

# A&W Revenue Royalties Income Fund

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# Q3

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Third Quarter Report to Unitholders  
for the period ended  
September 8, 2024

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## **A&W Revenue Royalties Income Fund Management Discussion and Analysis**

This Management Discussion and Analysis (“MD&A”) covers the third quarter period from June 17, 2024 to September 8, 2024 and the year to date period from January 1, 2024 to September 8, 2024. This MD&A is dated October 11, 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 and year to date period ended September 8, 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 and year to date period ended September 8, 2024 and the audited annual consolidated financial statements of Food Services for the 52 week period ended December 31, 2023. Such financial statements and additional information about the Fund and Food Services are available at [www.sedarplus.com](http://www.sedarplus.com) or [www.awincomefund.ca](http://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 Accounting Standard (“IAS”) 34, Interim Financial Reporting. 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 which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”, or “IFRS”).

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 third quarter of 2024 ended September 8, 2024 (2023 – September 10, 2023), 36 weeks after Food Services’ fiscal year end. Readers should be aware that the year to date results for 2024 are not directly comparable to the 2023 results, as there were 84 days of sales in Q1 2024 compared to 85 days of sales in Q1 2023. The second and third quarters of both years had 84 days. Royalty Pool Same Store Sales Growth is based on an equal number of days in the quarter.

### **KEY UPDATES**

- Royalty income increased by 0.3% in Q3 2024 and 0.9% year to date, as compared to the comparable periods in 2023.
- Royalty Pool Same Store Sales Growth<sup>(i)</sup> was -1.0% for Q3 2024 and nil year to date.
- The Fund and Food Services entered into a combination agreement on July 21, 2024 pursuant to which Food Services will be amalgamated with certain holding companies to form a new publicly-traded company (“A&W Food Services NewCo”) and will acquire all of the Fund’s Trust Units (the

“Transaction”) for consideration of cash, common shares of A&W Food Services NewCo, or a combination of both. The Transaction is structured as a statutory plan of arrangement under the *Canada Business Corporations Act*.

- On October 8, 2024, the Fund’s unitholders (“Unitholders”) approved the Transaction.
- On October 11, 2024, the Ontario Superior Court of Justice (Commercial List) issued a final order approving the Transaction.
- The Transaction will be effective on October 17, 2024, subject to the satisfaction or waiver of certain customary closing conditions. See “*Strategic Combination with Food Services*” below.

<sup>(i)</sup> “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<br>Jun 17, 2024 to<br>Sep 8, 2024 | Period from<br>Jun 19, 2023 to<br>Sep 10, 2023 | Period from<br>Jan 1, 2024 to<br>Sep 8, 2024 | Period from<br>Jan 1, 2023 to<br>Sep 10, 2023 |
|--|---|--|--|---|
| Royalty Pool Same Store Sales Growth <sup>(i)</sup>                                  | -1.0%   | 1.1%   | 0.0%   | 3.0%  |
| Number of restaurants in the Royalty Pool  | 1,047   | 1,037  | 1,047  | 1,037   |
| Gross sales reported by A&W restaurants in the Royalty Pool <sup>(i)</sup>           | \$458,078                                     | \$456,842                                      | \$1,275,348                                  | \$1,263,908                                   |
| Royalty income   | \$13,742                                      | \$13,705                                       | \$38,260                                     | \$37,917                                      |
| General and administrative expenses  | \$189   | \$134  | \$578  | \$509   |
| Term loan and other interest (net)   | \$222   | \$272  | \$777  | \$872   |
| Current income tax provision   | \$1,881                                       | \$2,223  | \$7,250                                      | \$7,256                                       |
| Distributable cash generated <sup>(ii)</sup>   | \$8,990                                       | \$11,076                                       | \$27,195                                     | \$29,280                                      |
| Number of equivalent units <sup>(iii)</sup>  | 20,655,650                                    | 20,368,874                                     | 20,655,650                                   | 20,368,874                                    |
| Distributable cash per equivalent unit <sup>(iv)</sup>                               | \$0.435                                       | \$0.544  | \$1.317                                      | \$1.437                                       |
| Distributions and dividends declared per equivalent unit <sup>(iv)</sup>             | \$0.480                                       | \$0.480  | \$1.280                                      | \$1.280                                       |
| Distributions and dividends declared and accrued per equivalent unit <sup>(iv)</sup> | \$0.441                                       | \$0.442  | \$1.322                                      | \$1.331                                       |
| Payout ratio <sup>(iv)</sup>   | 101.4%  | 81.3%  | 100.4%                                       | 92.6%   |
| Net cash generated from operating activities   | \$11,215                                      | \$10,077                                       | \$30,789                                     | \$21,628                                      |
| Net income <sup>(v)</sup>  | \$9,526                                       | \$10,636                                       | \$28,176                                     | \$29,502                                      |

(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)                           | <b>Period from<br/>Jan 17, 2024 to<br/>Sep 8, 2024</b> | Period from<br>Jun 19, 2023 to<br>Sep 10, 2023 | <b>Period from<br/>Jan 1, 2024 to<br/>Sep 8, 2024</b> | Period from<br>Jan 1, 2023 to<br>Sep 10, 2023 |
|--|--|--|---|---|
| Net cash generated from operating activities     | <b>\$11,215</b>  | \$10,077                                       | <b>\$30,789</b>                                       | \$21,628                                      |
| Term loan and other interest (net)               | <b>(222)</b>   | (272)  | <b>(777)</b>  | (872)   |
| Current income tax provision                     | <b>(1,881)</b>   | (2,223)  | <b>(7,250)</b>  | (7,256)                                       |
| Net changes in items of non-cash working capital | <b>29</b>  | 136  | <b>631</b>  | 964   |
| Interest paid                                    | <b>1</b>   | 488  | <b>3</b>  | 962   |
| Interest received                                | <b>(691)</b>   | (130)  | <b>(493)</b>  | (334)   |
| Income tax paid                                  | <b>2,999</b>   | 3,000  | <b>6,752</b>  | 14,188  |
| Capitalized Transaction costs                    | <b>(2,460)</b>   | -  | <b>(2,460)</b>  | -   |
| Distributable cash generated                     | <b>\$8,990</b>   | \$11,076                                       | <b>\$27,195</b>                                       | \$29,280                                      |

## **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, net changes in items of working capital and financing and transaction fees paid. 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 quarters and year to date periods ended September 8, 2024 and September 10, 2023, and is based on an equal number of days in each reporting period. 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**

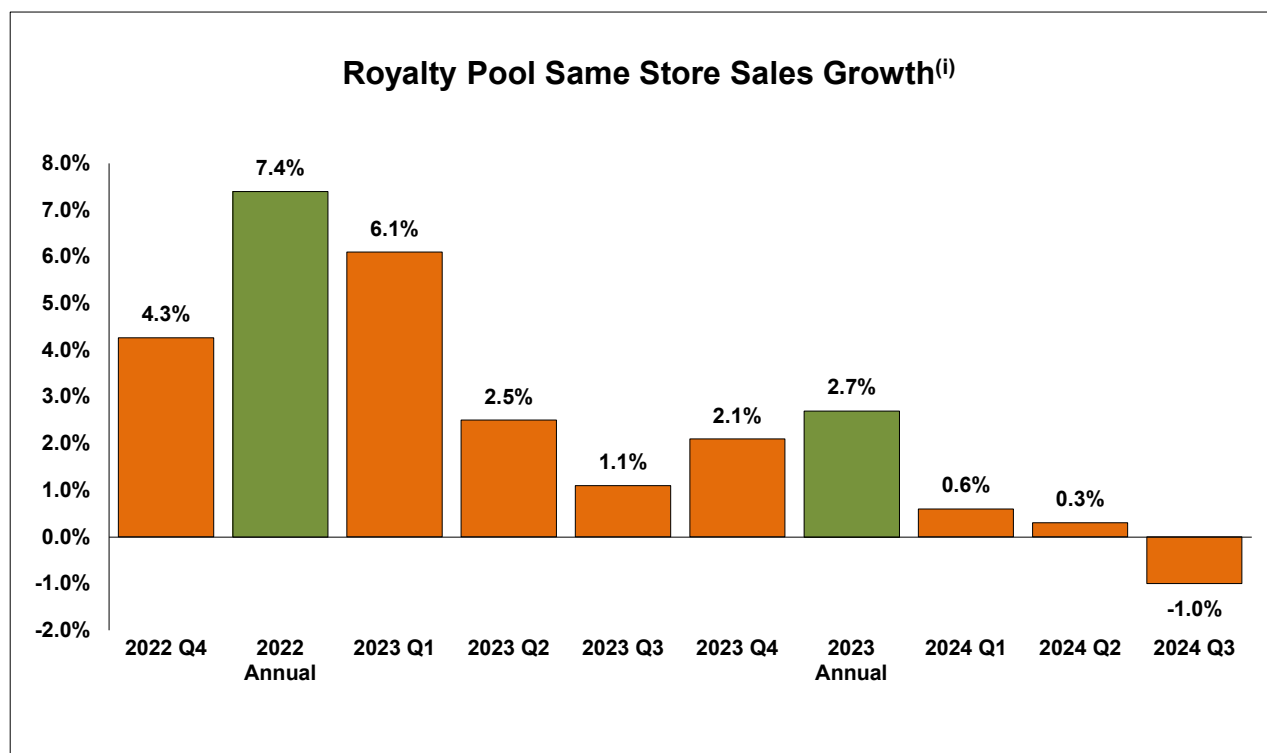
Royalty Pool Same Store Sales Growth<sup>(i)</sup> for the third quarter of 2024 was -1.0% as compared to the same quarter of 2023. Royalty Pool Same Store Sales Growth<sup>(i)</sup> for the year to date period ended September 8, 2024 was nil as compared to the comparable period in 2023. Royalty Pool Same Store Sales Growth is a function of changes in guest counts and check size, which are impacted by party size, menu prices and menu mix and changes in consumers discretionary spending.

The Royalty Pool Same Store Sales Growth<sup>(i)</sup> of -1.0% for the third quarter and nil year to date primarily results from a decrease in guest counts partially offset by an increase in average check size due in part to industry-wide inflation on goods, services, and labour. The decrease in guest counts reflects A&W’s

proportionate share of an overall decline in traffic at burger quick service restaurants (“QSR”) across Canada. Food Services believes the decline in traffic at A&W restaurants and burger QSR more generally is attributable to increased interest rates and inflation, along with market uncertainty, 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<sup>(i)</sup> for the third quarter of 2024 were \$458,078,000, a 0.3% increase against gross sales of \$456,842,000 for the third quarter of 2023. Year to date gross sales reported by A&W restaurants in the Royalty Pool<sup>(i)</sup> were \$1,275,348,000, a 0.9% increase against gross sales of \$1,263,908,000 for the comparable period in 2023.

The increase in Gross sales reported by A&W restaurants in the Royalty Pool is a product of 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. The increase year to date 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.



<sup>(i)</sup> “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 September 8, 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.

### **STRATEGIC COMBINATION WITH FOOD SERVICES**

The Fund and Food Services entered into the Combination Agreement on July 21, 2024 whereby Food Services will be amalgamated with certain holding companies to form A&W Food Services Newco, a new publicly-traded company, and will acquire all of the Fund's Trust Units. The Transaction is structured as a statutory plan of arrangement under the *Canada Business Corporations Act*.

Under the terms of the Transaction, each Unitholder (other than Food Services and its affiliates) could elect to receive in exchange for each Unit (i) \$37.00 in cash (the "Cash Consideration"), (ii) one common share in A&W Food Services NewCo (the "Share Consideration"), or (iii) a combination of 32.54277% of the Cash Consideration (being \$12.040825) and 67.45723% of the Share Consideration (being 0.6745723 of a share in A&W Food Services NewCo). The elections of Unitholders to receive Cash Consideration or Share Consideration were subject to proration in the event that Unitholders elected, in the aggregate, to receive more or less than \$175,600,000 in cash consideration, such that in all cases, a total of 4,746,582 Units would be purchased for cash at \$37.00 per Unit, representing approximately 32.5% of the outstanding Units (other than Units held by Food Services). Based on valid elections made prior to the election deadline on October 4, 2024, Unitholders who elected Cash Consideration and Combination Consideration will not be subject to proration and Unitholders who elected, or were deemed to elect, Share Consideration will receive Cash Consideration in respect of approximately 2.7% of their Units and Share Consideration for the balance as a result of proration. Upon completion of the Transaction, the Fund will be a wholly owned subsidiary of A&W Food Services NewCo.

In addition, Unitholders will be entitled to receive a distribution in an amount per Unit equal to \$1.92 multiplied by a fraction, the numerator of which is the number of days between (a) the payment date of the last monthly distribution in respect of the Units for which the payment date occurs prior to the closing of the Transaction and (b) the closing of the Transaction, and the denominator of which is 365, so that, in effect, Unitholders receive the monthly distribution for the month in which the closing of the Transaction occurs, prorated for the number of days up to closing of the Transaction.

On October 8, 2024, subsequent to the quarter ended September 8, 2024, a special meeting of the Unitholders was held, and the Transaction was approved by Unitholders.

On October 11, 2024, the Ontario Superior Court of Justice (Commercial List) issued a final order approving the plan of arrangement under the Canada Business Corporations Act in respect of the Transaction.

Completion of the Transaction remains subject to the satisfaction or waiver of certain customary closing conditions. The Transaction will become effective after the close of business on October 17, 2024 (the “Effective Date”), subject to the terms and conditions of the combination agreement in respect of the Transaction, all of which have been or are expected to be satisfied by or on such date, and the filing of articles of arrangement in respect of the Transaction. It is expected that (a) the Units will be delisted from the Toronto Stock Exchange (“TSX”) after the close of business on the Effective Date, (b) the common shares of A&W Food Services Newco will be listed (but not yet posted for trading) on the TSX after the close of business on the Effective Date, and (c) the common shares of A&W Food Services Newco will be posted and begin trading on the TSX at the open of business on October 18, 2024 under the symbol “AW”.

If the Transaction is not completed for any reason, Unitholders will not receive the Share Consideration, the Cash Consideration or the Combination Consideration for any of their Units, the Fund will remain a reporting issuer and the Units will continue to be listed and traded on the TSX. If in the event of a termination of the Combination Agreement prior to consummation of the Transaction, under certain circumstances, the Fund will be required to pay to Food Services a termination fee of \$17,800,000 (the “Termination Fee”). The Combination Agreement also provides for expense reimbursement of \$4,000,000 payable by the Fund to Food Services or Food Services to the Fund, as applicable (less, in the case of reimbursement by Food Services, the amount of expenses of the Fund previously reimbursed by Food Services) in certain circumstances if the Transaction is not completed and the Combination Agreement is terminated. In certain circumstances, the Combination Agreement also requires the Fund to repay to Food Services certain expenses of the Fund previously reimbursed by Food Services pursuant to a cost sharing agreement (the “Expense Agreement”) that the Fund and Food Services entered into on February 2, 2024.

The Fund had capitalized \$2,460,000 in costs related to the Transaction as at September 8, 2024 (December 31, 2023 - \$nil). Of the \$2,460,000, \$530,000 was paid during the year to date period and quarter ended September 8, 2024 and the remaining \$1,930,000 is included in accounts payable and accrued liabilities as at September 8, 2024 (2023 - \$nil). Additional costs related to the Transaction, totaling \$73,000, are included in General and Administrative Expenses for the year to date period and quarter ended September 8, 2024 (2023 - \$nil). As at September 8, 2024, the Fund had incurred an additional \$3,760,000 in advisory fees related to the Transaction that are contingent on completion of the Transaction (December 31, 2023 - \$nil).

For further information regarding the Transaction, please refer to the Fund’s management information circular dated August 29, 2024 (the “Circular”) available on the Fund’s SEDAR+ profile at [www.sedarplus.ca](http://www.sedarplus.ca).

## **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 September 8, 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:

| (in thousands, except for share amounts and % changes)        | 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 <sup>(1)</sup> | -                | -                       | (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 <sup>(2)</sup> | -                | -                       | (0.9) | 436,058          | 6,646                   | 0.9  | 436,058          | 6,646                   |
| Balance as at September 8, 2024                               | 32,185,311       | 227,798                 | 78.1  | 9,016,899        | 128,995                 | 21.9 | 41,202,210       | 356,793                 |

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 September 8, 2024 and December 31, 2023 on a fully-diluted basis, where the ownership of the Fund as at September 8, 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.

|  | September 8, 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 <sup>(1)</sup>  | 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 <sup>(2)</sup> | 4,562,957         | 22.1  | 4,290,421         | 21.0  |
| Total equivalent units   | 20,655,650        | 100.0 | 20,383,114        | 100.0 |

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 third quarter of 2024 was \$13,742,000 based on Gross sales reported by restaurants in the Royalty Pool<sup>(i)</sup> of \$458,078,000, compared to royalty income of \$13,705,000 and Gross sales reported by A&W restaurants in the Royalty Pool<sup>(i)</sup> of \$456,842,000 for the third quarter of 2023. Year to date royalty income was \$38,260,000 based on gross sales reported by restaurants in the Royalty Pool<sup>(i)</sup> of \$1,275,348,000, compared to royalty income of \$37,917,000 and gross sales reported by restaurants in the Royalty Pool<sup>(i)</sup> of \$1,263,908,000 for the comparable period in 2023.

The increase in royalty income is driven by the gross sales from the 10 net new restaurants added to the Royalty Pool on January 5, 2024. The increase in the year to date period was partially offset by there being one less day in Q1 2024 than in Q1 2023. See “Sales Performance”, “Risks and Uncertainties” and “Outlook”.

<sup>(i)</sup> “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<br>Jun 17, 2024 to<br>Sep 8, 2024 | Period from<br>Jun 19, 2023 to<br>Sep 10, 2023 | Period from<br>Jan 1, 2024 to<br>Sep 8, 2024 | Period from<br>Jan 1, 2023 to<br>Sep 10, 2023 |
|-------------------------------------|---|--|--|---|
| General and administrative expenses | \$189   | \$134  | \$578  | \$509   |
| Term loan and other interest (net)  | \$222   | \$272  | \$777  | \$872   |

General and administrative expenses for the quarter and year to date period ended September 8, 2024 includes \$73,000 in costs related to the Transaction (2023 - \$nil). The decrease in term loan and other interest (net) for both the quarter and year to date period is primarily attributable to an increase in the interest income earned on cash which was higher in 2024 as compared to the comparable periods in 2023. 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 loss on the Swap for the third quarter of 2024 was \$1,206,000 compared to an unrealized gain of \$116,000 for the third quarter of 2023. Year to date there was an unrealized loss on the Swap of \$1,031,000 compared to an unrealized gain of \$704,000 for the comparable period in 2023.

## INCOME TAXES

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

| (dollars in thousands)           | Period from<br>Jun 17, 2024 to<br>Sep 8, 2024 | Period from<br>Jun 19, 2023 to<br>Sep 10, 2023 | Period from<br>Jan 1, 2024 to<br>Sep 8, 2024 | Period from<br>Jan 1, 2023 to<br>Sep 10, 2023 |
|----------------------------------|---|--|--|---|
| Current                          |   |  |  |   |
| Current income tax provision     | \$1,881                                       | \$2,223  | \$7,250                                      | \$7,256                                       |
| Refundable income tax            | 168   | 90   | 504  | 271   |
| Deferred                         | 542   | 459  | (80)   | 188   |
| Total provision for income taxes | \$2,591                                       | \$2,772  | \$7,674                                      | \$7,715                                       |

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 \$504,000 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.

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<br>Jun 17, 2024 to<br>Sep 8, 2024 | Period from<br>Jun 19, 2023 to<br>Sep 10, 2023 | Period from<br>Jan 1, 2024 to<br>Sep 8, 2024 | Period from<br>Jan 1, 2023 to<br>Sep 10, 2023 |
|---|---|--|--|---|
| Net income and comprehensive income attributable to public Unitholders of the Fund  | \$6,742                                       | \$7,653  | \$19,947                                     | \$21,237                                      |
| Net income and comprehensive income attributable to Food Services' ownership of Limited Voting Units  | 697   | 792  | 2,067  | 2,195   |
| Net income and comprehensive income attributable to Food Services' non-controlling interest that arises from Food Services' ownership of common shares of Trade Marks | 2,087   | 2,191  | 6,162  | 6,070   |
| <b>Total net income and comprehensive income</b>  | <b>\$9,526</b>                                | <b>\$10,636</b>                                | <b>\$28,176</b>                              | <b>\$29,502</b>                               |

## DISTRIBUTABLE CASH

| (dollars in thousands)   | Period from<br>Jun 17, 2024 to<br>Sep 8, 2024 | Period from<br>Jun 19, 2023 to<br>Sep 10, 2023 | Period from<br>Jan 1, 2024 to<br>Sep 8, 2024 | Period from<br>Jan 1, 2023 to<br>Sep 10, 2023 |
|--|---|--|--|---|
| Distributable cash generated <sup>(ii)</sup>   | \$8,990                                       | \$11,076                                       | \$27,195                                     | \$29,280                                      |
| Number of equivalent units   | 20,655,650                                    | 20,368,874                                     | 20,655,650                                   | 20,368,874                                    |
| Distributable cash per equivalent unit <sup>(iv)</sup>                               | \$0.435                                       | \$0.544  | \$1.317                                      | \$1.437                                       |
| Distributions and dividends declared per equivalent unit <sup>(i)(iv)</sup>          | \$0.480                                       | \$0.480  | \$1.280                                      | \$1.280                                       |
| Distributions and dividends declared and accrued per equivalent unit <sup>(iv)</sup> | \$0.441                                       | \$0.442  | \$1.322                                      | \$1.331                                       |
| Payout ratio <sup>(iv)</sup>   | 101.4%  | 81.3%  | 100.4%                                       | 92.6%   |

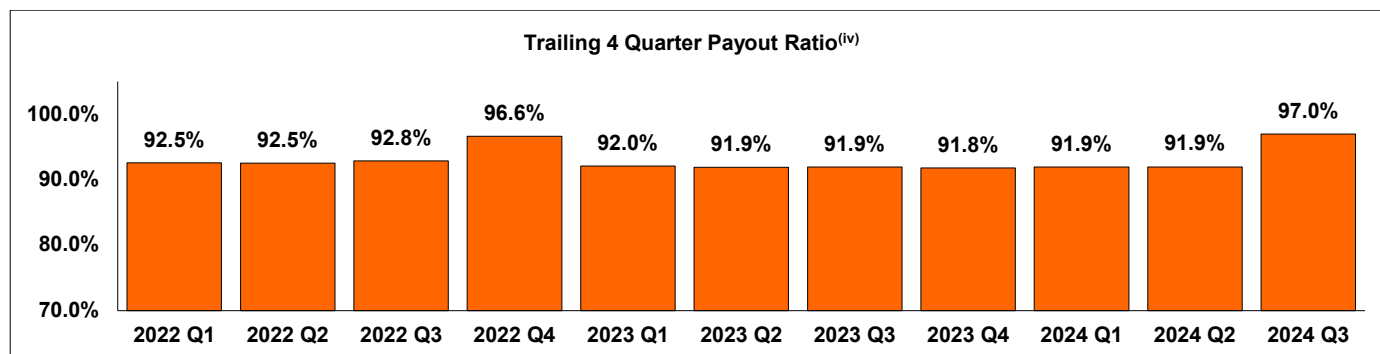
Distributable cash generated<sup>(ii)</sup> in the third quarter of 2024 to pay distributions to Unitholders and dividends to Food Services was \$8,990,000 compared to \$11,076,000 in the third quarter of 2023. Distributable cash generated<sup>(ii)</sup> in the year to date period was \$27,195,000 compared to \$29,280,000 in the comparable period in 2023. Distributable cash generated in the quarter and year to date period ended September 8, 2024 includes \$2,460,000 in non-recurring costs related to the Transaction. Excluding the impact from the costs related to the Transaction, Distributable cash generated<sup>(ii)</sup> in the third quarter of 2024 and year to date period would be \$11,450,000 and \$29,655,000 respectively, a slight increase over the Distributable cash generated for the comparable periods in 2023 due largely to the increase in royalty income.

Distributable cash per equivalent unit<sup>(iv)</sup> decreased by 10.9¢ to 43.5¢ per Unit in the third quarter of 2024 from 54.4¢ per Unit for the third quarter of 2023. Year to date Distributable cash per equivalent unit<sup>(iv)</sup> decreased by 12.0¢ to \$1.317 per Unit for 2024 from \$1.437 per Unit for the comparable period in 2023. The decrease in Distributable cash per equivalent unit is attributable to the decrease in Distributable cash generated, due to the \$2,460,000 in Transaction related costs incurred in 2024, and the increase in the number of equivalent units which is a result of the 2024 annual adjustment to the Royalty Pool. (See “Adjustment to the Royalty Pool”).

Three monthly distributions totalling 48.0¢ per Unit were declared in the third quarter of both 2024 and 2023. Eight monthly distributions totalling \$1.280 per Unit were declared in both the 2024 and 2023 year to date periods. Total distributions declared and accrued per equivalent unit year to date were \$1.322 for 2024 compared to \$1.331 for the comparable period in 2023.

The Payout ratio<sup>(iv)</sup> for the third quarter of 2024 was 101.4% compared to 81.3% for the third quarter of 2023. The year to date Payout ratio<sup>(iv)</sup> for 2024 was 100.4% compared to 92.6% for the comparable period in 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 fluctuations in sales, the timing of current income taxes and non-recurring costs that impact the amount of Distributable cash generated, the Fund can experience fluctuations in its Payout ratio. The Payout ratio<sup>(iv)</sup> for the year to date period in 2024 of 100.4% is higher than the trailing four quarter Payout ratio<sup>(iv)</sup> of 97.0% due mainly to the timing impact of current income taxes and the \$2,460,000 in non-recurring costs related to the Transaction that reduced the amount of Distributable cash generated in 2024.

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



<sup>(i)</sup> 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                     |
| March  | April 15, 2024     | 0.160          | 2,333                                     | 241                                  | 2,574                     |
| April  | May 15, 2024       | 0.160          | 2,334                                     | 241                                  | 2,575                     |
| May  | June 15, 2024      | 0.160          | 2,334                                     | 241                                  | 2,575                     |
| June   | July 15, 2024      | 0.160          | 2,333                                     | 242                                  | 2,575                     |
| July   | August 15, 2024    | 0.160          | 2,334                                     | 241                                  | 2,575                     |
| August   | September 15, 2024 | 0.160          | 2,334                                     | 241                                  | 2,575                     |
|  |                    | \$1.280        | \$18,670                                  | \$1,929                              | \$20,599                  |

The August 2024 distribution with a record date of September 15, 2024 was declared on September 6, 2024 and paid, subsequent to the quarter end, on September 27, 2024 and is reported as a current liability of \$2,575,000 as at September 8, 2024.

On October 1, 2024, the Fund declared a distribution to Unitholders of \$0.160 per Trust Unit or \$2,575,000 payable on October 21, 2024 to Unitholders of record as at October 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) |                  |  |   |                                  |
|--|------------------|--|---|----------------------------------|
| <b>Month declared/paid</b>                     | <b>Per Share</b> | <b>Amount paid/payable to the Fund</b> | <b>Amount paid/payable to Food Services</b> | <b>Total amount paid/payable</b> |
| January  | \$0.080          | \$2,575                                | \$722                                       | \$3,297                          |
| February                                       | 0.080            | 2,575                                  | 721   | 3,296                            |
| March  | 0.080            | 2,574                                  | 722   | 3,296                            |
| April  | 0.080            | 2,575                                  | 721   | 3,296                            |
| May  | 0.080            | 2,575                                  | 721   | 3,296                            |
| June   | 0.080            | 2,575                                  | 721   | 3,296                            |
| July   | 0.080            | 2,575                                  | 722   | 3,297                            |
| August   | 0.080            | 2,575                                  | 721   | 3,296                            |
|  | \$0.640          | \$20,599                               | \$5,771                                     | \$26,370                         |

The August 2024 dividend of \$3,296,000 was declared on September 6, 2024 and paid subsequent to period end on September 27, 2024. The \$721,000 dividend payable to Food Services is reported as a current liability as at September 8, 2024.

On October 1, 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 October 21, 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”.

|   | <b>Q3</b>   | <b>Q2</b>   | <b>Q1</b>   | <b>Q4</b>   |
|---|-------------|-------------|-------------|-------------|
| (dollars in thousands except per unit amounts)                                | <b>2024</b> | <b>2024</b> | <b>2024</b> | <b>2023</b> |
| Number of restaurants in the Royalty Pool                                     | 1,047       | 1,047       | 1,047       | 1,037       |
| Royalty income  | \$13,742    | \$12,965    | \$11,553    | \$17,045    |
| General and administrative expenses   | 189         | 152         | 237         | 452         |
| Term loan and other interest (net)  | 222         | 254         | 301         | 332         |
| Amortization of financing fees  | 8           | 8           | 8           | 11          |
| Loss (gain) on interest rate swap   | 1,206       | 72          | (247)       | 1,898       |
| Current income tax provision  | 1,881       | 2,341       | 3,028       | 2,914       |
| Refundable income tax expense   | 168         | 168         | 168         | 321         |
| Deferred income tax expense (recovery)  | 542         | 155         | (777)       | (44)        |
| Net income  | \$9,526     | \$9,815     | \$8,835     | \$11,161    |
| Net cash generated from operating activities                                  | \$11,215    | \$10,413    | \$9,161     | \$12,555    |
| Distributable cash generated <sup>(ii)</sup>                                  | \$8,990     | \$10,218    | \$7,987     | \$13,347    |
| Number of equivalent units  | 20,655,650  | 20,655,650  | 20,655,650  | 20,383,114  |
| Distributable cash per equivalent unit <sup>(iv)</sup>                        | \$0.435     | \$0.495     | \$0.387     | \$0.655     |
| Distributions and dividends declared per equivalent unit <sup>(iii)(iv)</sup> | \$0.480     | \$0.480     | \$0.320     | \$0.640     |
| Number of days in the quarter   | 84          | 84          | 84          | 112         |
|   | <b>Q3</b>   | <b>Q2</b>   | <b>Q1</b>   | <b>Q4</b>   |
| (dollars in thousands except per unit amounts)                                | <b>2023</b> | <b>2023</b> | <b>2023</b> | <b>2022</b> |
| Number of restaurants in the Royalty Pool                                     | 1,037       | 1,037       | 1,037       | 1,015       |
| Royalty income  | \$13,705    | \$12,773    | \$11,439    | \$16,218    |
| General and administrative expenses   | 134         | 126         | 249         | 476         |
| Term loan and other interest (net)  | 272         | 295         | 305         | 530         |
| Amortization of financing fees  | 7           | 8           | 8           | 21          |
| (Gain) loss on interest rate swap   | (116)       | (1,883)     | 1,295       | (251)       |
| Current income tax provision  | 2,223       | 2,220       | 2,813       | 2,650       |
| Refundable income tax expense   | 90          | 88          | 93          | 492         |
| Deferred income tax expense (recovery)  | 459         | 626         | (897)       | 439         |
| Net income  | \$10,636    | \$11,293    | \$7,573     | \$11,861    |
| Net cash generated from operating activities                                  | \$10,077    | \$9,253     | \$2,298     | \$13,185    |
| Distributable cash generated <sup>(ii)</sup>                                  | \$11,076    | \$10,132    | \$8,072     | \$12,562    |
| Number of equivalent units  | 20,368,874  | 20,368,874  | 20,368,874  | 19,893,414  |
| Distributable cash per equivalent unit <sup>(iv)</sup>                        | \$0.544     | \$0.497     | \$0.396     | \$0.631     |
| Distributions and dividends declared per equivalent unit <sup>(iii)(iv)</sup> | \$0.480     | \$0.480     | \$0.320     | \$0.635     |
| Number of days in the quarter   | 84          | 84          | 85          | 111         |

<sup>(ii)</sup> “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)                           | Q3<br>2024 | Q2<br>2024 | Q1<br>2024 | Q4<br>2023 |
|--|------------|------------|------------|------------|
| Net cash generated from operating activities     | \$11,215   | \$10,413   | \$9,161    | \$12,555   |
| Term loan and other interest (net)               | (222)      | (254)      | (301)      | (332)      |
| Current income tax provision                     | (1,881)    | (2,341)    | (3,028)    | (2,914)    |
| Net changes in items of non-cash working capital | 29         | 792        | (190)      | (632)      |
| Net interest (received) paid                     | (690)      | (145)      | 345        | 670        |
| Income tax paid                                  | 2,999      | 1,753      | 2,000      | 4,000      |
| Capitalized Transaction costs                    | (2,460)    | -          | -          | -          |
| Distributable cash generated                     | \$8,990    | \$10,218   | \$7,987    | \$13,347   |
| (dollars in thousands)                           | Q3<br>2023 | Q2<br>2023 | Q1<br>2023 | Q4<br>2022 |
| Net cash generated from operating activities     | \$10,077   | \$9,253    | \$2,298    | \$13,185   |
| Term loan and other interest (net)               | (272)      | (295)      | (305)      | (530)      |
| Current income tax provision                     | (2,223)    | (2,220)    | (2,813)    | (2,650)    |
| Net changes in items of non-cash working capital | 136        | 498        | 330        | (775)      |
| Net interest (received) paid                     | 358        | (104)      | 374        | 1,332      |
| Income tax paid                                  | 3,000      | 3,000      | 8,188      | 2,000      |
| Capitalized Transaction costs                    | -          | -          | -          | -          |
| Distributable cash generated                     | \$11,076   | \$10,132   | \$8,072    | \$12,562   |

## SEASONALITY

Sales at A&W restaurants typically fluctuate seasonally. 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 fluctuations in sales that are inherent to the restaurant industry, and fluctuations in Fund financial performance between quarters for reasons such as

taxation, 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 Royal Bank of Canada. The Credit Facility was previously with HSBC Bank Canada which was acquired by Royal Bank of Canada (the "Bank"), on March 28, 2024.

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 September 8, 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 Canadian Overnight Repo Rate Average ("CORRA") loan. 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 September 8, 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.

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.

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 September 8, 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      |

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 May 17, 2024. The amendment transitions the \$60,000,000 term loan from bankers acceptances to CORRA loans, in which the interest rate benchmark is 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 remained unchanged as a result of the amendment.

The following is a summary of contractual obligations payable by Trade Marks:

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

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

## **OFF-BALANCE SHEET ARRANGEMENTS**

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

## **RELATED PARTY TRANSACTIONS AND BALANCES**

During the year to date period ended September 8, 2024, royalty income of \$38,260,000 (2023 - \$37,917,000) was earned from Food Services of which \$4,474,000 is receivable at September 8, 2024 (December 31, 2023 - \$4,094,000) and was paid on October 3, 2024, subsequent to the period end. Royalty income earned during the quarter was \$13,742,000 (2023 - \$13,705,000).

During the year to date period ended September 8, 2024, Trade Marks declared eight dividends payable to Food Services totaling \$5,771,000 (2023 - \$5,353,000) as a result of Food Services’ ownership of Trade Marks’ common shares. The eighth dividend amounted to \$721,000 and was declared on September 6, 2024 but paid to Food Services, subsequent to the period end, on September 27, 2024 and is therefore reported as a current liability as at September 8, 2024 (December 31, 2023 – \$nil). During the quarter Trade Marks declared three dividends payable to Food Services totaling \$2,164,000 (2023 - \$2,007,000).

During the year to date period ended September 8, 2024, the Fund declared eight distributions payable to Food Services totaling \$1,929,000 (2023 – \$1,929,000) as a result of Food Services’ ownership of Limited Voting Units. The eighth distribution amounted to \$241,000 and was declared on September 6, 2024 but paid to Food Services, subsequent to the period end, on September 27, 2024 and is therefore reported as a

current liability as at September 8, 2024 (December 31, 2023 – \$241,000). During the quarter the Fund declared three distributions payable to Food Services totaling \$723,000 (2023 - \$723,000).

During the year to date period ended September 8, 2024, Trade Marks recognized an expense of \$143,000 (2023 - \$143,000) related to administrative services received from Food Services. During the quarter, Trade Marks recognized an expense of \$48,000 related to administrative services received from Food Services (2023 - \$48,000).

Other related party transactions and balances are referred to elsewhere in this MD&A, including, without limitation, under the headings “Overview”, “Strategic Combination with Food Services”, “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 September 8, 2024 was \$2,256,000 favourable (December 31, 2023 – \$3,287,000 favourable). The change in fair value of the Swap is recorded as a gain/loss on interest rate swap in the consolidated statements of income and comprehensive income.

## **FINANCIAL INSTRUMENTS**

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

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

Management estimates that the fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable to Food Services, distributions payable to Unitholders, income taxes payable, demand operating loan facility and the term loan approximate their carrying values given the short term to maturity of these instruments. The fair value of the Swap as at September 8, 2024 was \$2,256,000 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 September 8, 2024 relate to royalties due from Food Services to the Partnership which were paid in full by Food Services on October 3, 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**

The business of the Fund is subject to a number of risks and uncertainties, including, among others, the risks identified in the Circular under the headings “*Information Concerning A&W Food Services NewCo After Giving Effect to the Transaction – Risk Factors*” and “*Risk Factors*”. Certain of the material risks related to Food Services’ business (including those generally impacting the QSR industry) identified in the Circular are expressed from the perspective of Food Services and, consequently, their impact on the financial, condition, performance or prospects of Food Services’ business and the market price or value of the shares of A&W Food Services NewCo following completion of the Transaction or the amount of any dividend paid on those shares. Prior to completion of the Transaction, Unitholders will be exposed to each of the risks related to Food Services’ business, which risks could materially and adversely impact the royalty and Food Services’ ability to pay such royalty to the Fund.

In addition, prior to completion of the Transaction, Unitholders will continue to be exposed to the risks and uncertainties relating to the structure of the Fund identified in the Fund’s annual information form dated February 27, 2024 (the “AIF”) under the heading “*Risk Factors - Risks and Uncertainties Related to the Structure of the Fund*”. The Circular and the AIF are available on the Fund’s SEDAR+ profile at [www.sedarplus.ca](http://www.sedarplus.ca). Additional risks and uncertainties not currently known to the Fund or that are currently not considered to be material also may impair the Fund’s business.

## **OUTLOOK**

In 2024 A&W has experienced a continuation of the challenging general economic conditions that arose post pandemic. Changes in interest rates, rates of inflation and consumer confidence have resulted in diminishing disposable income and 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, Food Services was very excited to be the first national burger chain in Canada to offer a 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.

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

In 2021, Food Services announced that it was expanding the beverage offerings at A&W restaurants with the phased rollout of the A&W Brew Bar™. The A&W Brew Bar™ offers a variety of frozen beverages as well as hot and cold espresso-based beverages. The A&W Brew Bar™ is now available in over 675 A&W restaurants across the country and the roll out is substantially complete.

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 Cup™” nationwide in late 2023, an exchangeable cup program, which has a goal of saving over one million cups from landfill.

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

Food Services has continued to grow new A&W restaurants, particularly in the key Ontario and Quebec markets. Nineteen new A&W restaurants opened in 2024, ten of which were in the third quarter of 2024, and an additional twenty restaurants were under construction as at September 8, 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 May 27, 2024 Food Services announced that Food Services and Pret had agreed on a long term development plan to expand the Pret brand across Canada. Under the development plan Food Services retains the exclusive master franchisor rights to Canada for the Pret brand and will continue to increase the number of physical locations offering Pret products across Canada over an initial ten-year development term. Pret’s products will be introduced to Canadian consumers in a variety of carefully selected formats, beginning with the national roll out Pret coffee in A&W restaurants.

As at September 8, 2024, Food Services was operating one standalone Pret location that was opened in January 2024 in Toronto and there was one A&W franchised location in Toronto that was offering a range of Pret products in its restaurant. As at September 8, 2024, there were another 17 A&W locations across the country offering Pret coffee and pastries. On September 23, 2024, Food Services announced that all A&W locations in Canada were now serving Pret coffee.

The royalty payable to the Fund applies to Pret products sold within A&W restaurants to the extent that such restaurants are in the Royalty Pool. 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: expectations relating to the timing and completion of the Transaction and the impact that the Transaction will have on the Fund’s operations and financial statements; the consequences to Unitholders if the Transaction is not completed; the de-listing of the Units from the TSX and the listing of the common shares of A&W Food Services NewCo on the TSX, including the timing thereof; and if the Transaction is not completed for any reason: 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 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; 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 expansion of the Pret brand across Canada and the rollout of additional Pret products sold within A&W restaurants; 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:

- The Fund’s ability to consummate the Transaction on the terms and conditions and timing currently contemplated;
- 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.

Inherent in forward-looking information are risks and uncertainties beyond management's or the Fund's ability to predict or control that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. The forward-looking information in this MD&A is subject to risks, uncertainties and other factors including, among others, the risks identified in the Circular under the headings "*Information Concerning A&W Food Services NewCo After Giving Effect to the Transaction – Risk Factors*" and "*Risk Factors*". Certain of the material risks related to Food Services' business (including those generally impacting the QSR industry) identified in the Circular are expressed from the perspective of Food Services and, consequently, their impact on the financial, condition, performance or prospects of Food Services' business and the market price or value of the shares of A&W Food Services NewCo following completion of the Transaction or the amount of any dividend paid on those shares. Prior to completion of the Transaction, Unitholders will be exposed to each of the risks related to Food Services' business, which risks could materially and adversely impact the royalty and Food Services' ability to pay such royalty to the Fund.

In addition, prior to completion of the Transaction, Unitholders will continue to be exposed to the risks and uncertainties relating to the structure of the Fund identified in the AIF under the heading "*Risk Factors - Risks and Uncertainties Related to the Structure of the Fund*". The Circular and the AIF are available on the Fund's SEDAR+ profile at [www.sedarplus.ca](http://www.sedarplus.ca). Additional risks and uncertainties not currently known to the Fund or that are currently not considered to be material also may impair the Fund's business.

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 Third Quarter ended September 8, 2024  
with comparative figures  
For the Third Quarter ended September 10, 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      | September 8,<br>2024 | December 31,<br>2023 |
|---|-----------|----------------------|----------------------|
| <b>Assets</b>   |           |                      |                      |
| <b>Current assets</b>                                 |           |                      |                      |
| Cash and cash equivalents                             |           | \$ 16,766            | \$ 12,156            |
| Accounts receivable                                   | 11        | 4,474                | 4,094                |
| Prepaid interest                                      |           | -                    | 941                  |
| Income tax recoverable                                |           | 234                  | 1,236                |
|   |           | <b>21,474</b>        | <b>18,427</b>        |
| <b>Non-current assets</b>                             |           |                      |                      |
| Derivative financial assets                           | 4         | 2,256                | 3,287                |
| Intangible asset                                      | 3         | 410,336              | 402,029              |
| Other assets  | 6         | 2,460                | -                    |
| <b>Total assets</b>                                   |           | <b>\$ 436,526</b>    | <b>\$ 423,743</b>    |
| <b>Liabilities</b>                                    |           |                      |                      |
| <b>Current liabilities</b>                            |           |                      |                      |
| Accounts payable and accrued liabilities              | 6         | \$ 2,556             | \$ 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                | -                    |
|   |           | <b>7,513</b>         | <b>3,127</b>         |
| <b>Non-current liabilities</b>                        |           |                      |                      |
| Term loan   | 4         | 59,930               | 59,905               |
| Deferred income tax liabilities                       |           | 16,260               | 16,340               |
|   |           | <b>83,703</b>        | <b>79,372</b>        |
| <b>Unitholders' Equity</b>                            |           |                      |                      |
| Trust Units   | 6         | 398,884              | 398,884              |
| Accumulated deficit                                   |           | (175,101)            | (176,516)            |
|   |           | <b>223,783</b>       | <b>222,368</b>       |
| <b>Non-controlling interest</b>                       |           |                      |                      |
|   |           | <b>129,040</b>       | <b>122,003</b>       |
| <b>Total equity</b>                                   |           | <b>352,823</b>       | <b>344,371</b>       |
| <b>Total liabilities and equity</b>                   |           | <b>\$ 436,526</b>    | <b>\$ 423,743</b>    |
| <b>Subsequent events</b>                              | <b>12</b> |                      |                      |

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<br>June 17, 2024 to<br>September 8, 2024 | Period from<br>June 19, 2023 to<br>September 10, 2023 | Period from<br>January 1, 2024 to<br>September 8, 2024 | Period from<br>January 1, 2023 to<br>September 10, 2023 |
|---|-----------|--|---|--|---|
| <b>Royalty income</b>   | <b>11</b> | <b>\$ 13,742</b>                                     | <b>\$ 13,705</b>                                      | <b>\$ 38,260</b>                                       | <b>\$ 37,917</b>  |
| <b>Expenses</b>   |           |  |   |  |   |
| General and administrative  | 6         | 189  | 134   | 578  | 509   |
| Interest expense  |           |  |   |  |   |
| Term loan and other interest (net)  | 5         | 222  | 272   | 777  | 872   |
| Amortization of financing fees  |           | 8  | 7   | 24   | 23  |
|   |           | 419  | 413   | 1,379  | 1,404   |
| <b>Operating income</b>   |           | <b>13,323</b>  | <b>13,292</b>   | <b>36,881</b>  | <b>36,513</b>   |
| <b>Loss (gain) on interest rate swap</b>  | <b>4</b>  | <b>1,206</b>   | <b>(116)</b>  | <b>1,031</b>   | <b>(704)</b>  |
| <b>Net income before income taxes</b>   |           | <b>12,117</b>  | <b>13,408</b>   | <b>35,850</b>  | <b>37,217</b>   |
| <b>Provision for (recovery of) income taxes</b>                                     |           |  |   |  |   |
| Current   |           |  |   |  |   |
| Current income tax provision  | 7         | 1,881  | 2,223   | 7,250  | 7,256   |
| Refundable income tax   | 7         | 168  | 90  | 504  | 271   |
| Deferred  | 7         | 542  | 459   | (80)   | 188   |
|   |           | 2,591  | 2,772   | 7,674  | 7,715   |
| <b>Net income and comprehensive income for the period</b>                           |           | <b>\$ 9,526</b>                                      | <b>\$ 10,636</b>                                      | <b>\$ 28,176</b>                                       | <b>\$ 29,502</b>  |
| <b>Net income and comprehensive income attributable to:</b>                         |           |  |   |  |   |
| Unitholders of A&W Revenue Royalties Income Fund                                    |           | \$ 7,439   | \$ 8,445  | \$ 22,014  | \$ 23,432   |
| A&W Food Services of Canada Inc.'s non-controlling interest in A&W Trade Marks Inc. |           | 2,087  | 2,191   | 6,162  | 6,070   |
|   |           | \$ 9,526   | \$ 10,636   | \$ 28,176  | \$ 29,502   |
| <b>Basic and diluted income per weighted average Trust Unit outstanding</b>         |           | <b>\$ 0.462</b>                                      | <b>\$ 0.525</b>                                       | <b>\$ 1.368</b>  | <b>\$ 1.456</b>   |
| <b>Weighted average number of Trust Units outstanding</b>                           |           | <b>16,092,693</b>                                    | <b>16,092,693</b>                                     | <b>16,092,693</b>                                      | <b>16,092,693</b>                                       |

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 |
|--|------|-------------|---------------------|------------|---------------------------|--------------|
| <b>Balance - December 31, 2022</b>         |      | \$ 398,884  | \$ (177,900)        | \$ 220,984 | \$ 105,260                | \$ 326,244   |
| Net income for the period                  |      | -           | 23,432              | 23,432     | 6,070                     | 29,502       |
| Distributions on Trust Units               |      | -           | (20,599)            | (20,599)   | -                         | (20,599)     |
| Dividends on common shares of a subsidiary | 11   | -           | -                   | -          | (5,353)                   | (5,353)      |
| Issue of common shares of a subsidiary     |      | -           | -                   | -          | 12,895                    | 12,895       |
| <b>Balance - September 10, 2023</b>        |      | \$ 398,884  | \$ (175,067)        | \$ 223,817 | \$ 118,872                | \$ 342,689   |
| Net income for the period                  |      | -           | 8,851               | 8,851      | 2,310                     | 11,161       |
| Distributions on Trust Units               |      | -           | (10,300)            | (10,300)   | -                         | (10,300)     |
| Dividends on common shares of a subsidiary |      | -           | -                   | -          | (2,884)                   | (2,884)      |
| Issue of common shares of a subsidiary     |      | -           | -                   | -          | 3,705                     | 3,705        |
| <b>Balance - December 31, 2023</b>         |      | \$ 398,884  | \$ (176,516)        | \$ 222,368 | \$ 122,003                | \$ 344,371   |
| Net income for the period                  |      | -           | 22,014              | 22,014     | 6,162                     | 28,176       |
| Distributions on Trust Units               | 9    | -           | (20,599)            | (20,599)   | -                         | (20,599)     |
| Dividends on common shares of a subsidiary | 11   | -           | -                   | -          | (5,771)                   | (5,771)      |
| Issue of common shares of a subsidiary     | 3    | -           | -                   | -          | 6,646                     | 6,646        |
| <b>Balance - September 8, 2024</b>         |      | \$ 398,884  | \$ (175,101)        | \$ 223,783 | \$ 129,040                | \$ 352,823   |

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<br>June 17, 2024 to<br>September 8, 2024 | Period from<br>June 19, 2023 to<br>September 10, 2023 | Period from<br>January 1, 2024 to<br>September 8, 2024 | Period from<br>January 1, 2023 to<br>September 10, 2023 |
|---|----|--|---|--|---|
| <b>Operating activities</b>                             |    |  |   |  |   |
| Net income for the period                               | \$ | 9,526  | \$ 10,636   | \$ 28,176  | \$ 29,502   |
| Adjustments for:  |    |  |   |  |   |
| Unrealized loss (gain) on interest rate swap            | 4  | 1,206  | (116)   | 1,031  | (704)   |
| Amortization of financing fees                          |    | 8  | 7   | 24   | 23  |
| Interest expense  | 5  | 222  | 272   | 777  | 872   |
| Deferred income tax expense (recovery)                  | 7  | 542  | 459   | (80)   | 188   |
| Refundable income tax expense                           | 7  | 168  | 90  | 504  | 271   |
| Current income tax provision                            | 7  | 1,881  | 2,223   | 7,250  | 7,256   |
| Net changes in items of non-cash working capital        | 8  | (29)   | (136)   | (631)  | (964)   |
| Interest paid   |    | (1)  | (488)   | (3)  | (962)   |
| Interest received                                       |    | 691  | 130   | 493  | 334   |
| Income tax paid   |    | (2,999)  | (3,000)   | (6,752)  | (14,188)  |
| <b>Net cash generated from operating activities</b>     |    | <b>11,215</b>  | <b>10,077</b>   | <b>30,789</b>  | <b>21,628</b>   |
| <b>Investing activities</b>                             |    |  |   |  |   |
| Capitalized transaction fees paid                       | 6  | (530)  | -   | (530)  | -   |
| <b>Net cash used in investing activities</b>            |    | <b>(530)</b>   | <b>-</b>  | <b>(530)</b>   | <b>-</b>  |
| <b>Financing activities</b>                             |    |  |   |  |   |
| Dividends paid to non-controlling interest              | 11 | (2,164)  | (2,007)   | (5,050)  | (4,684)   |
| Distributions paid to Unitholders                       |    | (7,725)  | (7,724)   | (20,599)   | (20,599)  |
| <b>Net cash used in financing activities</b>            |    | <b>(9,889)</b>                                       | <b>(9,731)</b>  | <b>(25,649)</b>  | <b>(25,283)</b>   |
| <b>Increase (decrease) in cash and cash equivalents</b> |    | <b>796</b>   | <b>346</b>  | <b>4,610</b>   | <b>(3,655)</b>  |
| <b>Cash and cash equivalents - beginning of period</b>  |    | <b>15,970</b>  | <b>13,108</b>   | <b>12,156</b>  | <b>17,109</b>   |
| <b>Cash and cash equivalents - end of period</b>        | \$ | <b>16,766</b>  | \$ 13,454   | \$ 16,766  | \$ 13,454   |

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)

September 8, 2024

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

The accounting policies used 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 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 on January 1, 2024 with no impact to the classification of its liabilities or its note disclosures.

These interim condensed consolidated financial statements were authorized for issue by the Board of Trustees of the Fund on October 11, 2024.

## A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

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(figures in tables are expressed in thousands of dollars)

### 3. Intangible asset

|                                   | <b>Number of<br/>restaurants in<br/>Royalty Pool</b> | <b>Amount<br/>\$</b> |
|-----------------------------------|--|----------------------|
| Balance as at December 31, 2023   | 1,037  | 402,029              |
| Annual adjustment January 5, 2024 | 10   | 8,307                |
| Balance as at September 8, 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 year to date period ended September 8, 2024 were \$1,275,348,000 (2023 - \$1,263,908,000). The gross sales reported by A&W restaurants in the Royalty Pool during the 12-week period ended September 8, 2024 (“the quarter”) were \$458,078,000 (2023 - \$456,842,000).

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 year to date period ended September 8, 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

## A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

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(figures in tables are expressed in thousands of dollars)

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 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 September 8, 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 Royal Bank of Canada. The Credit Facility was previously with HSBC Bank Canada, which was acquired by Royal Bank of Canada (the “Bank”) on March 28, 2024.

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 September 8, 2024, the available amount of the facility was \$2,000,000 (December 31, 2023 - \$2,000,000).

## A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

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(figures in tables are expressed in thousands of dollars)

The \$60,000,000 term loan with the Bank is in the form of a Canadian Overnight Repo Rate Average (“CORRA”) loan. The term loan is repayable on September 10, 2026. The term loan contains covenants including the requirement to meet certain earnings before interest, taxes, depreciation, amortization and non-cash charges/income (“EBITDA”) levels and debt to EBITDA ratios during each trailing four quarter period. Interest only is payable monthly, providing that Trade Marks’ EBITDA tested quarterly on a trailing four quarter basis is not less than specified amounts. In the event that EBITDA is less than these specified amounts, the term loan will be fully amortized over the greater of three years and the remaining term and repayment will be by way of blended monthly instalments of principal and interest. Trade Marks was in compliance with all of its financial covenants as at September 8, 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 September 8, 2024, the term loan’s effective interest rate is 2.89% per annum (December 31, 2023 – 2.89%), 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 September 8, 2024 was \$2,256,000 favourable (December 31, 2023 - \$3,287,000 favourable). The \$1,031,000 year to date loss on the Swap (2023 – gain of \$704,000), representing the change in the fair value of the Swap, is recorded in the interim condensed consolidated statements of income and comprehensive income. There was a loss on the Swap of \$1,206,000 for the quarter (2023 – gain of \$116,000).

In response to the cessation of Canadian Dollar Offered Rate (“CDOR”), the benchmark interest rate on bankers acceptances, the Credit Facility was amended on May 17, 2024. The amendment transitioned the \$60,000,000 term loan from bankers acceptances to CORRA loans, in which the interest rate benchmark is 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 remained 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.

**A&W Revenue Royalties Income Fund**

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

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(figures in tables are expressed in thousands of dollars)

The term loan comprises:

|                | <b>September 8,<br/>2024</b> | <b>December 31,<br/>2023</b> |
|----------------|------------------------------|------------------------------|
|                | \$                           | \$                           |
| Term loan      | 60,000                       | 60,000                       |
| Financing fees | (70)                         | (95)                         |
|                | <u>59,930</u>                | <u>59,905</u>                |

**5. Term loan and other interest (net)**

|                                       | <b>Period from<br/>June 17, 2024<br/>to September 8,<br/>2024</b> | Period from<br>June 19, 2023<br>to September 10,<br>2023 | <b>Period from<br/>January 1, 2024<br/>to September 8,<br/>2024</b> | Period from<br>January 1, 2023<br>to September 10,<br>2023 |
|---------------------------------------|---|--|---|--|
|                                       | \$  | \$   | \$  | \$   |
| Interest income on cash               | (141)   | (128)  | (383)   | (334)  |
| Standby fees                          | 1   | 1  | 3   | 3  |
| Interest expense - term loan          | 362   | 399  | 1,157   | 1,203  |
| Term loan and other interest<br>(net) | <u>222</u>  | <u>272</u>   | <u>777</u>  | <u>872</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 September 8, 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.

**A&W Revenue Royalties Income Fund**

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(figures in tables are expressed in thousands of dollars)

|                                 | <b>Number of<br/>Units</b> | <b>Number of<br/>Limited Voting<br/>Units</b> | <b>Total Number of<br/>Trust Units</b> |
|---------------------------------|----------------------------|---|--|
| Balance as at December 31, 2023 | 14,585,673                 | 1,507,020                                     | 16,092,693                             |
| Balance as at September 8, 2024 | 14,585,673                 | 1,507,020                                     | 16,092,693                             |

|                                 | <b>Equity –<br/>Units<br/>\$</b> | <b>Equity - Limited<br/>Voting Units<br/>\$</b> | <b>Total Equity -<br/>Trust Units<br/>\$</b> |
|---------------------------------|----------------------------------|---|--|
| Balance as at December 31, 2023 | 351,925                          | 46,959  | 398,884                                      |
| Balance as at September 8, 2024 | 351,925                          | 46,959  | 398,884                                      |

The Fund and Food Services entered into a combination agreement (the “Combination Agreement”) on July 21, 2024 whereby Food Services will be amalgamated with certain holding companies and will acquire all of the Fund’s Trust Units (the “Transaction”) and a new publicly-traded company will be formed (“A&W Food Services NewCo”). The Transaction is a strategic combination and is structured as a statutory plan of arrangement under the Canada Business Corporations Act.

Under the terms of the Transaction, each Unitholder (other than Food Services and its affiliates) could elect to receive in exchange for each Unit (i) \$37.00 in cash (the “Cash Consideration”), (ii) one common share in A&W Food Services NewCo (the “Share Consideration”), or (iii) a combination of 32.54277% of the Cash Consideration (being \$12.040825) and 67.45723% of the Share Consideration (being 0.6745723 of a share in A&W Food Services NewCo). The elections of Unitholders to receive Cash Consideration or Share Consideration were subject to proration in the event that Unitholders elected, in the aggregate, to receive more or less than \$175,600,000 in cash consideration, such that in all cases, a total of 4,746,582 Units would be purchased for cash at \$37.00 per Unit, representing approximately 32.5% of the outstanding Units (other than Units held by Food Services). Based on valid elections made prior to the election deadline on October 4, 2024, Unitholders who elected Cash Consideration and Combination Consideration will not be subject to proration and Unitholders who elected, or were deemed to elect, Share Consideration will receive Cash Consideration in respect of approximately 2.7% of their Units and Share Consideration for the balance as a result of proration. Upon completion of the Transaction, the Fund will be a wholly owned subsidiary of A&W Food Services NewCo.

In addition, Unitholders will be entitled to receive a distribution in an amount per Unit equal to \$1.92 multiplied by a fraction, the numerator of which is the number of days between (a) the payment date of the last monthly distribution in respect of the Units for which the payment date occurs prior to the

## **A&W Revenue Royalties Income Fund**

Notes to Interim Condensed Consolidated Financial Statements

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(figures in tables are expressed in thousands of dollars)

closing of the Transaction and (b) the closing of the Transaction, and the denominator of which is 365, so that, in effect, Unitholders receive the monthly distribution for the month in which the closing of the Transaction occurs, prorated for the number of days up to closing of the Transaction.

On October 8, 2024, subsequent to the quarter ended September 8, 2024, a special meeting of the Unitholders was held, and the Transaction was approved by Unitholders.

On October 11, 2024, the Ontario Superior Court of Justice (Commercial List) issued a final order approving the plan of arrangement under the Canada Business Corporations Act in respect of the Transaction.

Completion of the Transaction remains subject to the satisfaction or waiver of certain customary closing conditions. The Transaction will become effective after the close of business on October 17, 2024 (the “Effective Date”), subject to the terms and conditions of the combination agreement in respect of the Transaction, all of which have been or are expected to be satisfied by or on such date, and the filing of articles of arrangement in respect of the Transaction. It is expected that (a) the Units will be delisted from the Toronto Stock Exchange (“TSX”) after the close of business on the Effective Date, (b) the common shares of A&W Food Services Newco will be listed (but not yet posted for trading) on the TSX after the close of business on the Effective Date, and (c) the common shares of A&W Food Services Newco will be posted and begin trading on the TSX at the open of business on October 18, 2024 under the symbol “AW”.

If the Transaction is not completed for any reason, Unitholders will not receive the Share Consideration, the Cash Consideration or the Combination Consideration for any of their Units, the Fund will remain a reporting issuer and the Units will continue to be listed and traded on the TSX. If in the event of a termination of the Combination Agreement prior to consummation of the Transaction, under certain circumstances, the Fund will be required to pay to Food Services a termination fee of \$17,800,000 (the “Termination Fee”). The Combination Agreement also provides for expense reimbursement of \$4,000,000 payable by the Fund to Food Services or Food Services to the Fund, as applicable (less, in the case of reimbursement by Food Services, the amount of expenses of the Fund previously reimbursed by Food Services) in certain circumstances if the Transaction is not completed and the Combination Agreement is terminated. In certain circumstances, the Combination Agreement also requires the Fund to repay to Food Services certain expenses of the Fund previously reimbursed by Food Services pursuant to a cost sharing agreement (the “Expense Agreement”) that the Fund and Food Services entered into on February 2, 2024.



**A&W Revenue Royalties Income Fund**

Notes to Interim Condensed Consolidated Financial Statements

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(figures in tables are expressed in thousands of dollars)

The Expense Agreement outlines the arrangement among the Fund, Food Services and Trade Marks in respect of the payment of certain costs, fees, expenses and disbursements incurred or to be incurred by the Fund and Trade Marks in connection with their consideration, evaluation and negotiation of the Combination Arrangement incurred at or prior to the public announcement of the Transaction.

Pursuant to the Expense Agreement, Food Services has agreed to (a) reimburse the Fund and Trade Marks for certain expenses paid by the Fund or Trade Marks, (b) advance funds to the Fund and/or Trade Marks to permit the Fund and/or Trade Marks, as applicable, to pay such expenses or (c) pay such expenses directly, in each case, subject to certain caps as set forth therein. During the year to date period and quarter ended September 8, 2024, Food Services paid a total of \$1,340,000 in costs incurred by the Fund related to the Transaction under the terms of the Expense Agreement.

The Other Assets balance of \$2,460,000 as at September 8, 2024 (December 31, 2023 - \$nil) is comprised of costs related to the Transaction that have been capitalized. Of the \$2,460,000, \$530,000 was paid during the year to date period and quarter ended September 8, 2024 and the remaining \$1,930,000 is included in accounts payable and accrued liabilities as at September 8, 2024 (2023 - \$nil). Additional costs related to the Transaction, totaling \$73,000, are included in General and Administrative Expenses for the year to date period and quarter ended September 8, 2024 (2023 - \$nil). As at September 8, 2024, the Fund had incurred an additional \$3,760,000 in advisory fees related to the Transaction that are contingent on completion of the Transaction (December 31, 2023 - \$nil).

**A&W Revenue Royalties Income Fund**

Notes to Interim Condensed Consolidated Financial Statements

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**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:

|   | <b>Period from<br/>June 17, 2024<br/>to September 8,<br/>2024</b><br>\$ | Period from<br>June 19, 2023<br>to September 10,<br>2023<br>\$ | <b>Period from<br/>January 1, 2024<br/>to September 8,<br/>2024</b><br>\$ | Period from<br>January 1, 2023<br>to September 10,<br>2023<br>\$ |
|---|---|--|---|--|
| Statutory combined federal and provincial income tax rates on investment income | 20.0%   | 20.0%  | 20.0%   | 20.0%  |
| Provision for current income taxes  | 1,881   | 2,223  | 7,250   | 7,256  |
| Provision for (recovery of) deferred income taxes                               | 542   | 459  | (80)  | 188  |
| Provision for income taxes based on statutory income tax rates                  | 2,423   | 2,682  | 7,170   | 7,444  |
| Refundable income tax   | 168   | 90   | 504   | 271  |
| Provision for income taxes  | 2,591   | 2,772  | 7,674   | 7,715  |

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

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**8. Working capital**

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

|   | <b>Period from<br/>June 17, 2024<br/>to September 8,<br/>2024</b> | Period from<br>June 19, 2023<br>to September 10,<br>2023 | <b>Period from<br/>January 1, 2024<br/>to September 8,<br/>2024</b> | Period from<br>January 1, 2023<br>to September 10,<br>2023 |
|---|---|--|---|--|
|   | \$  | \$   | \$  | \$   |
| Accounts receivable                         | (4)   | (156)  | (380)   | (720)  |
| Accounts payable and<br>accrued liabilities | (25)  | 20   | (251)   | (244)  |
|   | <u>(29)</u>   | <u>(136)</u>   | <u>(631)</u>  | <u>(964)</u>   |

**9. Distributions**

During the year to date period ended September 8, 2024, the Fund declared distributions to its unitholders (“Unitholders”) of \$20,599,000 or \$1.280 per Trust Unit. The record dates and amounts of these distributions are as follows:

| <b>Month</b>  | <b>Record date</b> | <b>Amount Per Trust Unit</b> |              |
|---------------|--------------------|------------------------------|--------------|
|               |                    | <b>\$</b>                    | <b>\$</b>    |
| January 2024  | February 15, 2024  | 2,575                        | 0.16         |
| February 2024 | March 15, 2024     | 2,575                        | 0.16         |
| March 2024    | April 15, 2024     | 2,574                        | 0.16         |
| April 2024    | May 15, 2024       | 2,575                        | 0.16         |
| May 2024      | June 15, 2024      | 2,575                        | 0.16         |
| June 2024     | July 15, 2024      | 2,575                        | 0.16         |
| July 2024     | August 15, 2024    | 2,575                        | 0.16         |
| August 2024   | September 15, 2024 | 2,575                        | 0.16         |
|               |                    | <u>20,599</u>                | <u>1.280</u> |

The August 2024 distribution with a record date of September 15, 2024 was declared on September 6, 2024 and paid, subsequent to the period end, on September 27, 2024 and is reported as a current liability of \$2,575,000 as at September 8, 2024 (December 31, 2023 - \$2,575,000).

**10. Key management compensation**

Key management personnel are the Trustees of the Fund. During the year to date period ended September 8, 2024, the Fund paid the Trustees \$157,000 (2023 - \$104,000). During the quarter, the Fund paid the Trustees \$84,000 (2023 - \$31,000). The amounts paid to the Trustees during the quarter

## **A&W Revenue Royalties Income Fund**

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(figures in tables are expressed in thousands of dollars)

and year to date period ended September 8, 2024, include \$60,000 related to the Transaction, which have been capitalized and included in Other Assets.

### **11. Related party transactions and balances**

During the year to date period ended September 8, 2024, royalty income of \$38,260,000 (2023 - \$37,917,000) was earned from Food Services of which \$4,474,000 is receivable at September 8, 2024 (December 31, 2023 - \$4,094,000) and was paid on October 3, 2024, subsequent to the period end. Royalty income earned during the quarter was \$13,742,000 (2023 - \$13,705,000).

During the year to date period ended September 8, 2024, Trade Marks declared eight dividends payable to Food Services totaling \$5,771,000 (2023 - \$5,353,000) as a result of Food Services' ownership of Trade Marks' common shares. The eighth dividend amounted to \$721,000 and was declared on September 6, 2024 but paid to Food Services, subsequent to the period end, on September 27, 2024 and is therefore reported as a current liability as at September 8, 2024 (December 31, 2023 - \$nil). During the quarter Trade Marks declared three dividends payable to Food Services totaling \$2,164,000 (2023 - \$2,007,000).

During the year to date period ended September 8, 2024, the Fund declared eight distributions payable to Food Services totaling \$1,929,000 (2023 - \$1,929,000) as a result of Food Services' ownership of Limited Voting Units. The eighth distribution amounted to \$241,000 and was declared on September 6, 2024 but paid to Food Services, subsequent to the period end, on September 27, 2024 and is therefore reported as a current liability as at September 8, 2024 (December 31, 2023 - \$241,000). During the quarter the Fund declared three distributions payable to Food Services totaling \$723,000 (2023 - \$723,000).

During the year to date period ended September 8, 2024, Trade Marks recognized an expense of \$143,000 (2023 - \$143,000) related to administrative services received from Food Services. During the quarter, Trade Marks recognized an expense of \$48,000 related to administrative services received from Food Services (2023 - \$48,000).

Other related party transactions and balances are referred to in notes 3 and 6.

### **12. Subsequent events**

On October 1, 2024, the Fund declared a distribution to Unitholders of \$0.16 per Trust Unit or \$2,575,000 payable on October 21, 2024 to Unitholders of record as at October 15, 2024. Of the \$2,575,000 payable, \$241,000 is payable to Food Services.

**A&W Revenue Royalties Income Fund**

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

September 8, 2024

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(figures in tables are expressed in thousands of dollars)

On October 1 2024, Trade Marks declared dividends on its common shares equal to \$3,296,000, payable to Food Services and the Fund on October 21, 2024. Of the \$3,296,000 payable, \$721,000 is payable to Food Services.

Other subsequent events are referred to in note 6.

## 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 <sup>(1)</sup><sup>(2)</sup>  
Fern Glowinsky <sup>(1)</sup><sup>(2)</sup>  
Andrew W. Dunn <sup>(1)</sup><sup>(2)</sup>

#### 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

<sup>(1)</sup> Audit Committee and  
<sup>(2)</sup> Governance Committee

### Market Information

Units Listed: Toronto Stock Exchange  
Symbol: AW.UN

### Registrar and Transfer Agent

Computershare Investor Services Inc.

### Investor Enquiries

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Chief Financial Officer

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