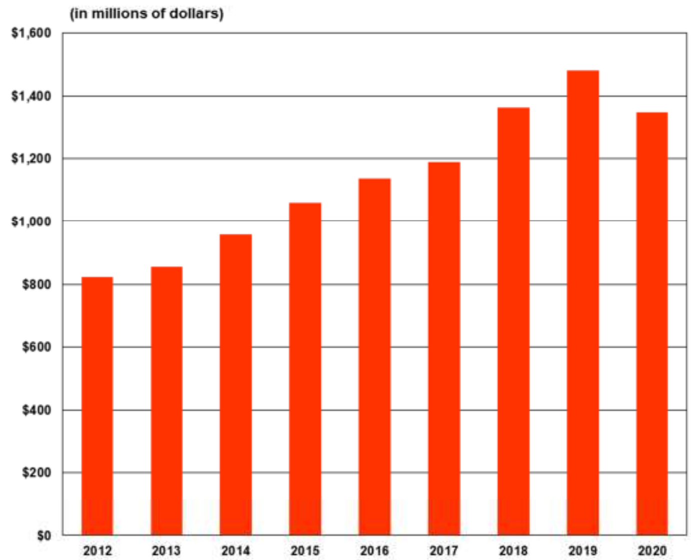
A&W REVENUE ROYALTIES INCOME FUND

ANNUAL REPORT

2020

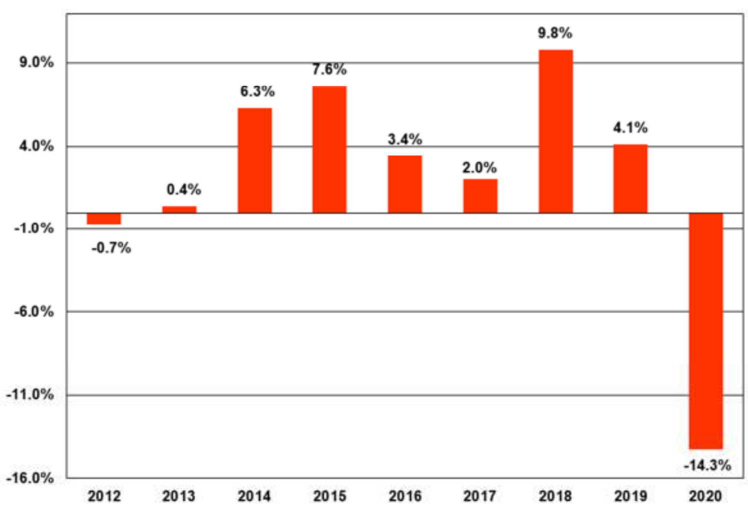
Chosen and trusted for truly good food.

Royalty Pool Sales

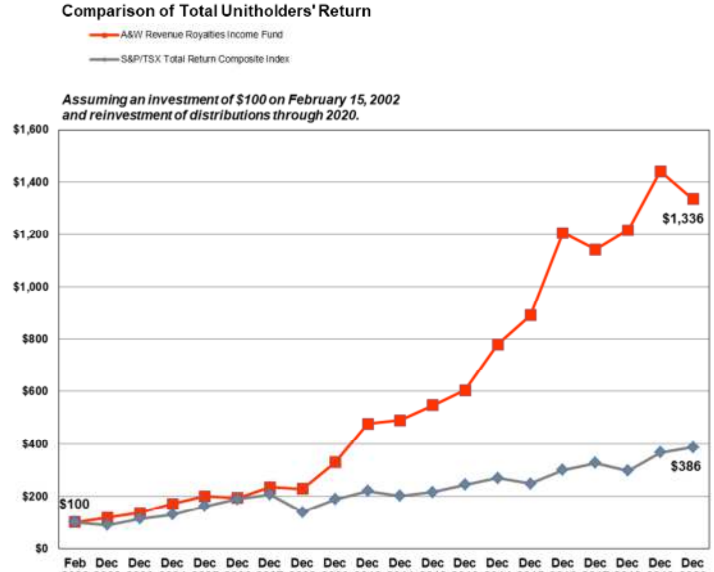


Distributions to Unitholders

Same Store Sales Growth



Comparison of Total Unitholders' Return



Chairman's Report to Unitholders

On behalf of the Trustees of the A&W Revenue Royalties Income Fund (the Fund), these are the results for the year ended December 31, 2020.

A&W same store sales for A&W restaurants in the royalty pool decreased by 9.3% for the fourth quarter of 2020 as compared to the fourth quarter of 2019. Annual same store sales decreased by 14.3% as compared to 2019. These declines were a direct result of the COVID-19 pandemic. During the first wave of the COVID-19 pandemic, a total of 230 A&W restaurants (out of 971 restaurants in the Royalty Pool) were temporarily closed. For most of the second and fourth quarters, A&W restaurants which were operating were restricted to drive-thru operations, limited take-out, delivery and mobile ordering only. After seeing steady improvements in the third quarter, with a number of A&W restaurants permitted to re-open for limited dine-in sales, some provinces increased restrictions due to the resurgence of COVID-19 cases in the fourth quarter. As at December 31, 2020, 42 A&W restaurants in the Royalty Pool remained temporarily closed due to these increased restrictions. As at February 16, 2021, 30 restaurants remained temporarily closed. These temporarily closed A&W restaurants are expected to reopen when permitted to do so, however, there continues to be uncertainty related to COVID and the impact on our business. It is possible that there could be temporary further closures or that the number of restaurants closed increases again as the situation evolves in the next year.

Food Services deferred royalty payments totaling $7,448,000 payable to the Fund for gross sales reported by restaurants in the Royalty Pool for the period of February 24, 2020 to May 17, 2020. In July, Food Services resumed regular royalty payments to the Fund, commencing with the royalty payment in respect of gross sales reported by restaurants in the Royalty Pool for the four-week period beginning May 18, 2020, which was paid in full on July 10, 2020. On December 3, 2020, Food Services paid the deferred royalty payments in full, plus accrued interest to the Fund.

In March 2020, the Trustees temporarily suspended monthly distributions for the months of March, April, and May 2020. Regular monthly distributions on the units of the Fund resumed commencing with the June distribution of 10 cents per unit that was paid to unitholders on July 31, 2020. The Trustees are pleased to report that two Special distributions to unitholders were declared and paid in the fourth quarter of 2020, totaling 50 cents per unit. The decision to recommence monthly distributions and declare two Special distributions was based on the improvement in the performance of A&W restaurants and the resumption of royalty payments by A&W Food Services. The Trustees are also reporting that distributions will be increased from 10 cents per unit to 13.5 cents per unit beginning with the February 2021 distribution payable at the end of March. The new rate of $1.62 is consistent with the $1.618 of distributable cash generated by the Fund in 2020.

On behalf of the Trustees, I would like to express my sincere thanks to our unitholders for the trust and confidence you have placed in the A&W Revenue Royalties Income Fund during the COVID-19 pandemic, which has affected each of us in different ways. I want to once again recognize the commitment of our guests, A&W franchisees and employees, all of whom have been directly impacted by this pandemic.

(signed) John R. McLernon
Chairman
A&W Revenue Royalties Income Fund

Report to Fund Unitholders

A&W's strong franchisee community and corporate team worked together as never before to navigate the uncertainties and challenges of 2020. Actions required in response to the pandemic adversely affected A&W operations, including the temporary closure of a large number of restaurants. We believe strongly in our Climate goals, one of which is "Doing What's Right" and this was demonstrated very clearly in our response to COVID. Our focus and actions in 2020 centered on prioritizing safety for guests and the restaurant teams, and supporting societal efforts to reduce the spread of COVID-19. We are committed to maintaining this focus and diligence.

Overall system sales declined by 10.8%, bringing our total system sales in 2020 to $1.38 billion. Same store sales declines of 14.3% were a result of the impact of COVID-19 on food service traffic and restaurant operations.

Despite facing many COVID related headwinds, we were still able to open 23 new A&W restaurants in 2020, bringing the total number of restaurants in the chain to 1006. A&W also expanded on its strategy to make ordering and enjoying A&W's menu options more convenient and accessible through use of the mobile app, curbside drive-in and third party delivery.

In August, A&W was proud to again partner with the Multiple Sclerosis Society of Canada and Christine Sinclair to celebrate its first ever Take-Out Burgers to Beat MS Day, which raised over $1.3M. Through the generosity of our guests and the commitment of our restaurant teams, the annual campaign has now raised more than $16 million which has been used to fund world-class MS research, programs, services, and advocacy efforts that aim to improve the quality of life for Canadians living with and affected by the disease.

In closing, we believe that, while it will take time, the food service industry will recover from the impact of the pandemic. Our objective is to ensure that A&W restaurants are able to operate safely and emerge from this time of uncertainty in a financial condition that enables them to compete effectively and grow their business. Industry-leading innovation, continued commitment to great taste and quality ingredients, and further advances in mobile, curbside and delivery sales channels will continue to broaden our appeal and win guest visits. Rapid growth of new locations, coupled with a combination of successful marketing programs and guest experience improvements will further contribute to making A&W a preferred choice for more and more guests. Our strong market position and the efforts of our operators will help A&W rebound to become #1 with Millennial Burger Lovers, chosen and trusted for truly good food.

(signed) Susan Senecal
President and Chief Executive Officer
A&W Food Services of Canada Inc.

A&W Revenue Royalties Income Fund
Management Discussion and Analysis

This Management Discussion and Analysis (MD&A) covers the fourth quarter period from September 7, 2020 to December 31, 2020 and the year ended December 31, 2020, and is dated February 16, 2021. This MD&A should be read in conjunction with the audited annual consolidated financial statements of the A&W Revenue Royalties Income Fund (the Fund) for the year ended December 31, 2020. Readers are also referred to the audited annual consolidated financial statements of A&W Food Services of Canada Inc. (Food Services) for the 53 week year ended January 3, 2021. Such financial statements and additional information about the Fund and Food Services are available at www.sedar.com or www.awincomefund.ca.

The financial results reported in this MD&A are derived from the audited annual consolidated financial statements of the Fund, which are prepared in accordance with International Financial Reporting Standards (IFRS). The accounting policies applied in the audited annual consolidated financial statements for the year ended December 31, 2020 and this report have been consistently applied to all years presented.

The Fund uses a fiscal year ending December 31. Food Services uses a fiscal year comprising a 52- or 53-week period ending on the Sunday nearest December 31. Food Services' fiscal 2020 year was 53 weeks and ended January 3, 2021 (2019 – 52 weeks ended December 29, 2019). The Fund aligns its quarterly financial reporting with that of Food Services. Readers should be aware that 2020 quarterly results are not directly comparable to 2019 quarterly results, as there were 82 days of sales in Q1 2020 compared to 83 days in Q1 2019. The second and third quarters of both years had 84 days. The fourth quarter of 2020 had 116 days compared to 114 days in the fourth quarter of 2019. Same Store Sales Growth[(i)] is based on an equal number of days in each quarter.

KEY UPDATES

- Same Store Sales Growth[(i)] were -9.3% for the fourth quarter of 2020 as compared to the same quarter of 2019.
- Annual Same Store Sales were -14.3% as compared to 2019.
- Regular monthly distributions to unitholders, which had been temporarily suspended for the months of March, April, and May, were resumed commencing with the June distribution of 10 cents per unit that was paid on July 31, 2020 to unitholders of record as of the close of business on July 15, 2020. See "Impact of COVID-19".
- Following the suspension of distributions in March, April, and May, the Fund paid a special distribution of 30 cents per unit on October 30, 2020 for unitholders of record as of the close of business on October 15, 2020.
- A second special distribution for 20 cents per unit was paid on December 31, 2020 for

unitholders of record as of the close of business on December 15, 2020

- Food Services deferred making royalty payments to the Fund for the gross sales reported by restaurants in the Royalty Pool for the period from February 24, 2020 to May 17, 2020. These payments were subsequently resumed, commencing with the royalty payment in respect of gross sales reported by restaurants in the Royalty Pool for the four-week period beginning May 18, 2020. See “Impact of COVID-19”.
- On December 3, 2020, Food Services paid to the Fund all previously deferred royalty payments together with accrued interest at a rate as prescribed in the License and Royalty Agreement.

The following selected information, other than “Same Store Sales Growth”, “Total distributable cash generated for distributions and dividends”, “Distributable cash per equivalent unit”, “Net income, excluding non-cash items”, “Total distributions and dividends declared and accrued per equivalent unit” and information with respect to numbers of restaurants have been derived from financial statements prepared in accordance with IFRS and all dollar amounts are reported in Canadian currency. See “Non-IFRS Measures”.

(dollars in thousands except per unit amounts)	**Period from Sep 7, 2020 to Dec 31, 2020**	Period from Sep 9, 2019 to Dec 31, 2019	**Period from Jan 1, 2020 to Dec 31, 2020**	Period from Jan 1, 2019 to Dec 31, 2019
Same Store Sales Growth[(i)]	**-9.3%**	-1.9%	**-14.3%**	+4.1%
Number of restaurants in the Royalty Pool	**971**	934	**971**	934
Gross sales reported by A&W restaurants in the Royalty Pool[(ii)]	**$444,977**	$451,279	**$1,347,387**	$1,482,323
Royalty income	**$13,350**	$13,539	**$40,422**	$44,470
General and administrative expenses	**463**	342	**994**	791
Term loan and other interest (net)	**681**	545	**2,177**	2,267
Current income tax provision	**2,798**	2,442	**7,242**	8,269
Total distributable cash generated for distributions and dividends[(iii)]	**$9,408**	$10,210	**$30,009**	$33,143
Distributable cash per equivalent unit (2020 – 18,551,185 units; 2019 – 17,791,555 units)[(iii)(iv)]	**$0.508**	$0.574	**$1.618**	$1.863
Distributions and dividends declared per equivalent unit	**$0.900**	$0.636	**$1.518**	$1.853
Net income[(v)]	**$11,194**	$10,725	**$28,374**	$32,558
Net income excluding non-cash items[(v)]	**$10,573**	$10,246	**$29,699**	$32,736

Notes:

(i) “Same Store Sales” and “Same Store Sales Growth” are calculated as the change in the gross sales reported by A&W restaurants in the Royalty Pool (as defined below) that operated, or were temporarily closed at any point due to COVID-19, during the entire 26 4-week periods ending December 27, 2020, and is based on an equal number of days in each quarter and year. “Same Store Sales” and “Same Store Sales Growth” are non-IFRS measures – see “Non-IFRS Measures”. This important information is provided as it is a key driver of growth in the Fund. See “Sales Performance”.

(ii) “Gross sales reported by A&W restaurants in the Royalty Pool” is calculated in respect of A&W restaurants in Canada in the Royalty Pool (as defined below), as the amount of gross sales reported to Food Services by franchisees of such A&W restaurants in the Royalty Pool without audit, verification or other form of independent assurance and the gross sales of A&W restaurants owned and operated by Food Services in the Royalty Pool, in each case, after deducting amounts for discounts for coupons and other promotional offerings and applicable sales taxes.

(iii) "Distributable cash", "distributable cash per equivalent unit", "total distributions and dividends declared and accrued per equivalent unit" and "payout ratio" are non-IFRS measures. See "Non-IFRS Measures". This information is provided as it identifies the amount of actual cash generated to pay distributions to unitholders and dividends to Food Services. See "Distributable Cash" and footnote (iv) below for more information, including a description of how these non-IFRS measures are calculated.

(iv) The number of equivalent units and distributable cash per equivalent unit in 2020 are calculated on a fully-diluted basis and include the 147,772 LP units (as defined below) exchanged for 295,544 common shares of Trade Marks representing the remaining consideration paid in December 2020 for the January 5, 2020 adjustment to the Royalty Pool. See "Adjustment to the Royalty Pool". The number of equivalent units and distributable cash per equivalent unit in 2019 are calculated on a fully-diluted basis and include the 289,279 LP units exchanged for 578,558 common shares of Trade Marks representing the remaining consideration paid in December 2019 for the January 5, 2019 adjustment to the Royalty Pool.

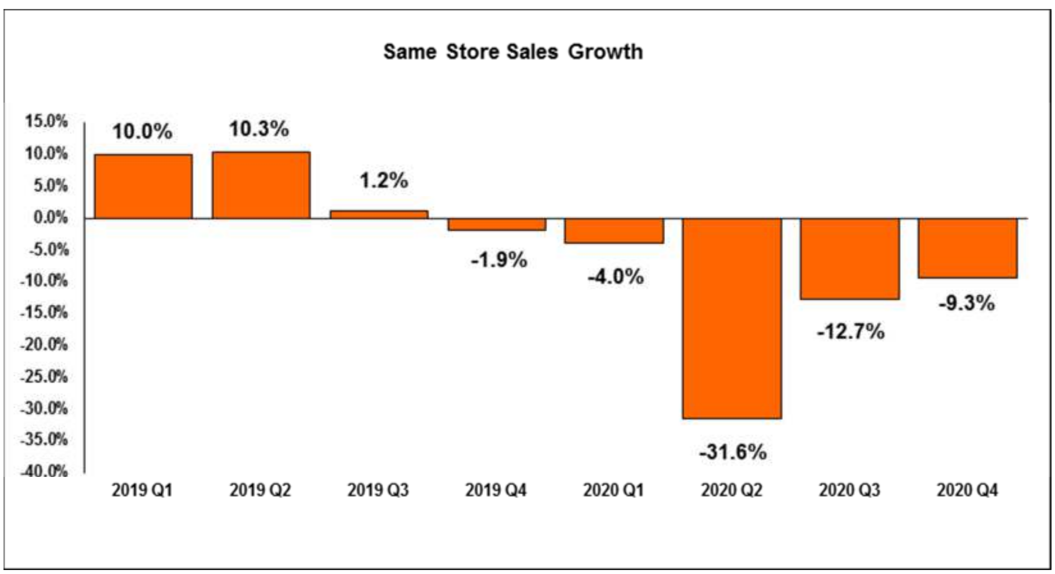
(v) Net income in 2020 and 2019 includes unrealized gains and losses on an interest rate swap, amortization of deferred financing fees and deferred income taxes. These non-cash items have no impact on the Fund's ability to pay distributions to unitholders. The Fund's net income excluding these non-cash items is presented for information purposes only. "Net income excluding non-cash items" is a non-IFRS measure – see "Non-IFRS Measures".

SALES PERFORMANCE

Same Store Sales Growth(i), which is reported in respect of A&W restaurants for which the royalty is payable (the Royalty Pool) by Food Services to A&W Trade Marks Limited Partnership (the Partnership) is a key performance indicator for the Fund. Same Store Sales Growth(1) is the change in sales of A&W restaurants in the Royalty Pool that operated, or were temporarily closed at any point due to COVID-19, during the entire 26 4-week periods ending December 31, 2020.

Same Store Sales(i) for the fourth quarter of 2020 decreased by 9.3% as compared to the same quarter of 2019. Annual Same Store Sales(i) for 2020 decreased by 14.3% compared to 2019. Actions required in response to COVID-19 during the year have adversely impacted A&W restaurant operations across Canada, including the temporary closures of a large number of restaurants. See "Impact of COVID-19".

The chart below shows the Same Store Sales Growth(i) by A&W restaurants in the Royalty Pool for the eight most recently completed quarters.



Gross sales reported by A&W restaurants in the Royalty Pool for the fourth quarter of 2020 were $444,977,000, a 1.4% decrease against sales of $451,279,000 for the fourth quarter of 2019. Annual gross sales reported by A&W restaurants in the Royalty Pool were $1,347,387,000, a 9.1% decrease from sales of $1,482,323,000 for 2019. See "Impact of COVID-19".

OVERVIEW

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

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

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

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

Another important aspect of the Fund is that, as at December 31, 2020, Food Services owned the equivalent of 24.2% (December 31, 2019 – 20.9%) of the units of the Fund on a fully-diluted basis through its ownership of common shares of Trade Marks, which are exchangeable, at the option of Food Services, for units of the Fund on the basis of two common shares for one unit of the Fund. As a result, the interests of Food Services are closely aligned with the interests of unitholders.

Growth in the Fund is achieved in two ways: first, and most importantly, by increasing the Same Store Sales[i] of the A&W restaurants in the Royalty Pool, and second by increasing the number of A&W restaurants to the Royalty Pool each year.

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

IMPACT OF COVID-19

The effects of COVID-19 on many businesses, especially restaurants, have been unexpected, sudden and unprecedented. The future effect of COVID-19 on the economy and businesses, in general, remains uncertain. Governments had been easing restrictions on dine-in restaurants since May 2020 and there have been improvements in sales trends at the A&W restaurants in the Royalty Pool, but many jurisdictions have reversed course due to a resurgence of COVID-19 cases in those areas and it is unclear if those trends will continue. Various levels of government have announced a number of important programs which have helped support individual restaurant businesses, including A&W franchisees; however, the duration of those programs remains uncertain. See “Risks and Uncertainties”.

Actions required in response to the COVID-19 pandemic have adversely affected A&W restaurant operations in Canada, including the temporary closure of a large number of restaurants. At its peak, since March 2020, a total of 230 A&W restaurants (out of 971 restaurants in the Royalty Pool) were temporarily closed. For most of the second and fourth quarters, A&W restaurants, which were operating, were restricted to drive-thru operations, limited take-out, delivery and mobile ordering only. After seeing steady improvements in the third quarter, with a number of A&W restaurants permitted to re-open for limited dine-in sales, some provinces increased restrictions due to the resurgence of COVID-19 cases in the fourth quarter. As at December 31, 2020, 42 A&W restaurants in the Royalty Pool remained temporarily closed due to these increased restrictions. As at February 16, 2021, 30 restaurants remained temporarily closed. These temporarily closed A&W restaurants are expected to reopen when permitted to do so. It is possible that there could be temporary further closures or that the number of restaurants closed increases again as the situation evolves in the next year.

Food Services and its franchisees have continued to take and maintain significant measures in their restaurants and broader operations to protect the health of employees and guests in compliance with physical distancing recommendations and mandates of relevant public health authorities.

Customer traffic in 2020 was down significantly as guests remained at home and practiced physical distancing. These sales declines resulted in significant reductions to the amounts of royalties payable to and earned by the Fund, and, correspondingly, funds available to distribute to unitholders of the Fund, in each case, in relation to prior comparable periods.

To enable Food Services to continue to support the A&W system through this challenging period, Food Services took steps to bolster its liquidity, including an equity investment of $10 million by Food Services’ shareholder (as previously announced by Food Services on April 14, 2020), as well as an increase in Food Services’ credit facility from $6 million to $25 million (as previously announced by Food Services on May 26, 2020). This credit facility is secured solely by Food Services' indirect interest in the Fund, as permitted under the existing agreements between Food Services and the Fund.

Food Services deferred royalty payments totaling $7,448,000 payable to the Fund for gross sales reported by restaurants in the Royalty Pool for the period of February 24, 2020 to May 17, 2020. In July, Food Services resumed regular royalty payments to the Fund, commencing with the royalty payment in respect of gross sales reported by restaurants in the Royalty Pool for the four-week period beginning May 18, 2020, which was paid in full on July 10, 2020. On December 3, 2020, Food Services paid the deferred royalty payments in full plus accrued interest to the Fund.

In March, the Fund had temporarily suspended monthly distributions on the units; accordingly, no distributions were declared by the Fund for the months of March, April, and May 2020. The Trustees had determined that temporarily suspending distributions to unitholders was the most prudent course of action at that time until business conditions and sales trends became less uncertain. Regular monthly distributions to unitholders resumed in the third quarter of 2020, commencing with the June distribution of 10 cents per unit that was paid on July 31, 2020. The Trustees determined to recommence monthly distributions to unitholders in the third quarter based on the improvement in the performance of A&W restaurants in the Royalty Pool and the resumption of royalty payments by Food Services. The Trustees considered the amount of the cumulative surplus of the Fund, reviewed financial and other information regarding the performance of Food Services and the A&W restaurants in the Royalty Pool, and financial projections for the Fund and Food Services and obtained advice from their independent financial advisors and legal counsel.

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

Although there have been improvements in sales trends, restrictions on the operations of A&W restaurants as well as temporary restaurant closures have resulted in material year over year declines to sales at A&W restaurants in the Royalty Pool. These sales declines resulted in significant reductions to the amounts of royalties payable to and earned by the Fund, and, correspondingly, funds available to distribute to unitholders of the Fund, in each case, in relation to prior comparable periods. See "Outlook" and "Risks and Uncertainties".

ADJUSTMENT TO THE ROYALTY POOL

The 2020 annual adjustment to the Royalty Pool took place on January 5, 2020. The number of A&W restaurants in the Royalty Pool was increased by 44 new restaurants less seven restaurants that permanently closed during 2019. The addition of these 37 net new restaurants brought the total number of A&W restaurants in the Royalty Pool to 971**.** The estimated annual sales of the 44 new A&W restaurants were $65,953,000 at the time they were added to the Royalty Pool and annual sales for the seven permanently closed restaurants were $4,078,000 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 $29,079,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the units of the Fund for the 20-trading days ending October 28, 2019. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or $23,263,000, by issuance of 611,858 LP units which were subsequently exchanged for 1,223,716 non-voting common shares of Trade Marks. The final adjustment to the number of units issued was made on December 11, 2020 based on the actual annual sales reported by the new restaurants of $65,533,000 compared to the original estimate of $65,953,000, resulting in total consideration of $28,881,000 payable to Food Services. The remaining consideration of $5,618,000 was paid to Food Services by issuance of 147,772 additional LP units, which were exchanged for 295,544 non-voting common shares of Trade Marks.

On January 5, 2021, the number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants less 11 restaurants that permanently closed during 2020. The initial consideration for the estimated royalty revenue from the net 23 restaurants added to the Royalty Pool is $16,588,000. The Partnership paid Food Services $13,270,000 by issuance of 465,316 LP units, representing 80% of the initial consideration. The LP units were exchanged for 930,632 non-voting common shares of Trade Marks. The remaining 20% or $3,318,000 and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be paid in December 2021 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks.

COMMON SHARES OF TRADE MARKS

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

(dollars in thousands)	Fund			Food Services			Total	
	Number of shares	Trade Marks' book value $	%	Number of shares	Trade Marks' book value $	%	Number of shares	Trade Marks' book value $
Balance as at December 31, 2018	25,009,271	122,494	74.1	8,740,177	105,536	25.9	33,749,448	228,030
January 5, 2019 adjustment to the Royalty Pool(1)	-	-	(4.0)	1,833,586	31,914	4.0	1,833,586	31,914
June 5, 2019 exchange of common shares for units of the Fund(2)	3,120,000	42,111	9.0	(3,120,000)	(42,111)	(9.0)	-	-
Balance as at December 31, 2019	28,129,271	164,605	79.1	7,453,763	95,339	20.9	35,583,034	259,944
January 5, 2020 adjustment to the Royalty Pool(3)	-	-	(3.3)	1,519,260	28,881	3.3	1,519,260	28,881
Balance as at December 31, 2020	28,129,271	164,605	75.8	8,973,023	124,220	24.2	37,102,294	288,825

(1) The number of common shares includes the 289,279 LP units exchanged for 578,558 common shares of Trade Marks representing the remaining consideration paid in December 2019 for the January 5, 2019 adjustment to the Royalty Pool.
(2) On June 5, 2019, Food Services exchanged 3,120,000 common shares of Trade Marks for 1,560,000 units of the Fund, which units were then sold by Food Services at a price of $44.55 per unit pursuant to a short form prospectus of the Fund dated May 29, 2019.
(3) The number of common shares includes the 147,772 LP units exchanged for 295,544 common shares of Trade Marks representing the remaining consideration paid in December 2020 for the January 5, 2020 adjustment to the Royalty Pool.

OWNERSHIP OF THE FUND

The ownership of the Fund as of December 31, 2020 and December 31, 2019, on a fully-diluted basis, is as follows:

	December 31, 2020		December 31, 2019	
	Number of units	**%**	**Number of units**	**%**
Fund units held by public unitholders	14,064,673	75.8	14,064,673	79.1
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services[1]	4,486,512	24.2	3,726,882	20.9
Total equivalent units	18,551,185	100.0	17,791,555	100.0

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

The chart below shows the ownership of the Fund, on a fully-diluted basis, after the initial consideration for the January 5, 2021 adjustment to the Royalty Pool.

	Number of units	**%**
Fund units held by public unitholders	14,064,673	74.0
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services	4,951,828	26.0
Total equivalent units	19,016,501	100.0

FINANCIAL RESULTS

INCOME

Royalty income for the fourth quarter of 2020 was $13,350,000 based on gross sales reported by restaurants in the Royalty Pool[ii] of $444,977,000, compared to royalty income of $13,539,000 and gross sales reported by A&W restaurants in the Royalty Pool[ii] of $451,279,000 for the fourth quarter of 2019. Annual royalty income for 2020 was $40,422,000 based on gross sales reported by restaurants in the Royalty Pool[ii] of $1,347,387,000 compared to royalty income of $44,470,000 and gross sales reported by A&W restaurants in the Royalty Pool[ii] of $1,482,323,000 for 2019. The decrease in royalty income and gross sales for the quarter and year is due to the decline in Same Store Sales[i] as a result of the impact of COVID-19. See “Impact of COVID-19”, “Risks and Uncertainties” and “Outlook”.

EXPENSES

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

(dollars in thousands)	**Period from Sep 7, 2020 to Dec 31, 2020**	Period from Sep 9, 2019 to Dec 31, 2019	**Period from Jan 1, 2020 to Dec 31, 2020**	Period from Jan 1, 2019 to Dec 31, 2019
General and administrative	**$463**	$342	**$994**	$791
Net interest on term loan and other	**$760**	$545	**$2,361**	$2,267
Interest income on deferred royalties	**($79)**	-	**($184)**	-

General and administrative expenses for the fourth quarter of 2020 increased by $121,000 to $463,000 compared to $342,000 for the fourth quarter of 2019. Annual general and administrative expenses for 2020 increased by $203,000 to $994,000 compared to $791,000 for 2019. The increase in general and administrative expenses resulted from higher professional services and fees payable to the trustees of the Fund and independent directors of Trade Marks for their increased meetings and consultations with professional advisors due to COVID-19.

Net interest on the term loan and other was $760,000 for the fourth quarter of 2020, $215,000 higher compared to the fourth quarter of 2019. Annual interest expense was $2,361,000, $94,000 higher than 2019. The increase was due to a higher effective interest rate. An interest rate swap agreement is used to manage risks from fluctuations in interest rates and facilitate uniform monthly distributions when paid. See "Liquidity and Capital Resources".

Food Services deferred royalty payments totaling $7,448,000 payable to the Fund for gross sales reported by restaurants in the Royalty Pool for the period February 24, 2020 to May 17, 2020, and paid this amount in full to the Fund on December 3, 2020 along with accrued interest of $184,000.

UNREALIZED (GAIN) LOSS ON INTEREST RATE SWAP

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

(dollars in thousands)	**Period from Sep 7, 2020 to Dec 31, 2020**	Period from Sep 9, 2019 to Dec 31, 2019	**Period from Jan 1, 2020 to Dec 31, 2020**	Period from Jan 1, 2019 to Dec 31, 2019
Unrealized (gain) loss on interest rate swap	**($342)**	($720)	**$1,362**	$173

See "Liquidity and Capital Resources".

INCOME TAXES

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

(dollars in thousands)	**Period from Sep 7, 2020 to Dec 31, 2020**	Period from Sep 9, 2019 to Dec 31, 2019	**Period from Jan 1, 2020 to Dec 31, 2020**	Period from Jan 1, 2019 to Dec 31, 2019
Current				
Current income tax provision	**$2,798**	$2,442	**$7,242**	$8,269
Refundable income tax	**(1,165)**	(36)	**310**	407
Deferred	**(290)**	231	**(71)**	(28)
Total provision for income taxes	**$1,343**	$2,637	**$7,481**	$8,648

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

Trade Marks' taxable income is taxed at an effective rate of 20.0% (2019 – 20.0%), plus an additional tax of 30.67% (2019 – 30.67%) on investment income which is refundable at a rate of 38.33% (2019 – 38.33%) for each dollar Trade Marks pays out in taxable dividends to its shareholders. Trade Marks' provision for income taxes for 2020 includes a payable of refundable income tax of $310,000 based on its taxable income and dividends paid in 2020. Under IFRS, refundable income tax is recognized on the income statement when it is paid or payable and subsequently when it is received or receivable. Management expects that the net refundable income tax paid in 2020 and prior years will be recovered in future years when sufficient dividends are paid by Trade Marks.

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

NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income was as follows:

(dollars in thousands)	**Period from Sep 7, 2020 to Dec 31, 2020**	Period from Sep 9, 2019 to Dec 31, 2019	**Period from Jan 1, 2020 to Dec 31, 2020**	Period from Jan 1, 2019 to Dec 31, 2019
Net income and comprehensive income attributable to unitholders of the Fund	**$8,382**	$8,576	**$21,508**	$24,907
Net income and comprehensive income attributable to Food Services' non-controlling interest in Trade Marks	**2,812**	2,149	**6,866**	7,651
Total net income and comprehensive income	**$11,194**	$10,725	**$28,374**	$32,558

DISTRIBUTABLE CASH

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

Distributable cash is calculated as the operating cash flows of the Fund, adjusted for net changes in items of working capital. Changes in items of working capital are excluded as the Fund’s working capital requirements are not permanent and are primarily due to the timing of payments between related parties. No deduction is made for capital expenditures as the Fund has no capital expenditures. Distributable cash per equivalent unit is calculated as distributable cash divided by the weighted average number units of the Fund outstanding during the relevant period on a fully diluted basis. There are no restrictions on distributions by the Fund arising from compliance with financial covenants. Total distributions and dividends declared and accrued per equivalent unit is calculated as the sum of (i) distributions and dividends declared per equivalent unit in respect of each full calendar month in the applicable period, and (ii) the aggregate run-rate amount of the current monthly distribution for the remainder of the calendar year, with the sum of (i) and (ii) pro-rated based on the number of days in such period. The payout ratio is calculated by dividing total distributions declared and accrued per equivalent unit, by the distributable cash per equivalent unit generated in that period.

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

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

(dollars in thousands)	**Period from Sep 7, 2020 to Dec 31, 2020**	Period from Sep 9, 2019 to Dec 31, 2019[2]	**Period from Jan 1, 2020 to Dec 31, 2020**	Period from Jan 1, 2019 to Dec 31, 2019[2]
Net cash generated from (used in) operating activities	**$14,629**	$10,163	**$30,409**	$35,111
Changes in non-cash working capital including interest and tax	**(5,221)**	47	**(400)**	(1,968)
Distributable cash[iii]	**$9,408**	$10,210	**$30,009**	$33,143
Cumulative surplus – beginning of period	**13,652**	8,142	**7,429**	7,660
Distributable cash[iii] for unitholders at current annual distribution rate (2020 –$1.518 per unit, 2019 - $1.853 per unit) [2][3]	**(11,570)**	(8,804)	**(21,350)**	(25,139)
Distributable cash[iii] for Food Services at equivalent annual distribution rate (2020 – $1.518 per equivalent unit, 2019 - $1.853 per equivalent unit) [3]	**(3,688)**	(2,155)	**(6,811)**	(7,828)
Refundable income tax (see "Income Taxes")	**1,165**	36	**(310)**	(407)
Cumulative surplus – end of period	**$8,967**	$7,429	**$8,967**	$7,429
Number of equivalent units[iv]	**18,551,185**	17,791,555	**18,551,185**	17,791,555
Distributable cash[iii] per equivalent unit[iv]	**$0.508**	$0.574	**$1.618**	$1.863
Monthly distributions declared per unit[1][3]	**$0.400**	$0.636	**$1.018**	$1.853
Special distributions declared per unit[4]	**$0.500**	-	**$0.500**	-
Total distributions and dividends declared and accrued per equivalent unit[iii]	**$0.823**	$0.579	**$1.518**	$1.853
Payout ratio[iii]	**162.0%**	100.9%	**93.8%**	99.5%

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

(2) Distributable cash for unitholders and Food Services and cumulative surplus have been adjusted for 2019 to reflect actual distributions paid to unitholders and Food Services in 2019.

(3) On March 31, 2020, the Trustees approved the temporary suspension of monthly distributions on the units; accordingly, no distributions were declared by the Fund in Q2 2020. On July 7, 2020 the Fund announced that the Trustees approved the resumption of regular monthly distributions to unitholders commencing with the June distribution of 10 cents per unit that was paid on July 31, 2020. See "Impact of COVID-19".

(4) On October 13, 2020, the Trustees declared a Special Distribution of 30 cents per unit payable on October 30, 2020 to unitholders of record on October 23, 2020. On December 3, 2020, the Trustees declared a Special Distribution of 20 cents per unit payable on December 31, 2020 to unitholders of record on December 15, 2020.

Distributable cash generated in the fourth quarter of 2020 to pay distributions to unitholders and dividends to Food Services was $9,408,000 compared to $10,210,000 in the fourth quarter of 2019. Distributable cash generated in 2020 to pay distributions to unitholders and dividends to Food Services was $30,009,000 compared to $33,143,000 in 2019. The $3,134,000 annual decrease in distributable cash was attributable to the $4,048,000 decrease in royalty income and

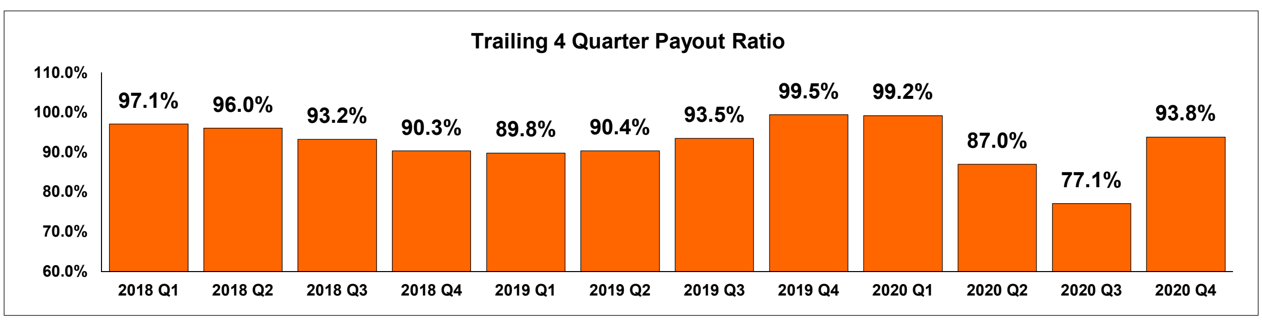
$203,000 increase in general and administrative expenses, partially offset by the $1,027,000 decrease in the current income tax provision (excluding refundable income tax) and $90,000 decrease in net interest expense.

Distributable cash per equivalent unit decreased by 6.6 cents to 50.8 cents per unit in the fourth quarter of 2020 from 57.4 cents per unit for the fourth quarter of 2019. Annual distributable cash per equivalent unit decreased by 24.5 cents to $1.618 per unit for 2020 from $1.863 per unit for 2019. The decrease in distributable cash per equivalent unit in the quarter was attributable to the decrease in royalty income and increase in general and administrative expenses, partially offset by the decrease in current income taxes and net interest expense.

Nine regular monthly distributions totaling $1.018 per unit were declared in 2020 compared to twelve regular monthly distributions totaling $1.853 per unit in the comparable period in 2019. No monthly distributions were declared in the second quarter of 2020 as the Trustees had previously temporarily suspended monthly distributions on the units commencing with the March distribution that would ordinarily have been declared in April 2020. The Trustees approved the resumption of regular monthly distributions to unitholders commencing with the June distribution of 10 cents per unit that was paid on July 31, 2020. The Trustees declared and paid two Special distributions totaling 50 cents per unit in the fourth quarter of 2020. Total monthly distributions and Special distributions declared in 2020 were $1.518 per unit as compared to total monthly distributions of $1.853 per unit in 2019. See “Impact of COVID-19”.

The annual payout ratio for 2020 was 93.8% compared to 99.5% for 2019. The Fund’s long-term objective is to maintain an annual payout ratio at or below 100%; however, as the Fund strives to provide unitholders with regular monthly distributions (absent unique circumstances, such as those resulting in the declaration of Special distributions), and as a result of seasonality of sales in A&W restaurants, the Fund historically experiences seasonal fluctuations in its payout ratio.

The following table shows the trailing four quarter payout ratios for 2018, 2019 and 2020. Payout ratio is a non-IFRS measure - see “Non-IFRS Measures”.



The cumulative surplus of distributable cash on reserve at the end of 2020 was $8,967,000, compared to a reserve of $7,429,000 at the beginning of the year, an increase of $1,538,000.

DISTRIBUTIONS TO UNITHOLDERS

Distributions declared and paid during 2020 were as follows:

(dollars in thousands except per unit amounts) Month	Record date	Amount	Per unit
January	February 15, 2020	$2,236	$0.159
February	March 15, 2020	2,237	0.159
March	-	-	-
April	-	-	-
May	-	-	-
June	July 15, 2020	1,406	0.100
July	August 15, 2020	1,407	0.100
August	September 15, 2020	1,406	0.100
September	October 15, 2020	1,407	0.100
Special Distribution	October 23, 2020	4,219	0.300
October	November 15, 2020	1,406	0.100
November	December 15, 2020	1,407	0.100
Special Distribution	December 15, 2020	2,813	0.200
December	December 31, 2020	1,406	0.100
		$21,350	**$1.518**

As noted above, on March 31, 2020, the Trustees temporarily suspended monthly distributions on the units commencing with the March distribution that would ordinarily have been declared in April 2020. On July 7, 2020, the Fund announced that the Trustees approved the resumption of monthly distributions to unitholders commencing with the June distribution of 10 cents per unit that was paid on July 31, 2020. In the fourth quarter of 2020, the Trustees declared two Special distributions totaling 50 cents per unit. In making that determination, the Trustees considered the amount of the cumulative surplus of the Fund at the end of the third quarter, reviewed financial and other information regarding the recent performance of A&W Food Services and the A&W restaurants in the Royalty Pool and financial projections for the Fund and A&W Food Services for the remainder of 2020 and obtained advice from their independent financial advisors and legal counsel. See “Impact of COVID-19”.

The December 2020 distribution was declared on December 11, 2020 and paid on January 29, 2021 to unitholders of record as of the close of business on December 31, 2020, and is reported as a current liability as at December 31, 2020. On February 3, 2021, the Fund declared the January 2021 monthly distribution to Unitholders of $0.100 per unit or $1,406,000 payable on February 26, 2021 to unitholders of record as at February 15, 2021.

TAX TREATMENT OF DISTRIBUTIONS

All of the distributions declared in 2020 are designated as non-eligible dividends.

DIVIDENDS ON TRADE MARKS' COMMON SHARES

During 2020, Trade Marks declared dividends on its voting and non-voting common shares as follows:

(dollars in thousands except per share amounts) Month declared/paid	Per share	Aggregate amount paid to the Fund	Aggregate amount paid/payable to Food Services
January	$0.0795	$2,236	$690
February	0.0795	2,237	690
March	-	-	-
April	-	-	-
May	-	-	-
June	0.0500	1,406	434
July	0.0500	1,407	434
August	0.0500	1,406	434
September	0.0500	1,407	434
Special Dividend	0.1500	4,219	1,302
October	0.0500	1,406	434
November	0.0500	1,407	448
Special Dividend	0.1000	2,813	897
December	0.0500	1,406	449
	$0.7590	**$21,350**	**$6,646**

In addition to the dividends on voting and non-voting common shares above, Trade Marks declared and paid to Food Services a special dividend of $165,000 on December 11, 2020 representing the dividends that Food Services would have received on the 295,544 non-voting common shares issued to Food Services on December 11, 2020 in relation to the final consideration for the January 5, 2020 adjustment to the Royalty Pool, had such shares been issued on January 5, 2020.

Trade Marks temporarily suspended monthly dividends on its voting and non-voting common shares commencing with the March dividend that would ordinarily have been declared in April 2020. Declaration of dividends was reinstated on July 7, 2020, commencing with the June dividend of 5 cents per share which was paid to the Fund on July 31, 2020. Food Services agreed with the Fund and Trade Marks that dividends declared on the common shares of Trade Marks held by Food Services would not be paid to Food Services until Food Services paid all deferred royalties, together with interest. Accordingly, dividends declared payable to Food Services commencing with the June 2020 dividend were not paid to Food Services until after December 3, 2020 when Food Services paid the deferred royalties and interest in full to the Fund. See "Impact of COVID-19".

On February 3, 2021, Trade Marks declared an aggregate dividend on its voting and non-voting common shares of $1,902,000 payable to Food Services and the Fund on February 26, 2021.

SUMMARY OF QUARTERLY RESULTS

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

(dollars in thousands except per unit amounts)	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Number of restaurants in the Royalty Pool	971	971	971	971
Royalty income	$13,350	$10,216	$7,596	$9,260
General and administrative expenses	463	124	214	193
Net interest on term loan and other	681	444	543	509
Amortization of deferred financing fees	11	7	8	8
Unrealized (gain) loss on interest rate swap	(342)	(232)	99	1,837
Current income tax expense	2,798	1,447	1,967	1,030
Refundable income tax expense (recovery)	(1,165)	507	1,145	(177)
Deferred income tax expense (recovery)	(290)	527	(620)	312
Net income	$11,194	$7,392	$4,240	$5,548
Distributable cash(1)	$9,408	$8,201	$4,872	$7,528
Number of equivalent units(iv)	18,551,185	18,551,185	18,551,185	18,551,185
Distributable cash per equivalent unit(1)(iv)	$0.508	$0.442	$0.262	$0.406
Total distributions and dividends declared per equivalent unit(2)	$0.900	$0.300	-	$0.318
Number of days in the quarter	116	84	84	82
(dollars in thousands except per unit amounts)	**Q4 2019**	**Q3 2019**	**Q2 2019**	**Q1 2019**
Number of restaurants in the Royalty Pool	934	934	934	934
Royalty income	$13,539	$11,111	$10,555	$9,265
General and administrative expenses	342	51	117	281
Net interest on term loan and other	545	573	577	572
Amortization of deferred financing fees	10	8	7	8
Unrealized (gain) loss on interest rate swap	(720)	(203)	287	809
Current income tax expense	2,442	2,125	1,997	1,705
Refundable income tax recovery	(36)	(67)	100	410
Deferred income tax expense	231	11	(84)	(186)
Net income	$10,725	$8,613	$7,554	$5,666
Distributable cash(1)	$10,210	$8,362	$7,864	$6,707
Number of equivalent units(iv)	17,791,555	17,791,555	17,791,555	17,791,555
Distributable cash per equivalent unit(1)(iv)	$0.574	$0.470	$0.442	$0.377
Total distributions and dividends declared per equivalent unit(2)	$0.636	$0.472	$0.455	$0.290
Number of days in the quarter	114	84	84	83

(1) Distributable cash and distributable cash per equivalent unit are non-IFRS measures. See "Non-IFRS Measures" and "Distributable Cash". Distributable cash and distributable cash per equivalent unit in Q2 2020 and Q1 2020 included the royalty payments totaling $7,448,000 deferred and not yet paid by Food Services for the period February 24, 2020 to May 17, 2020, of which none is attributable to Q3 2020, $4,558,000 is attributable to Q2 2020 and $2,890,000 is attributable to Q1 2020. On December 3, 2020, Food Services repaid royalties previously deferred.

(2) The distribution for December of each year, which is paid on the last business day of January of the following year, is declared and recorded in the year in which it is earned. Therefore, four monthly distributions are declared in the fourth

quarter of each year, and two monthly distributions are declared in the first quarter of each year. No distributions were declared in the second quarter of 2020 due to the impact of COVID-19. The Trustees approved the resumption of monthly distributions on July 7, 2020 commencing with the June distribution of 10 cents per unit that was paid on July 31, 2020 to unitholders of record as of the close of business on July 15, 2020.

SELECTED ANNUAL INFORMATION

The following selected annual information, other than "Same store sales growth", "Distributable cash" and "Net income, excluding non-cash items", has been prepared in accordance with IFRS and all dollar amounts are reported in Canadian currency. See "Non-IFRS Measures".

(dollars in thousands except per unit amounts)	2020	2019	2018
Same Store Sales Growth(i)	-14.3%	+4.1%	+9.8%
Number of restaurants in the Royalty Pool	971	934	896
Gross sales reported by A&W restaurants in the Royalty Pool(ii)	$1,347,387	$1,482,323	$1,362,996
Royalty income	$40,422	$44,470	$40,890
Distributable cash(iii)	$30,009	$33,143	$31,262
Total distributions declared per unit	$1.518	$1.853	$1.674
Net income	$28,374	$32,558	$31,575
Basic and diluted income per weighted average unit outstanding	$1.529	$1.859	$1.871
Net income, excluding non-cash items(v)	$29,699	$32,736	$32,547
Total assets	$352,976	$322,717	$289,733
Trade Marks' term loan	$59,935	$59,901	$59,869

SEASONALITY

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

LIQUIDITY AND CAPITAL RESOURCES

Modifications to the operations of A&W restaurants in the Royalty Pool in response to COVID-19 as well as temporary restaurant closures have resulted, and are expected to continue to result in, material declines to system sales at A&W restaurants and therefore, gross sales of A&W restaurants in the Royalty Pool. These declines have resulted, and are expected to continue to result, in significant reductions to the amount of royalties payable to and earned by the Fund, and correspondingly, funds available to distribute to unitholders of the Fund, in each case, in relation to prior comparable periods.

Given the extraordinary level of business uncertainty, especially related to the restaurant industry, coupled with the immediate decline in A&W restaurant sales and therefore the royalty payable to the Fund by Food Services, the Fund announced on March 31, 2020 that monthly distributions on the units would be temporarily suspended commencing with the March distribution that would ordinarily have been declared in April 2020. The temporary suspension of the Fund's monthly distributions allowed it to preserve liquidity until the sales by A&W restaurants stabilized at sufficient levels to support the reinstatement of distributions. On July 7, 2020, the Fund announced that the Trustees approved the resumption of monthly distributions to unitholders commencing with the June distribution of 10 cents per unit that was paid on July 31, 2020 to unitholders of record as of the close of business on July 15, 2020. In the fourth quarter of 2020, the Trustees declared two Special distributions totaling 50 cents per unit. The Trustees determined to recommence monthly distributions and declare two Special Distributions on the basis of the improvement in the performance of the A&W restaurants in the Royalty Pool and the resumption of royalty payments by Food Services. In making that determination, the Trustees considered the amount of cumulative surplus of the Fund, reviewed financial and other information regarding the performance of Food Services and the A&W restaurants in the Royalty Pool, and financial projections for the Fund and Food Services for the remainder of 2020 and obtained advice from their independent financial advisors and legal counsel.

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

Trade Marks has a $2,000,000 demand operating loan facility with a Canadian chartered bank (the Bank) to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the Bank's prime rate plus 0.4% and are repayable on demand. As at February 16, 2021 and December 31, 2020, the amount of the facility available was $2,000,000 (December 31, 2019 - $2,000,000).

Trade Marks has a $60,000,000 term loan with the Bank in the form of a banker's acceptance. The term loan is repayable on December 22, 2022. The term loan contains covenants including the requirement to meet certain earnings before interest, taxes, depreciation, amortization and non-cash charges/income ("EBITDA") levels and debt to EBITDA ratios during each trailing four quarter period. Interest only is payable monthly, providing that Trade Marks' EBITDA tested quarterly on a trailing four quarter basis is not less than specified amounts. In the event that EBITDA is less than these specified amounts, the term loan will be fully amortized over the greater of three years and the remaining term and repayment will be by way of blended monthly instalments of principal and interest. Trade Marks was in compliance with all of its financial covenants as at February 16, 2021, December 31, 2020 and December 31, 2019.

Trade Marks uses interest rate swap agreements to manage risks from fluctuations in interest rates. To manage the interest rate risk associated with the $60,000,000 term loan, Trade Marks has entered into an interest rate swap, with an effective date of December 22, 2015 and a maturity date of December 22, 2022. Under this interest rate swap, as at December 31, 2020, the term loan's effective interest rate was 4.20% per annum (December 31, 2019 – 3.95%), comprising 2.80% per annum which is fixed under the swap agreement until December 22, 2022 plus a 1.40% per annum stamping fee. Depending on the performance of the business of Trade Marks, the stamping fee can range between 1.40% and 0.90% in accordance with the following:

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

The fair value of the interest rate swap as at December 31, 2020 was $2,671,000 unfavourable (December 31, 2019 - $1,309,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income as an unrealized loss on interest rate swaps.

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

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

Payments due by period (dollars in thousands)	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Term loan	$60,000	$0	$60,000	$0	$0

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

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS AND BALANCES

During the year, royalty income of $40,422,000 (2019 - $44,470,000) was earned from Food Services of which $3,452,000 is receivable from Food Services at December 31, 2020 (December 31, 2019 - $3,326,000). During the year, Food Services deferred royalty payments payable to the Fund for gross sales reported by restaurants in the royalty pool for the period from February 24, 2020 to May 17, 2020. As contemplated in the Amended and Restated Licence and Royalty Agreement, late payments of royalties accrue interest at the rate of 2% per annum over the prime rate. On December 3, 2020, Food Services paid the previously deferred royalty payments totaling $7,448,000 plus accrued interest of $184,000.

During the year, Trade Marks declared common share dividends payable to Food Services totalling $6,811,000 (2019 - $7,828,000). The dividends paid to Food Services in 2020 include special dividends of $165,000 representing the dividends that Food Services would have received on the 295,544 non-voting common shares issued to Food Services on December 11, 2020 in relation to the final consideration for the January 5, 2020 adjustment to the Royalty Pool, had they been issued on January 5, 2020.

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Significant areas requiring the use of a management estimate are the fair value of the interest rate swap and of the indefinite life intangible assets. The fair value of the interest rate swap is not a "critical accounting estimate" as (i) it does not require the Fund to make assumptions about matters that are highly uncertain at the time the estimate is made, and (ii) a different estimate that could have been used, or changes in the accounting estimates that are reasonably likely to occur from period to period, would not have had a material impact on the Fund's financial condition, changes in financial condition or financial performance. The fair value of the interest rate swap as at December 31, 2020 was $2,671,000 unfavourable (December 31, 2019 - $1,309,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income as an unrealized loss on interest rate swaps.

FINANCIAL INSTRUMENTS

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

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

Management estimates that the fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, distributions payable to unitholders, income taxes payable, and the term loan approximate their carrying values given the short term to maturity of these instruments. The fair value of the interest rate swap is $2,671,000 unfavourable (2019- $1,309,000 unfavourable).

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

The Fund's exposure to credit risk is as indicated by the carrying amount of its accounts receivable. All of the accounts receivable as at December 31, 2020 relate to royalties and other amounts due from Food Services to the Partnership which were paid in full by Food Services on January 29, 2021.

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

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

CAPITAL DISCLOSURE

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

DISCLOSURE CONTROLS

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

As at December 31, 2020, an evaluation of the effectiveness of the Fund's disclosure controls and procedures, as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109) issued by the Canadian Securities Administrators, was carried out under the supervision of and with the participation of management, including the CEO and CFO. Based upon that evaluation, the CEO and the CFO have concluded that as at December 31, 2020, the design and operation of these disclosure controls and procedures were effective in providing reasonable assurance that (i) material information relating to the Fund is made known to the Fund's management, including its CEO and CFO particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Fund in its annual filings, interim filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

As at December 31, 2020, an evaluation of the effectiveness of the Fund's internal controls over financial reporting, as defined in NI 52-109, was carried out under the supervision of and with the participation of management, including the CEO and CFO. Based upon that evaluation, the CEO and the CFO have concluded that as at December 31, 2020, that the Fund's internal controls over financial reporting were operating effectively.

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

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

RISKS AND UNCERTAINTIES

COVID-19

The COVID-19 pandemic has had negative impacts on the Canadian economy, the QSR industry, and the willingness of the general public to dine outside their homes and travel. These have negatively impacted Food Services, its franchisees and the Fund (including Trade Marks and the Partnership), and have adversely affected each of their respective investments, results of operations and financial condition. Restrictions on the operations of A&W restaurants in response to COVID-19 as well as temporary restaurant closures have resulted in material year over year declines to system sales at A&W restaurants in 2020. These declines to system sales have resulted in reductions to the fees payable to Food Services by its franchisees and the amount of royalties payable to the Fund (through the Partnership), and correspondingly, funds available to be paid as dividends by Trade Marks to Food Services and the Fund and available to distribute to unitholders of the Fund, in each case, in relation to prior comparable periods. Food Services may become liable for the lease obligations of certain of its franchisees, if such franchisees default on their leases as a result of the impacts of COVID-19 or otherwise, and such obligations may be significant and Food Services may be unsuccessful in seeking recovery from such franchisees, all of which may adversely affect Food Services' investments, results of operations and financial condition. Food Services' projections may be inaccurate, and do not represent a financial forecast and actual results may differ materially from those anticipated by the projections. Monthly distributions on units, although reinstated, are not guaranteed and may be reduced, suspended or terminated at any time. Recent sales improvements for restaurants in the Royalty Pool may not continue and may slow or regress. Certain A&W restaurants that are currently temporarily closed may not reopen, and further locations may close temporarily or permanently due to the impacts of COVID-19. Government restrictions related to COVID-19 may have their durations extended, or may be reinstated in the case of those that have recently been lifted, which measures may restrict the ability of A&W restaurants to operate, or result in forced closures, further reduced guest traffic, supply interruptions or staff shortages. Government programs expected to be helpful to A&W franchisees may not be available to some franchisees, and may not be available in amounts expected for those franchisees for which such programs are available and may be terminated at any time. As at February 16, 2021, 30 restaurants in the Royalty Pool are temporarily closed due to COVID-19. See "Impact of COVID-19".

In addition, it is unknown if and to what extent the COVID-19 pandemic will alter consumer behaviour and demand for QSR services. Health epidemics or pandemics can adversely affect consumer spending and confidence levels and supply availability and costs, as well as the local operations in impacted markets, all of which can adversely affect the financial results, condition and outlook of Food Services and A&W franchisees. Importantly, the global pandemic resulting from COVID-19 has disrupted global health, economic and market conditions, consumer behavior and A&W restaurant operations beginning in early 2020. Local and national governmental mandates or recommendations and public perceptions of the risks associated with the COVID-19 pandemic have caused, and may continue to cause, consumer behavior to change and worsening or volatile economic conditions, which could continue to adversely affect Food Services' and A&W franchisees' business.

The COVID-19 pandemic may also heighten other risks disclosed herein, such as, but not limited to, those related to consumer behavior, consumer perceptions of the A&W brand, supply chain interruptions, commodity costs and labor availability and cost.

Information regarding the other risks and uncertainties applicable to the business operations of the Fund is contained elsewhere in this MD&A, including under the heading "Forward-Looking Information, and in the Fund's most recent Annual Information Form under the heading "Risk Factors". Additional risks and uncertainties not currently known to the Trustees of the Fund or that are currently not considered to be material may also impair the Fund's business operations. If any of the risks actually occur, the Fund's business, results of operations and financial condition, and the amount of cash available for distribution to unitholders, could be adversely affected.

OUTLOOK

Food Services believes that the food service industry, and more particularly the quick service restaurant (QSR) segment of the industry, will recover from the impact of COVID-19. However, the timing and strength of the recovery cannot yet be predicted with any degree of certainty. Against this backdrop, the success of the A&W brand and individual franchised A&W restaurants is paramount to the long-term success of the overall A&W system and, in turn, to the Fund. Both Food Services and its franchisees have worked diligently to develop and implement plans and programs to mitigate the effects of the COVID-19 pandemic. Food Services' objective is to ensure that as many as possible of A&W's 1,006 restaurants are able to safely operate (as permitted by health authorities and government regulations mandated from time to time) with the objective of emerging from this period of uncertainty in financial condition that enables them to compete effectively and grow their businesses.

Food Services believes that its mission "To become #1 with millennial burger lovers, chosen and trusted for truly good food and the convenience they crave" will help it to rebound from the impact of COVID-19. Strategic initiatives, including repositioning and differentiating the A&W brand through the use of natural ingredients; continued new restaurant growth, and delivering an industry leading guest experience, have all contributed to A&W's strong appeal and the trust it has built with Canadian consumers over many years. These strengths will be key to delivering strong results and improved market share as the QSR industry and the QSR burger market resume growth.

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

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

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

In 2020, A&W announced that all of its beef is grass-fed, from cattle that only graze on grass and other forage, like hay. Also, in 2020, A&W launched its Fairtrade and organic coffee to very positive guest feedback.

Limited time offers in 2020 included the '56 Papa and Mama Burgers with real cheddar cheese, lettuce, tomato, red onions and beef raised without hormones or steroids. The '56 Burgers are a throwback to A&W's decades of serving delicious burgers. The wild-caught Cod Burger and Cod Wrap were also back for a limited time at A&W restaurants in 2020, featuring sustainably-sourced, hand-cut strips of cod, coleslaw and tangy tartar sauce. A&W restaurants also served Fish and Chips for a limited time in 2020, made with its hand-cut strips of wild-caught cod served on a bed of Russet, thick-cut fries with tartar sauce.

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

The 12th annual A&W Burgers to Beat MS campaign, in partnership with the Multiple Sclerosis Society of Canada, raised $1.3 million in 2020 in support of those living with multiple sclerosis. On Thursday, August 20, 2020, Food Services hosted its first ever take-out Burgers to Beat MS Day at A&W restaurants across Canada by donating $2 from every Teen Burger sold on that day to the MS Society of Canada. In 12 years, the annual Burgers to Beat MS campaign has raised more than $16 million, making A&W the single largest annual corporate fundraiser for the MS Society of Canada.

Food Services has continued to grow new A&W restaurants, particularly in the key Ontario and Quebec markets. A milestone was reached in 2020 with the opening of A&W's 1,000th restaurant. During 2020, 23 new A&W restaurants were opened across the country.

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

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

NON-IFRS MEASURES

The Fund believes that disclosing certain non-IFRS financial measures provides readers of this MD&A with important information regarding the Fund's financial performance and its ability to pay distributions to unitholders. By considering these measures in combination with the most closely comparable IFRS measure, if any, the Fund believes that readers are provided with additional and more useful information about the Fund than readers would have if they simply considered IFRS measures alone.

The Fund uses "Same Store Sales", "Same Store Sales Growth", "Distributable cash", "Distributable cash per equivalent unit", "Total distributions and dividends declared and accrued per equivalent unit" ,"Payout Ratio" and "net income, excluding non-cash items" as non-IFRS measures in this report. These measures do not have a standardized meaning prescribed by IFRS and the Fund's method of calculating these measures may differ from those of other issuers or companies and may not be comparable to similar measures used by other issuers or companies.

For further details, including how such measures are calculated by the Fund, see “Key Updates” and “Distributable Cash” above.

FORWARD LOOKING INFORMATION

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

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

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

- the general risks that affect the restaurant industry will not arise, other than those related to COVID-19;
- there are no changes in availability of experienced management and hourly employees;
- there are no material changes in government regulations concerning menu labelling and disclosure and drive-thru restrictions;
- no publicity from any food borne illness;
- no material changes in competition;
- no material increases in food and labour costs;
- the continued availability of quality raw materials;
- continued additional franchise sales and maintenance of franchise operations;
- Food Services is able to maintain and grow the current system of franchises;
- Food Services is able to locate new retail sites in desirable locations;
- Food Services is able to obtain qualified operators to become A&W franchisees;
- no material impact from new or increased sales taxes upon gross sales;
- continued availability of key personnel;
- continued ability to preserve intellectual property;
- no material litigation from guests at A&W restaurants;
- Food Services continues to pay the royalty;
- Food Services can continue to comply with its obligations under its credit arrangements;
- Trade Marks can continue to comply with its obligations and covenants under its credit arrangements;
- current store closures will be temporary and restaurant performance will continue to improve;
- the Fund will receive sufficient revenue in the future (in the form of royalty payments from Food Services) to maintain the payment of monthly distributions;
- the projections for the A&W business provided by Food Services are accurate;
- the impacts of the COVID-19 pandemic on the A&W system will not significantly worsen; and
- Food Services will be successful in executing on its business strategies and such strategies will achieve their intended results.

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

- the general risks that affect the restaurant industry in general and the quick service segment in particular, including competition with other well-capitalized franchisors and operators of quick service restaurants;
- changes in consumer preferences that adversely affect the consumption of quick service restaurant hamburgers, chicken, fries, breakfast items or soft drinks;

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

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

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

- risks related to Food Services not meeting its objectives, and the possibility that its strategies to meet its objectives may not be successful.

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

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

A&W Revenue Royalties Income Fund

Consolidated Financial Statements
December 31, 2020 and 2019
(in thousands of dollars)

Independent auditor's report

To the Unitholders of A&W Revenue Royalties Income Fund

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of A&W Revenue Royalties Income Fund and its subsidiaries (together, the Fund) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Fund's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2020 and 2019;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of unitholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

PricewaterhouseCoopers LLP
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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

Impairment assessment of the intangible assets

Refer to note 3 - Significant accounting policies, judgements and estimation uncertainty and note 4 - Intangible assets to the consolidated financial statements.

The Fund had $340.7 million of intangible assets as at December 31, 2020. The intangible assets are the A&W trade-marks which have an indefinite life. An impairment assessment is conducted annually at the year-end balance sheet date or earlier if events and circumstances dictate. An impairment loss is recognized if the carrying amount of the intangible assets exceeds its recoverable amount.

The recoverable amount is the higher of the intangible assets' fair value less costs to sell and value in use. Management used a value-in-use model to determine the recoverable amount of the intangible assets. The assumptions applied by management in estimating the recoverable amount included projected royalties from the gross sales of A&W restaurants in the Royalty Pool which include when dining rooms would reopen and at what capacity, the revenue growth rates, terminal growth rate and the discount rate. No impairment loss was recorded during the year.

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Our approach to addressing the matter included the following procedures, among others:

- Tested how management determined the recoverable amount of the intangible assets as at December 31, 2020 which, included the following:
  - Evaluated the appropriateness of the method applied and the value-in-use model.
  - Tested the reasonableness of the projected royalties from the gross sales of A&W restaurants in the Royalty Pool which include when dining rooms would reopen and at what capacity, revenue growth rates, and terminal growth rate by comparing them to the current and past performance of the A&W restaurants in the Royalty Pool.
  - With the assistance of professionals with specialized skill and knowledge in the field of valuation, assessed the appropriateness of the discount rate applied.
  - Tested underlying data used in the value-in-use model.
- Examined the disclosures made in the consolidated financial statements related to the intangible assets.

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Key audit matter	How our audit addressed the key audit matter
We considered this a key audit matter due to the significant judgements made by management in developing assumptions to determine the recoverable amount as at December 31, 2020. This in turn resulted in significant audit effort and subjectivity in performing audit procedures to test the recoverable amount determined by management. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.	

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

/s/ PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
February 16, 2021

A&W Revenue Royalties Income Fund

Consolidated Balance Sheets

As at December 31, 2020 and 2019

(in thousands of dollars)

	Note	2020 $	2019 $
Assets			
Current assets			
Cash and cash equivalents		8,548	7,130
Accounts receivable	12	3,530	3,326
Prepaid interest		191	435
		12,269	10,891
Non-current assets			
Intangible assets	4	340,707	311,826
Total assets		352,976	322,717
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		670	501
Distributions payable to Unitholders	10	1,406	2,236
Income taxes payable		1,253	752
		3,329	3,489
Non-current liabilities			
Term loan	5	59,935	59,901
Fair value of interest rate swap	5	2,671	1,309
Deferred income tax liabilities	6	13,953	14,024
		79,888	78,723
Unitholders' Equity			
Fund Units	7	332,950	332,950
Accumulated deficit		(181,586)	(181,744)
		151,364	151,206
Non-controlling interest		121,724	92,788
Total equity		273,088	243,994
Total liabilities and equity		352,976	322,717
Subsequent events	15		

On behalf of the Board of Trustees

(signed) John R. McLernon Trustee

(signed) Richard N. McKerracher Trustee

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

A&W Revenue Royalties Income Fund

Consolidated Statements of Income and Comprehensive Income

For the years ended December 31, 2020 and 2019

(in thousands of dollars except per Unit amounts)

	Note	2020 $	2019 $
Royalty income		40,422	44,470
Expenses			
General and administrative		994	791
Interest expense			
Term loan and other		2,177	2,267
Amortization of financing fees		34	33
		3,205	3,091
Operating income		37,217	41,379
Unrealized loss on interest rate swap	5	1,362	173
Income before income taxes		35,855	41,206
Provision for (recovery of) income taxes			
Current			
Current income tax provision	6	7,242	8,269
Refundable income tax	6	310	407
Deferred	6	(71)	(28)
		7,481	8,648
Net income and comprehensive income for the year		28,374	32,558
Net income and comprehensive income attributable to			
Unitholders of A&W Revenue Royalties Income Fund		21,508	24,907
A&W Food Services of Canada Inc.'s non-controlling interest in A&W Trade Marks Inc.		6,866	7,651
		28,374	32,558
Basic and diluted income per weighted average Unit outstanding		1.529	1.859
Weighted average number of Units outstanding		14,064,673	13,397,933

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

A&W Revenue Royalties Income Fund

Consolidated Statements of Unitholders' Equity

For the years ended December 31, 2020 and 2019

(in thousands of dollars)

	Note	Fund Units $	Accumulated deficit $	Total $	Non-controlling interest $	Total equity $
Balance as at December 31, 2018		263,452	(154,125)	109,327	103,161	212,488
Net income and comprehensive income for the year		-	24,907	24,907	7,651	32,558
Distributions on Units		-	(25,139)	(25,139)	-	(25,139)
Dividends on common shares		-	-	-	(7,828)	(7,828)
Issue of common shares	4	-	-	-	31,915	31,915
Common shares exchanged for Units	7	69,498	(27,387)	42,111	(42,111)	-
Balance as at December 31, 2019		332,950	(181,744)	151,206	92,788	243,994
Net income and comprehensive income for the year		-	21,508	21,508	6,866	28,374
Distributions on Units	10	-	(21,350)	(21,350)	-	(21,350)
Dividends on common shares	12	-	-	-	(6,811)	(6,811)
Issue of common shares	4	-	-	-	28,881	28,881
Balance as at December 31, 2020		332,950	(181,586)	151,364	121,724	273,088

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

A&W Revenue Royalties Income Fund

Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019

(in thousands of dollars)

	Note	2020 $	2019 $
Cash provided by (used in)			
Operating activities			
Net income and comprehensive income for the year		28,374	32,558
Adjustments for:			
Unrealized loss on interest rate swap		1,362	173
Amortization of financing fees		34	33
Interest expense		2,177	2,267
Deferred income tax recovery		(71)	(28)
Refundable income tax expense		310	407
Current income tax provision		7,242	8,269
Net changes in items of non-cash working capital	9	(35)	38
Interest paid		(1,933)	(2,195)
Income taxes paid		(7,051)	(6,411)
Net cash provided by operating activities		30,409	35,111
Financing activities			
Dividends paid to non-controlling interest	12	(6,811)	(7,828)
Distributions paid to Unitholders		(22,180)	(24,691)
Net cash used in financing activities		(28,991)	(32,519)
Increase in cash and cash equivalents		1,418	2,592
Cash and cash equivalents – Beginning of year		7,130	4,538
Cash and cash equivalents – End of year		8,548	7,130

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

(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 Trust Units (Units) under the laws of the Province of British Columbia pursuant to the Declaration of Trust. The Fund is listed on the Toronto Stock Exchange under the symbol AW.UN. The Fund's place of business is located at 300 – 171 West Esplanade, North Vancouver, BC. The Fund was established to invest in A&W Trade Marks Inc. (Trade Marks) which, through its ownership interest in A&W Trade Marks Limited Partnership (the Partnership), owns the A&W trade-marks used in the A&W quick service restaurant business in Canada.

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

2 Basis of preparation

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

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

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

These consolidated financial statements were authorized for issue by the Board of Trustees of the Fund on February 16, 2021.

3 Significant accounting policies, judgments and estimation uncertainty

Basis of measurement

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

(figures in tables are expressed in thousands of dollars)

Consolidation

The consolidated financial statements include the accounts of the Fund and its 75.8% interest in Trade Marks and its subsidiary, the Partnership (together the subsidiaries). The Fund controls its subsidiaries when it is exposed to or it has rights to variable returns from its involvement with its subsidiaries and has the ability to affect those returns through its power over the subsidiaries.

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

Non-controlling interest

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

Functional and presentation currency

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

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant areas requiring the use of management estimates are the fair value of the interest rate swap and in the impairment of testing of intangible assets. The fair value of the interest rate swap estimate is not a "critical accounting estimate" as (i) it does not require the Fund to make assumptions about matters that are highly uncertain at the time the estimate is made, and (ii) a different estimate that could have been used, or changes in the accounting estimate that are reasonably likely to occur from period-to-period, would not have had a material impact on the Fund's financial condition, changes in financial condition or financial performance. Estimates may differ from actuals and may be further impacted by COVID-19.

Cash and cash equivalents

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

Accounts receivable

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

(figures in tables are expressed in thousands of dollars)

Intangible assets – trade-marks

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

Impairment of financial assets

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

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

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

Income per Fund Unit

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

Interest rate swaps

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

(figures in tables are expressed in thousands of dollars)

Income taxes

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

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

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

Revenue recognition

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

Interest

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

Financial instruments

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

(figures in tables are expressed in thousands of dollars)

The Fund classifies its financial instruments in the following categories:

a) Financial assets and liabilities at amortized cost. The Fund classifies its financial assets at amortized cost only if both of the following criteria are met:

   i) the asset is held within a business model whose objective is to collect the contractual cash flows; and

   ii) the contractual terms give rise to cash flows that are solely payments of principal and interest.

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

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

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

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

b) Financial assets at fair value through other comprehensive income (FVOCI): Financial assets at FVOCI comprise:

   i) equity securities which are not held for trading and which the Fund has irrevocably elected at initial recognition to recognize in this category; and

   ii) debt securities where the contractual cash flows are solely principal and interest and the objective of the Fund's business model is achieved both by collecting contractual cash flows and selling financial assets.

(figures in tables are expressed in thousands of dollars)

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

c) Financial assets at fair value through profit or loss (FVPL): The Fund classifies the following financial assets at FVPL:

i) debt instruments that do not qualify for measurement at either amortized cost or FVOCI;

ii) equity instruments that are held for trading; and

iii) equity instruments for which the Fund has not elected to recognize fair value gains and losses through other comprehensive income.

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

4 Intangible assets

	Number of new restaurants	Number of closed restaurants	Number of restaurants in Royalty Pool	Amount $
Balance as at December 31, 2018	1,027	(131)	896	279,912
Annual adjustment January 5, 2019	46	(8)	38	31,914
Balance as at December 31, 2019	1,073	(139)	934	311,826
Annual adjustment January 5, 2020	44	(7)	37	28,881
Balance as at December 31, 2020	1,117	(146)	971	340,707

Annual gross sales reported by the 971 (2019 – 934) A&W restaurants in the Royalty Pool were $1,347,387,000 (2019 - $1,482,323,000).

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

(figures in tables are expressed in thousands of dollars)

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

The 2020 annual adjustment to the Royalty Pool took place on January 5, 2020. The number of A&W restaurants in the Royalty Pool was increased by 44 new restaurants less seven restaurants that permanently closed during 2019. The Partnership paid Food Services $23,263,000, by issuance of 611,858 LP units to Food Services, representing 80% of the initial consideration based on the estimated annual sales of the net new restaurants. The LP units were subsequently exchanged for 1,223,716 non-voting common shares of Trade Marks.

The final adjustment to the number of LP units issued was made on December 11, 2020, based on the actual annual sales reported by the new restaurants. The actual annual sales of the 44 new A&W restaurants were $65,533,000, compared to the original estimate of $65,953,000, resulting in total consideration of $28,881,000 payable to Food Services. The remaining consideration of $5,618,000 was paid to Food Services by issuance of 147,772 additional LP units, which were exchanged for 295,544 non-voting common shares of Trade Marks.

During the second quarter, modifications to the operations of A&W restaurants in response to COVID-19 as well as temporary restaurant closures resulted in declines to sales at A&W restaurants in the Royalty Pool. The impact of COVID-19 on the performance of restaurants in the Royalty Pool was considered to be an impairment trigger, and therefore the Fund performed an impairment test of the indefinite life intangible assets as at June 14, 2020. Management used a value-in-use model to determine the recoverable amount of the indefinite life intangible assets, which had a carrying amount of $335,089,000 as at June 14, 2020. 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. A significant assumption was when dining rooms would reopen and at what capacity. The Fund projected royalties from the gross sales of A&W restaurants in the Royalty Pool, gross profit and cash flows for a period of five years and extrapolated cash flows beyond that using an estimated terminal growth rate of 2%. The Fund assumed a pre-tax discount rate of 10.2% in order to calculate the present value of its projected cash flows. As a result of this test, it was concluded that no impairment was required.

(figures in tables are expressed in thousands of dollars)

Since the second quarter of 2020, no additional triggers for impairment were identified. The Fund performed its annual impairment test on the indefinite life intangible asset as at December 31, 2020, using a value-in-use model with the same estimated terminal growth rate and discount rate used in the test described above. The estimate of expected gross sales of A&W restaurants in the Royalty Pool was updated based on management's revised best estimate as at December 31, 2020. The annual impairment test did not result in impairment.

The Fund performed a sensitivity analysis on the most sensitive assumptions which were revenue growth rates (2%) and the discount rate. A 1% increase in the discount rate would have decreased the amount by which the recoverable amount exceeded the carrying amount by approximately $53,000,000, and would not have resulted in impairment. A 1% decrease in the estimated revenue growth rate would have decreased the amount by which the recoverable amount exceeded the carrying amount by approximately $50,000,000, and would not have resulted in impairment.

5 Term loan and operating loan facility

Trade Marks has a $2,000,000 demand operating loan facility with a Canadian chartered bank (the Bank) to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the Bank's prime rate plus 0.4% and are repayable on demand. As at December 31, 2020, the amount of the facility available was $2,000,000 (December 31, 2019 – $2,000,000).

Trade Marks has a $60,000,000 term loan with the Bank in the form of a banker's acceptance. The term loan is repayable on December 22, 2022. The term loan contains covenants including the requirement to meet certain 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 December 31, 2020 and December 31, 2019.

Trade Marks uses interest rate swap agreements to manage risks from fluctuations in interest rates. To manage the interest rate risk associated with the $60,000,000 term loan Trade Marks has entered into an interest rate swap, with an effective date of December 22, 2015 and a maturity date of December 22, 2022. Under this interest rate swap, as at December 31, 2020, the term loan's effective interest rate was 4.20% per annum (December 31, 2019 – 3.95%), comprising 2.80% per annum which is fixed under the swap agreement until December 22, 2022 plus a 1.40% per annum stamping fee. The stamping fee ranges from 0.90% and 1.40%, depending on Trade Marks' debt to earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) ratio. The fair value of this interest rate swap as at December 31, 2020 was $2,671,000 unfavourable (December 31, 2019 – $1,309,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income and comprehensive income as an unrealized loss on interest rate swaps.

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

(figures in tables are expressed in thousands of dollars)

The term loan comprises:

	2020 **$**	**2019** **$**
Term loan	60,000	60,000
Financing fees	(65)	(99)
	59,935	59,901

6 Income taxes

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

	2020	**2019**
Statutory combined federal and provincial income tax rates on investment income	20%	20%
	$	**$**
Provision for income taxes based on statutory income tax rates	7,171	8,241
Refundable tax	310	407
Provision for income taxes	7,481	8,648

b) Deferred income tax liabilities comprise the following:

	2020 **$**	**2019** **$**
Timing difference of income of A&W Trade Marks Limited Partnership	(476)	(629)
Fair value of interest rate swaps	534	262
Intangible assets	(14,011)	(13,657)
	(13,953)	(14,024)

(figures in tables are expressed in thousands of dollars)

7 Fund Units

The Declaration of Trust provides that an unlimited number of Units may be issued. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions of the Fund and in the net assets of the Fund. All Units have equal rights and privileges. Each Unit entitles the holder thereof to participate equally in allocations and distributions and to one vote at all meetings of Unitholders for each whole Unit held. The Units issued are not subject to future calls or assessments.

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

In 2019, Food Services exchanged 3,120,000 common shares of Trade Marks, with a book value of $42,111,000, for 1,560,000 Units of the Fund, which were then sold by Food Services at a price of $44.55 per Unit. Food Services recognized a gain for this transaction of $24,307,000, net of transaction costs. The net proceeds from the sale were used to pay dividends to Food Services' shareholder.

	Number of Units	Equity $
Balance as at December 31, 2018	12,504,673	263,452
Units issued in exchange for common shares of A&W Trade Marks Inc.	1,560,000	69,498
Balance as at December 31, 2019 and 2020	14,064,673	332,950

Following the 2020 annual adjustment to the Royalty Pool on January 5, 2020 and the final adjustment to the number of LP units on December 11, 2020, Food Services owns approximately 24.2% of the Units of the Fund on a fully diluted basis.

(figures in tables are expressed in thousands of dollars)

8 A&W Trade Marks Inc.

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

	The Fund			Food Services			Total	
	Number of shares	Amount $	%	Number of shares	Amount $	%	Number of shares	Amount $
Balance as at December 31, 2018	25,009,271	122,494	74.1	8,740,177	105,536	25.9	33,749,448	228,030
January 5, 2019 adjustment to the Royalty Pool	-	-	(4.0)	1,833,586	31,914	4.0	1,833,586	31,914
June 5, 2019 exchange of common shares for Units of the Fund	3,120,000	42,111	9.0	(3,120,000)	(42,111)	(9.0)	-	-
Balance as at December 31, 2019	28,129,271	164,605	79.1	7,453,763	95,339	20.9	35,583,034	259,944
January 5, 2020 adjustment to the Royalty Pool	-	-	(3.3)	1,519,260	28,881	3.3	1,519,260	28,881
Balance as at December 31, 2020	28,129,271	164,605	75.8	8,973,023	124,220	24.2	37,102,294	288,825

The summarized financial information of Trade Marks is as follows:

	2020 $	2019 $
Current assets	10,880	8,672
Non-current assets	340,707	311,826
Current liabilities	1,923	1,252
Non-current liabilities	76,559	75,235
Revenue	40,422	44,470
Net income and comprehensive income	28,374	32,558

(11)

(figures in tables are expressed in thousands of dollars)

9 Working capital

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

	2020 $	2019 $
Accounts receivable	(204)	(64)
Accounts payable and accrued liabilities	169	102
	(35)	38

10 Distributions

During the year ended December 31, 2020, the Fund declared distributions to its Unitholders of $21,350,000 or $1.518 per Unit (2019 – $25,139,000 or $1.853 per Unit). The record dates and amounts of these distributions are as follows:

Month	Record Date	Amount $	Per Unit $
January 2020	February 15, 2020	2,236	0.159
February 2020	March 15, 2020	2,237	0.159
March 2020	April 15, 2020	-	-
April 2020	May 15, 2020	-	-
May 2020	June 15, 2020	-	-
June 2020	July 15, 2020	1,406	0.100
July 2020	August 15, 2020	1,407	0.100
August 2020	September 15, 2020	1,406	0.100
September 2020	October 15, 2020	1,407	0.100
Special Distribution	October 23, 2020	4,219	0.300
October 2020	November 15, 2020	1,406	0.100
November 2020	December 15, 2020	1,407	0.100
Special Distribution	December 15, 2020	2,813	0.200
December 2020	December 31, 2020	1,406	0.100
		21,350	1.518

Due to the impact of COVID-19 on the performance of restaurants in the Royalty Pool, the Trustees temporarily suspended monthly distributions on the Units for three months commencing with the distribution for the month of March 2020. On July 7, 2020, the Fund announced that the Trustees approved the resumption of monthly distributions to unitholders commencing with the June distribution of 10¢ per unit that was paid on July 31, 2020. In the fourth quarter of 2020, the Trustees declared two Special distributions for a total of 50¢ per unit.

The December 2020 distribution was declared on December 11, 2020 and paid on January 29, 2021, and is reported as a current liability as at December 31, 2020.

(figures in tables are expressed in thousands of dollars)

11 Compensation to key management

Key management personnel are the Trustees of the Fund. During the year, the Trustees earned $175,000 (2019 – $125,000).

12 Related party transactions and balances

During the year, royalty income of $40,422,000 (2019 – $44,470,000) was earned from Food Services, of which $3,452,000 (2019 – $3,326,000) is receivable from Food Services as at December 31, 2020. During the year, Food Services deferred royalty payments payable to the Fund for gross sales reported by restaurants in the royalty pool for the period from February 24, 2020 to May 17, 2020. As contemplated in the Amended and Restated Licence and Royalty Agreement, late payments of royalties accrue interest at the rate of 2% per annum over the prime rate. On December 3, 2020, Food Services paid the previously deferred royalty payments totalling $7,448,000 plus accrued interest of $184,000.

During the year, Trade Marks paid dividends to Food Services of $6,811,000 (2019 – $7,828,000). The dividends paid to Food Services in 2020 include special dividends of $165,000 representing the dividends that Food Services would have received on the 295,544 non-voting common shares issued to Food Services on December 11, 2020 in relation to the final consideration for the January 5, 2020 adjustment to the Royalty Pool (note 4), had they been issued on January 5, 2020. In 2019, Trade Marks paid special dividends of $490,000 to Food Services representing the dividends that Food Services would have received on the 578,558 non-voting common shares issued to Food Services on December 6, 2019 in relation to the final consideration for the January 5, 2019 adjustment to the Royalty Pool, had they been issued on January 5, 2019.

13 Financial instruments and financial risk management

Fair values

Management estimates that the fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, distributions payable to Unitholders, the demand operating loan facility and the term loan approximate their carrying values given the short term to maturity of these instruments. The fair value of the interest rate swap is $2,671,000 unfavourable (2019 – $1,309,000 unfavourable).

Fair value estimation

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

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

(figures in tables are expressed in thousands of dollars)

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

Credit risk

The Fund's exposure to credit risk is as indicated by the carrying amount of its accounts receivable. All of the accounts receivable relate to royalties and other amounts due from Food Services to the Partnership which were paid on January 29, 2021.

Liquidity risk

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

Interest rate risk

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

14 Capital disclosures

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

(figures in tables are expressed in thousands of dollars)

15 Subsequent events

On January 5, 2021, the number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants less 11 restaurants that permanently closed during 2020. The initial consideration for the estimated royalty revenue from the net 23 restaurants added to the Royalty Pool is $16,588,000. The Partnership paid Food Services $13,270,000 by issuance of 465,316 LP units, representing 80% of the initial consideration. The LP units were exchanged for 930,632 non-voting common shares of Trade Marks. The remaining 20% or $3,318,000 and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be paid in December 2021 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks.

On February 3, 2021, Trade Marks declared dividends on its voting and non-voting common shares of $1,902,000 payable to Food Services and the Fund on February 26, 2021.

On February 3, 2021, the Fund declared a distribution to Unitholders of $0.100 per Unit or $1,406,000, payable on February 26, 2021 to Unitholders of record as at February 15, 2021.

Unitholder Information

Corporate Head Office

A&W Trade Marks Inc.
Notice of Change of Address of Registered and Records Offices: The address of each of the registered office and records office of the Company has recently been changed to:

<u>Registered Office and Records Office:</u>

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

Mailing Address

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

Market Information

Units Listed: Toronto Stock Exchange
Symbol: AW.UN

Registrar and Transfer Agent

Computershare Investor Services Inc.

Investor Enquiries

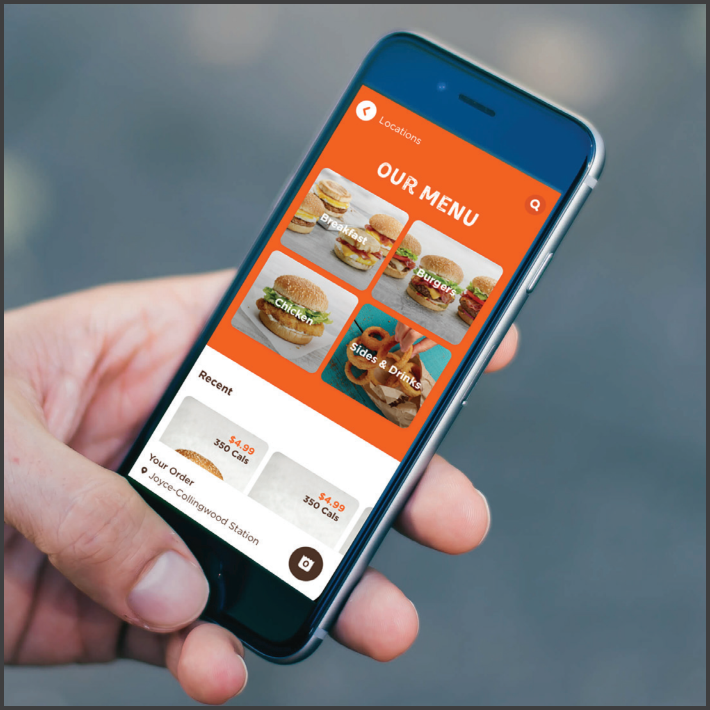
Kelly Blankstein
Chief Financial Officer

Tel: 604-988-2141
Fax: 604-988-5531

E-mail: investorrelations@aw.ca
Website: www.awincomefund.ca


A&W
DRIVE THRU


KALTIRE


Locations
OUR MENU
Breakfast
Burgers
Chicken
Sides & Drinks
Recent
$4.99
350 Cals
$4.99
350 Cals
Your Order
Joyce-Collingwood Station