is dividends from Trade Marks which are not subject to SIFT tax. The provision for income taxes shown in the consolidated statements of income and comprehensive income is the expected current and deferred tax payable by Trade Marks, and differs from the amount obtained by applying statutory tax rates to Trade Marks’ income before income taxes for the following reasons:

	Period from Jan 1, 2024 to Mar 24, 2024 \$	Period from Jan 1, 2023 to Mar 26, 2023 \$
Statutory combined federal and provincial income tax rates on investment income	20.0%	20.0%
Provision for current income taxes	3,028	2,813
Recovery of deferred income taxes	(777)	(897)
Provision for income taxes based on statutory income tax rates	2,251	1,916
Refundable income tax	168	93
Provision for income taxes	2,419	2,009

Trade Marks’ taxable income is taxed at an effective rate of 20.0% (2023 – 20.0%), plus an additional tax of 30.67% on investment income that has not been distributed to its shareholders as dividends. This additional tax is refundable in a future year when Trade Marks pays sufficient dividends. Under IFRS Accounting Standards, refundable income tax is required to be expensed on the income statement when paid or payable. Subsequently, these amounts are recognized on the income statement as income taxes recoverable when received or receivable.

A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 24, 2024

(figures in tables are expressed in thousands of dollars)

8. Working capital

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

	Period from Jan 1, 2024 to Mar 24, 2024	Period from Jan 1, 2023 to Mar 26, 2023
	\$	\$
Accounts receivable	66	(112)
Accounts payable and accrued liabilities	124	(218)
	<u>190</u>	<u>(330)</u>

9. Distributions

During the period ended March 24 2024, the Fund declared distributions to its unitholders (“Unitholders”) of \$5,150,000 or \$0.32 per Trust Unit. The record dates and amounts of these distributions are as follows:

Month	Record date	Amount Per Trust Unit	
		\$	\$
January 2024	February 15, 2024	2,575	0.16
February 2024	March 15, 2024	2,575	0.16
		<u>5,150</u>	<u>0.32</u>

The February 2024 distribution was declared on March 4, 2024 and paid, subsequent to the period end, on March 29, 2024 and is reported as a current liability of \$2,575,000 as at March 24, 2024 (December 31, 2023 - \$2,575,000).

10. Key management compensation

Key management personnel are the Trustees of the Fund. During the period ended March 24, 2024, the Fund paid the Trustees \$42,000 (2023 - \$34,000).

11. Related party transactions and balances

During the period ended March 24, 2024 royalty income of \$11,553,000 (2023 - \$11,439,000) was earned from Food Services of which \$4,028,000 is receivable at March 24, 2024 (December 31, 2023 - \$4,094,000) and was paid on April 18, 2024, subsequent to the period end.

During the period ended March 24, 2024, Trade Marks declared two dividends payable to Food Services totaling \$1,443,000 (2023 - \$1,338,000) as a result of Food Services’ ownership of Trade

A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 24, 2024

(figures in tables are expressed in thousands of dollars)

Marks' common shares. The second dividend amounted to \$721,000 and was declared on March 4, 2024 but paid to Food Services, subsequent to the period end, on March 29, 2024 and is therefore reported as a current liability as at March 24, 2024 (December 31, 2023 – \$nil).

During the period ended March 24, 2024, the Fund declared two distributions payable to Food Services totaling \$482,000 (2023 – \$482,000) as a result of Food Services' ownership of Limited Voting Units. The second distribution amounted to \$241,000 and was declared on March 4, 2024 but paid to Food Services, subsequent to the period end, on March 29, 2024 and is therefore reported as a current liability as at March 24, 2024 (December 31, 2023 – \$241,000).

During the period ended March 24, 2024, Trade Marks recognized an expense of \$48,000 (2023 - \$48,000) related to administrative services received from Food Services, all of which is reported in accounts payable and accrued liabilities as at March 24, 2024 (December 31, 2023 – \$nil).

Other related party transactions and balances are referred to in note 3.

12. Subsequent events

On April 3, 2024, the Fund declared a distribution to Unitholders of \$0.16 per Trust Unit or \$2,575,000 payable on April 30, 2024 to Unitholders of record as at April 15, 2024. Of the \$2,575,000 payable, \$241,000 is payable to Food Services.

On April 3, 2024, Trade Marks declared dividends on its common shares equal to \$3,296,000, payable to Food Services and the Fund on April 30, 2024. Of the \$3,296,000 payable, \$721,000 is payable to Food Services.

Other subsequent events are referred to in note 4.

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.

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