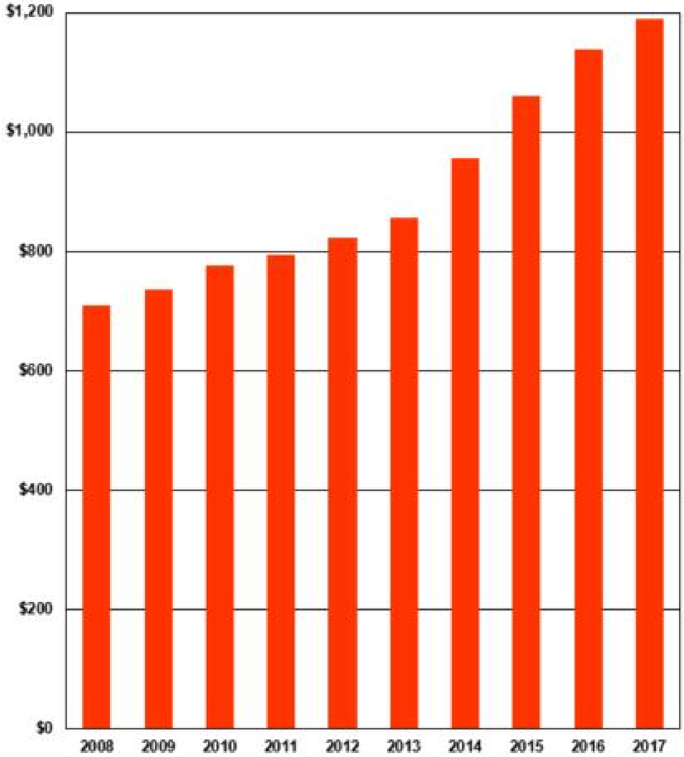
A&W REVENUE ROYALTIES INCOME FUND

2017 Annual Report

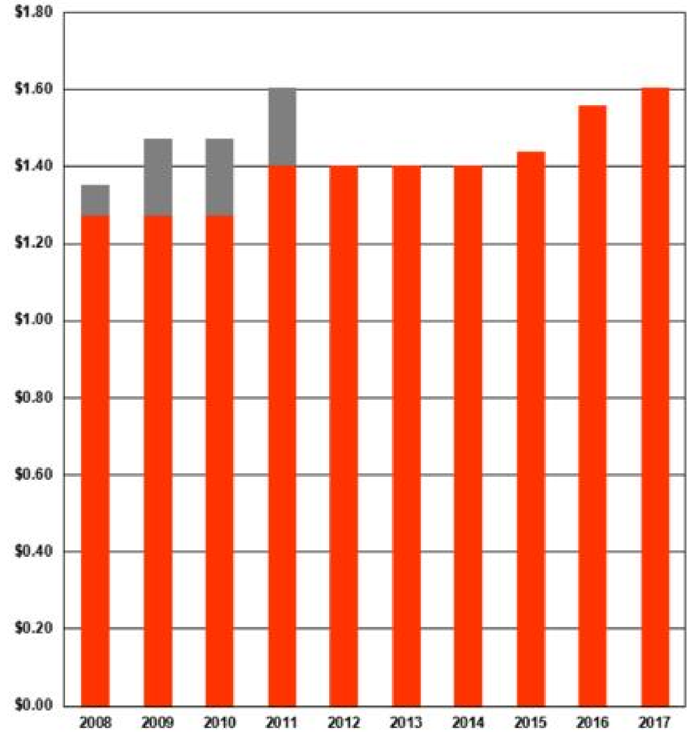
Royalty Pool Sales

(in millions of dollars)

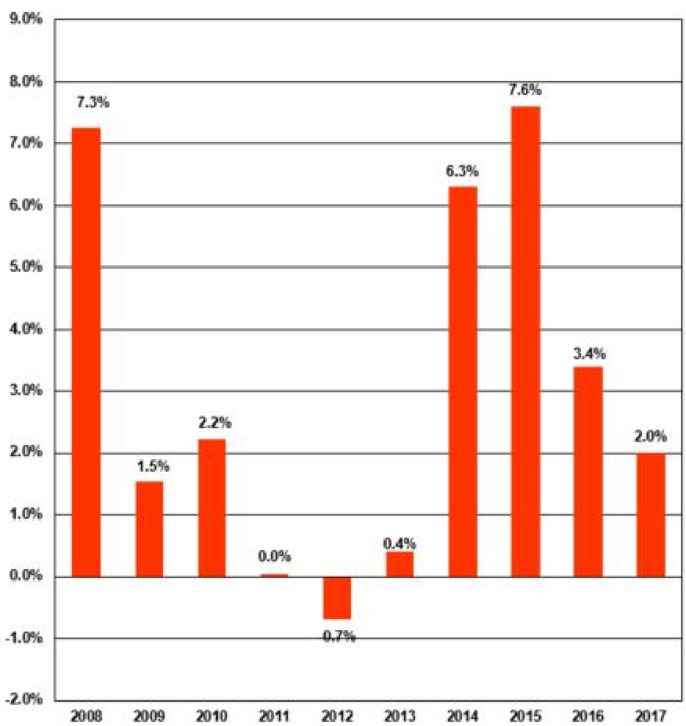


Distributions to Unitholders

Distributions starting 2011 reflect the introduction of the SIFT tax on income trusts.

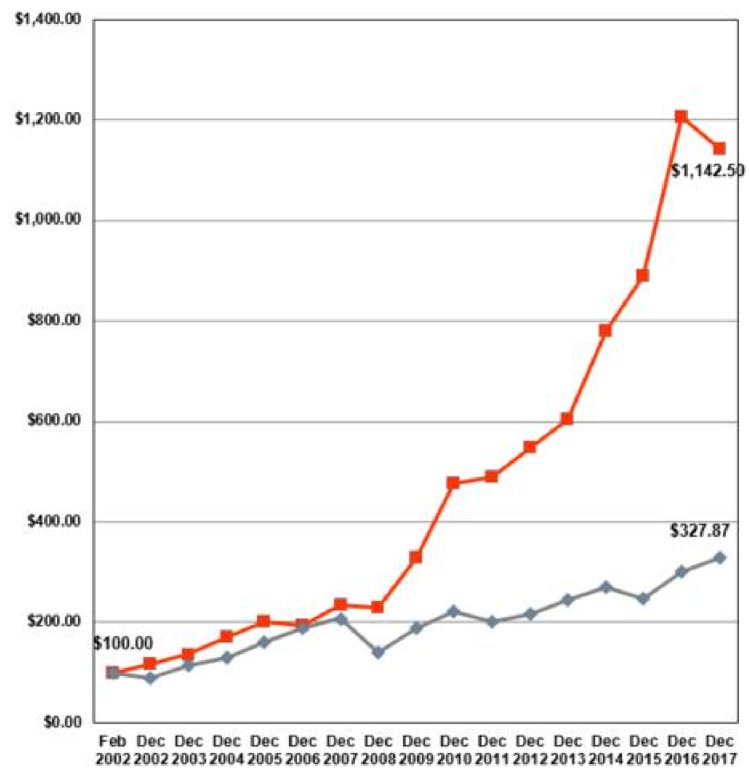


Same Store Sales Growth



Comparison of Total Unitholders' Return

Assuming an investment of $100 on February 15, 2002 and reinvestment of distributions through 2017.



Chairman's Report to Unitholders

On behalf of the Trustees of the A&W Revenue Royalties Income Fund (the Fund), I am pleased to report the results of the year ended December 31, 2017.

The Fund delivered positive results for the fourth quarter and year. Same store sales growth was +3.1% for the quarter, as compared to the same quarter of 2016. Total royalty income for the quarter increased by 6.0%. Annual same store sales growth is +2.0% and year to date royalty income increased by 4.5%.

The Fund, through its investment in A&W Trade Marks Inc. (Trade Marks), owns the A&W trade-marks and licenses them to A&W Food Services of Canada Inc. (A&W Food Services), in exchange for a royalty of 3% of sales reported by the 861 restaurants in the Royalty Pool. The Royalty Pool is adjusted annually to include sales from net new A&W restaurants opened by A&W Food Services over the previous year. The number of A&W restaurants in the Royalty Pool was increased on January 5, 2017, from 838 to 861. On January 5, 2018, an additional 35 net new restaurants were added to the Royalty Pool.

Distributable cash per equivalent unit increased to $1.641 per unit in 2017 from $1.577 per unit for 2016. The monthly cash distribution was increased during 2017 by 2.3% from 13.3¢ per unit to 13.6¢ per unit beginning with the November 2017 distribution. The current monthly distribution rate of 13.6¢ per unit represents an annualized distribution rate of $1.632 per unit, an increase of 2.3% from the 2016 annualized rate of $1.596 per unit. The annual payout ratio for 2017 was 97.8% compared to 98.8% for 2016.

A&W Food Services continues to redefine what Canadians can expect from a quick service restaurant, by giving them great tasting food made with care from quality ingredients. It is this strategy, coupled with a combination of successful marketing programs and guest experience improvements that drives same store sales growth, attracts new guest visits, and ultimately provides increased royalty income to the Fund.

We were also proud of A&W Food Service's commitment to the future of Canadian food and best practices to make that food. In the fourth quarter, a substantial investment in the Canadian beef industry was announced with a $5 million donation toward the University of Saskatchewan's Livestock and Forage Centre of Excellence. This donation will be used to fund research and education of new approaches in agriculture and beef production.

On behalf of the Trustees, my thanks to all of our investors who have placed their trust with the A&W Revenue Royalties Income Fund.

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

Report to Fund Unitholders

A&W is dedicated to being a leader in Canadian food service. The strength of the A&W brand, commitment to strategy and strong execution has led to continued growth and great stability, allowing the business to deliver solid results despite continuing challenges in the food service industry.

Once again overall system sales grew year over year, increasing by 6.6%, bringing our total system sales to $1.239 billion. Gaining momentum after a challenging first quarter, we achieved same store sales growth of +3.1% in the fourth quarter and an annual growth rate of +2.0%.

A significant driver behind our growth is our innovation with "better ingredients". A&W continues to redefine what Canadians can expect from a quick service restaurant, by giving them great tasting food from quality ingredients. We have led the QSR industry in sourcing "better ingredients" since 2013, when we became the first national QSR to use only beef raised without the use of hormones and steroids, free of additives, fillers or preservatives. In 2017, A&W announced a substantial investment in the beef industry with a $5 million donation to the University of Saskatchewan's Livestock and Forage Centre of Excellence - an investment that will be used to develop new approaches for healthy, sustainable agricultural practices.

We reached another important milestone this year with the introduction of the Root Beer Guarantee. A&W Root Beer served in the restaurants is now made from natural cane sugar and all-natural flavours - another first for the QSR industry. We celebrated Free Root Beer Day in Canada, when all A&W restaurants served delicious A&W Root Beer to delight of our guests – Free! We were also excited to launch all-day breakfast in 2017 – a menu innovation that has been a real hit with guests, who love the opportunity to enjoy breakfast whenever they want.

Another key strategic initiative is the acceleration of growth through the opening of new A&W restaurants. In 2017, 45 new restaurants opened across Canada, bringing the total number of restaurants in the chain to 918. Of great significance is that 16 of the restaurants opened were of the urban concept design and included the first opened under the Urban Franchise Associate program. The urban concept design, with its open ceilings, modern music and communal seating, leverages the increase in millennials who are living, working, and starting families in urban areas and enables us to deliver great A&W food to them quickly and conveniently. The Urban Franchise Associate program is aimed at attracting millennials, who may not have the capital and experience necessary to invest in a traditional franchise, to become owner-operators. This new program requires a lower investment and provides more extensive training.

A&W was also proud to partner with the Multiple Sclerosis Society of Canada and Christine Sinclair to build excitement and awareness of its 9th annual "Burgers to Beat MS Day" and of MS. I am pleased to report that a record-setting $1.8M was raised this year to go towards research and support for the 100,000 Canadians living with Multiple Sclerosis.

In closing, we are enthusiastic about our strategic innovations and continued growth. I am pleased to see the impact that our commitment to strategy has had and look forward to continued success.

(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 11, 2017 to December 31, 2017 and the year ended December 31, 2017, and is dated February 13, 2018. This MD&A should be read in conjunction with the audited annual consolidated financial statements of the Fund for the year ended December 31, 2017. Readers are also referred to the audited annual consolidated financial statements of A&W Food Services of Canada Inc. (Food Services) for the 52 week year ended December 31, 2017. 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) issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRIC). The accounting policies applied in the audited annual consolidated financial statements and this report have been consistently applied to all years presented unless otherwise stated.

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 2017 year was 52 weeks and ended December 31, 2017 (2016 – 52 weeks ended January 1, 2017). The Fund aligns its quarterly financial reporting with that of Food Services. Readers should be aware that 2017 quarterly results are not directly comparable to 2016 quarterly results, as there were 85 days of sales in Q1, 2017 compared to 87 days in Q1, 2016, and 112 days in Q4, 2017 compared to 111 days in Q4, 2016. The second and third quarters of both years had 84 days. Same store sales growth is based on an equal number of days in each quarter.

HIGHLIGHTS

- Same store sales[1] for the fourth quarter of 2017 grew by +3.1% as compared to the same quarter of 2016. Annual same store sales growth was +2.0%.
- Total sales in the Royalty Pool (as hereinafter defined) and royalty income increased by 6.0% in the fourth quarter compared to the fourth quarter of 2016, and by 4.5% for 2017 as compared to 2016.
- Annual net income increased in 2017 by 18%.
- Monthly distribution rate was increased in 2017 from 13.3¢ to 13.6¢ per unit. The current annual distribution rate is $1.632 per unit, a 2.3% increase over 2016's annual distribution rate.

(1) Same store sales and same store sales growth do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. This important information is provided as it is a key driver of growth in the Fund. Same store sales growth is based on an equal number of days in each quarter and year. See "Sales Performance".

The following selected information, other than “Same store sales growth”, “Total distributable cash generated for distributions and dividends”, “Distributable cash per equivalent unit” and “Net income, excluding non-cash items” have been derived from financial statements prepared in accordance with IFRS and all dollar amounts are reported in Canadian currency.

(dollars in thousands except per unit amounts)	**Period from Sep 11, 2017 to Dec 31, 2017**	Period from Sep 12, 2016 to Dec 31, 2016	**Period from Jan 1, 2017 to Dec 31, 2017**	Period from Jan 1, 2016 to Dec 31, 2016
Same store sales growth[1]	**+3.1%**	+1.7%	**+2.0%**	+3.4%
Number of restaurants in the Royalty Pool	**861**	838	**861**	838
Sales reported by the restaurants in the Royalty Pool	**$372,679**	$351,494	**$1,188,818**	$1,137,830
Royalty income	**$11,181**	$10,545	**$35,665**	$34,135
General and administrative expenses	**228**	214	**652**	586
Net third party interest expense	**789**	781	**2,583**	2,574
Current income tax provision	**1,879**	1,982	**5,985**	6,500
Total distributable cash generated for distributions and dividends[2]	**$8,119**	$7,568	**$26,279**	$24,475
Distributable cash per equivalent unit (2017 – 16,015,038 units; 2016 – 15,517,988 units)[2][3]	**$0.507**	$0.488	**$1.641**	$1.577
Distributions and dividends declared per equivalent unit	**$0.541**	$0.532	**$1.605**	$1. 558
Net income[4]	**$8,160**	$8,973	**$28,220**	$23,916
Net income, excluding non-cash items[4]	**$8,430**	$7,205	**$26,816**	$22,446

(1) Same store sales growth does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. This information is provided as it is a key driver of growth in the Fund. Same store sales growth is based on an equal number of days in each quarter and year. See “Sales Performance”.

(2) Distributable cash and distributable cash per equivalent unit do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. 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”.

(3) The number of equivalent units and distributable cash per equivalent unit in 2017 includes the 150,665 LP units (as hereinafter defined) exchanged for 301,330 common shares of Trade Marks (as hereinafter defined) representing the final consideration paid in December 2017 for the January 5, 2017 adjustment to the Royalty Pool. The number of equivalent units and distributable cash per equivalent unit in 2016 includes the 157,774 LP units exchanged for 315,548 common shares of Trade Marks representing the final consideration paid in December 2016 for the January 5, 2016 adjustment to the Royalty Pool.

(4) Net income in 2017 and 2016 includes non-cash gains and losses on interest rate swaps, 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 does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

SALES PERFORMANCE

Same store sales growth by 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 is the change in sales of A&W restaurants in the Royalty Pool that operated during the entire 26 4-week periods ending December 31, 2017.

Same store sales for the fourth quarter of 2017 increased by 3.1% as compared to the same quarter of 2016. Annual same store sales growth was +2.0% compared to 2016. Same store sales growth gained momentum during the last half of the year, driven by a combination of successful advertising and promotions, the natural Root Beer launch and guest experience improvements. This was partially offset by weaker sales in Saskatchewan affected by the April 1, 2017 introduction of a new 6% provincial sales tax on restaurant meals.

The chart below shows the percentage change in same store sales by A&W restaurants for the eight most recently completed quarters.

Total sales reported by A&W restaurants in the Royalty Pool for the fourth quarter of 2017 were $372,679,000, an increase of 6.0% from sales of $351,494,000 for the fourth quarter of 2016. Annual sales were $1,188,818,000, an increase of 4.5% from sales of $1,137,830,000 for 2016. The increase in sales was due to the increase in the number of A&W restaurants in the Royalty Pool and same store sales growth.

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 pays a royalty of 3% of the 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. The Fund in turn makes distributions to unitholders.

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 available to make distributions to unitholders is based on the sales of the A&W restaurants in the Royalty Pool, less operating expenses associated with operating the Fund, interest and taxes. The Fund is a top-line fund, meaning it is not subject to variability of earnings or expenses associated with an operating business.

Another important aspect of the Fund is that, as at December 31, 2017, Food Services owned the equivalent of 21.9% (2016 – 21.8%) of the units of the Fund through its ownership of common shares of Trade Marks. As a result, 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 of the A&W restaurants in the Royalty Pool, and second by adding new A&W restaurants to the Royalty Pool each year.

The Royalty Pool is adjusted annually to reflect sales from new A&W restaurants added to the Royalty Pool, net of the sales of any A&W restaurants that have permanently closed. Food Services is paid for the additional royalty stream related to the sales of the net new restaurants, based on a formula set out in the Amended and Restated Licence and Royalty Agreement. The formula provides for a payment to Food Services based on 92.5% of the amount of estimated sales from the net new 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 LP units. 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.

ADJUSTMENT TO THE ROYALTY POOL

The 2017 adjustment to the Royalty Pool took place on January 5, 2017. The number of A&W restaurants in the Royalty Pool was increased by 30 new restaurants less seven restaurants that permanently closed during 2016. The addition of these 23 net new restaurants brings the total number of A&W restaurants in the Royalty Pool to 861. The estimated annual sales of the 30 new A&W restaurants are $33,355,000 and annual sales for the seven permanently closed restaurants were $4,251,000. The initial consideration for the estimated additional royalty stream was $15,046,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on units of the Fund for the 20 trading days ending October 31, 2016. The yield was adjusted to reflect income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or $12,037,000 by issuance of 346,386 LP units which were subsequently exchanged for 692,772 non-voting common shares of Trade Marks. The final adjustment of the number of LP units issued was made on December 8, 2017 based on the actual annual sales reported by the new A&W restaurants of $37,693,000 compared to the original estimate of $33,355,000. As a result, $3,009,000 representing the remaining 20% of the initial consideration and additional consideration of $2,226,000 were paid to Food Services by issuance of 150,665 additional LP units, which were subsequently exchanged for 301,330 non-voting common share of Trade Marks.

Subsequent to December 31, 2017, the 2018 adjustment to the Royalty Pool took place on January 5, 2018. The number of A&W restaurants in the Royalty Pool was increased by 42 new restaurants less seven restaurants that permanently closed during 2017. The addition of these 35 net new restaurants brings the total number of A&W restaurants in the Royalty Pool to 896. The estimated annual sales of the 42 new A&W restaurants are $55,642,000 and annual sales for the seven permanently closed restaurants were $3,210,000. The initial consideration for the estimated additional royalty stream was $28,096,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on units of the Fund for the 20 trading day ending October 30, 2017. The yield was adjusted to reflect income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or $20,791,000 by issuance of 596,251 LP units which were subsequently exchanged for 1,192,502 non-voting common shares of Trade Marks. The remaining 20% of the consideration or $5,198,000 will be paid in December 2018 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks. The actual amount of the consideration paid in December 2018 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

After the initial consideration was paid for the January 5, 2018 adjustment to the Royalty Pool, Food Services' indirect interest in the Fund increased to 24.7% (21.9% as of December 31, 2017).

COMMON SHARES OF TRADE MARKS

The common shares of Trade Marks are owned by the Fund and Food Services. On March 3, 2017, Food Services exchanged 746,600 common shares of Trade Marks for 373,300 units of the Fund, which were then sold at a price of $39.25 per unit. The Fund did not receive any proceeds of the sale of the units. The common shares of Trade Marks are owned by the Fund and Food Services 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, 2015	24,262,671	114,680	81.6	5,477,987	49,093	18.4	29,740,658	163,773
January 5, 2016 adjustment to the Royalty Pool	-	-	(3.4)	1,295,242	17,006	3.4	1,295,242	17,006
Balance as at December 31, 2016	24,262,671	114,680	78.2	6,773,229	66,099	21.8	31,035,900	180,779
January 5, 2017 adjustment to the Royalty Pool(1)	-	-	(2.4)	994,102	17,273	2.4	994,102	17,273
March 3, 2017 exchange of common shares for units of the Fund	746,600	7,814	2.3	(746,600)	(7,814)	(2.3)	-	-
Balance as at December 31, 2017	25,009,271	122,494	78.1	7,020,731	75,558	21.9	32,030,002	198,052

(1) The number of common shares includes the 150,665 LP units exchanged for 301,330 common shares of Trade Marks representing the final consideration paid in December 2017 for the January 5, 2017 adjustment to the Royalty Pool.

OWNERSHIP OF THE FUND

The ownership of the Fund, on a fully-diluted basis, is as follows:

	December 31, 2017		December 31, 2016	
	Number of units	%	Number of units	%
Fund units held by public unitholders	12,504,673	78.1	12,131,373	78.2
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services(1)	3,510,365	21.9	3,386,615	21.8
Total equivalent units	16,015,038	100.0	15,517,988	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 a unit of the Fund.

The following chart shows the ownership of the Fund, on a fully-diluted basis, after the initial consideration for the January 5, 2018 adjustment to the Royalty Pool.

	Number of units	**%**
Fund units held by public unitholders	12,504,673	75.3
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services	4,106,616	24.7
Total equivalent units	16,611,289	100.0

The chart below shows the ownership of the Fund, on a fully-diluted basis, when the remaining 20% of the consideration for the January 5, 2018 adjustment to the Royalty Pool is expected to be paid in December 2018, by issuance of 149,063 LP units exchangeable for 298,126 common shares of Trade Marks. The actual amount of the consideration paid in December 2018 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

	Number of units	**%**
Fund units held by public unitholders	12,504,673	74.6
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services	4,255,679	25.4
Total equivalent units	16,760,352	100.0

FINANCIAL RESULTS

INCOME

Royalty income for the fourth quarter of 2017 was $11,181,000 based on sales of $372,679,000. This was an increase of 6.0% from royalty income of $10,545,000 and sales of $351,494,000 for the fourth quarter of 2016. There were 112 days of sales in the fourth quarter of 2017 as compared to 111 days in the same quarter of 2016. Annual royalty income was $35,665,000 based on sales of $1,188,818,000, an increase of 4.5% from royalty income of $34,135,000 and sales of $1,137,830,000 for 2016. The increase in annual sales and royalty income was due to the additional net 23 new A&W restaurants in the Royalty Pool and the 2.0% increase in same store sales.

EXPENSES

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

(dollars in thousands)	**Period from Sep 11, 2017 to Dec 31, 2017**	Period from Sep 12, 2016 to Dec 31, 2016	**Period from Jan 1, 2017 to Dec 31, 2017**	Period from Jan 1, 2016 to Dec 31, 2016
General and administrative	**$228**	$214	**$652**	$586
Net interest on term loan and other	**$789**	$781	**$2,583**	$2,574

General and administrative expenses for the fourth quarter of 2017 increased by $14,000 to $228,000 compared to $214,000 for the fourth quarter of 2016. General and administrative expenses for the full year of 2017 were $652,000, an increase of $66,000 compared to $586,000 for 2016. The increase was primarily due to higher TSX filing fees and professional fees.

Interest on the term loan was $789,000 for the fourth quarter of 2017, $8,000 higher compared to the fourth quarter of 2016, and increased by $9,000 to $2,583,000 for the full year 2017 compared to $2,574,000 for 2016. An interest rate swap agreement is used to manage risks from fluctuations in interest rates and facilitate uniform monthly distributions (see "Liquidity and Capital Resources").

GAIN ON INTEREST RATE SWAP

The Fund's net income included non-cash gains 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 11, 2017 to Dec 31, 2017**	Period from Sep 12, 2016 to Dec 31, 2016	**Period from Jan 1, 2017 to Dec 31, 2017**	Period from Jan 1, 2016 to Dec 31, 2016
Gain on interest rate swap	**($464)**	($1,986)	**($2,707)**	$(1,089)

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 11, 2017 to Dec 31, 2017**	Period from Sep 12, 2016 to Dec 31, 2016	**Period from Jan 1, 2017 to Dec 31, 2017**	Period from Jan 1, 2016 to Dec 31, 2016
Current				
Current income tax provision	**$1,879**	$1,982	**$5,985**	$6,500
Refundable income tax	**(145)**	363	**(371)**	2,029
Deferred	**723**	208	**1,269**	(414)
Total provision for income taxes	**$2,457**	$2,553	**$6,883**	$8,115

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 19.0% (2016 – 19.0%), plus an additional tax of 30.67% (2016 – 30.67%) on investment income which is refundable at a rate of 38.33% (2016 – 38.33%) of each dollar Trade Marks pays out in taxable dividends to its shareholders. Trade Marks' provision for income taxes for 2017 includes a recovery of refundable income tax of $371,000 based on its taxable income and dividends paid in 2017. In 2016, Trade Mark's provision for income taxes included refundable income tax of $806,000 based on its taxable income and dividends paid in 2015 as well as $1,223,000 of refundable income tax based on its taxable income and dividends paid in 2016. 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 remaining $1,658,000 refundable income tax paid in 2016 will be recovered in future years when sufficient dividends are paid by Trade Marks.

The current income tax provision excluding refundable income tax is $515,000 lower than the prior year as the increase related to an increase in earnings before income taxes is more than offset by decrease related to the transitional Partnership tax paid in 2016. Tax rules for partnerships with misaligned year ends were announced in 2011 and required Trade Marks to recognize income tax on the Partnership's income during the period between January 25 and December 31, 2011 over a five year period ending in 2016 on a formula basis, being 15% or $517,000 in 2012, 20% or $718,000 in 2013, 20% or $727,000 in each of 2014 and 2015, and 25% or $909,000 in 2016, the last year that this transitional Partnership tax was payable.

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

NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income was as follows:

(dollars in thousands)	**Period from Sep 11, 2017 to Dec 31, 2017**	Period from Sep 12, 2016 to Dec 31, 2016	**Period from Jan 1, 2017 to Dec 31, 2017**	Period from Jan 1, 2016 to Dec 31, 2016
Net income and comprehensive income attributable to unitholders of the Fund	**$6,269**	$6,897	**$21,963**	$18,702
Net income and comprehensive income attributable to Food Services' non-controlling interest in Trade Marks	**1,891**	2,076	**6,257**	5,214
Total net income and comprehensive income	**$8,160**	$8,973	**$28,220**	$23,916

DISTRIBUTABLE CASH

The distributable cash and payout ratio measures are provided 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. The distributable cash and payout ratios do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

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. There are no restrictions on distributions arising from compliance with financial covenants. The payout ratio is calculated by dividing the total of (i) distributions declared per unit plus (ii) accrued distributions per unit to the last day of the quarter or year, as applicable, by the distributable cash per 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. In 2016 the refundable income tax expense was $2,029,000. There was a sufficient surplus of cash on hand to pay the refundable income tax. Trade Marks' provision for income taxes for 2017 includes a recovery of refundable income tax of $371,000. Management expects that the remaining $1,658,000 refundable income tax paid in 2016 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 except per unit amounts)	**Period from Sep 11, 2017 to Dec 31, 2017**	Period from Sep 12, 2016 to Dec 31, 2016	**Period from Jan 1, 2017 to Dec 31, 2017**	Period from Jan 1, 2016 to Dec 31, 2016
Net cash generated from operating activities	**$8,234**	$6,465	**$27,054**	$22,737
Changes in non-cash working capital including interest and tax	**(115)**	1,103	**(775)**	1,738
Distributable cash generated[1]	**$8,119**	$7,568	**$26,279**	$24,475
Cumulative surplus – beginning of period	**3,157**	2,582	**2,417**	4,148
Distributable cash for unitholders at current annual distribution rate (2017 - $1.605 per unit, 2016 - $1.558 per unit) [1]	**(6,236)**	(5,732)	**(19,968)**	(18,901)
Distributable cash for Food Services at equivalent annual distribution rate (2017 - $1.605 per equivalent unit, 2016 - $1.558 per equivalent unit)[1]	**(1,822)**	(1,638)	**(5,736)**	(5,276)
Refundable income tax (see "Income Taxes")	**145**	(363)	**371**	(2,029)
Cumulative surplus – end of period	**$3,363**	$2,417	**$3,363**	$2,417
Number of equivalent units[1]	**16,015,038**	15,517,988	**16,015,038**	15,517,988
Distributable cash generated per equivalent unit[1]	**$0.507**	$0.488	**$1.641**	$1.577
Monthly distributions declared per unit[2]	**$0.541**	$0.532	**$1.605**	$1.558
Total distributions declared and accrued per unit	**$0.499**	$0.473	**$1.605**	$1.558
Payout ratio [3]	**98.4%**	97.0%	**97.8%**	98.8%

[1] The number of equivalent units and distributable cash per equivalent unit in 2017 includes the 150,665 LP units exchanged for 301,330 common shares of Trade Marks representing the final consideration paid in December 2017 for the January 5, 2017 adjustment to the Royalty Pool. The number of equivalent units and distributable cash per equivalent unit in 2016 includes the 157,774 LP units exchanged for 315,548 common shares of Trade Marks representing the final consideration paid in December 2016 for the January 5, 2016 adjustment to the Royalty Pool.

[2] 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

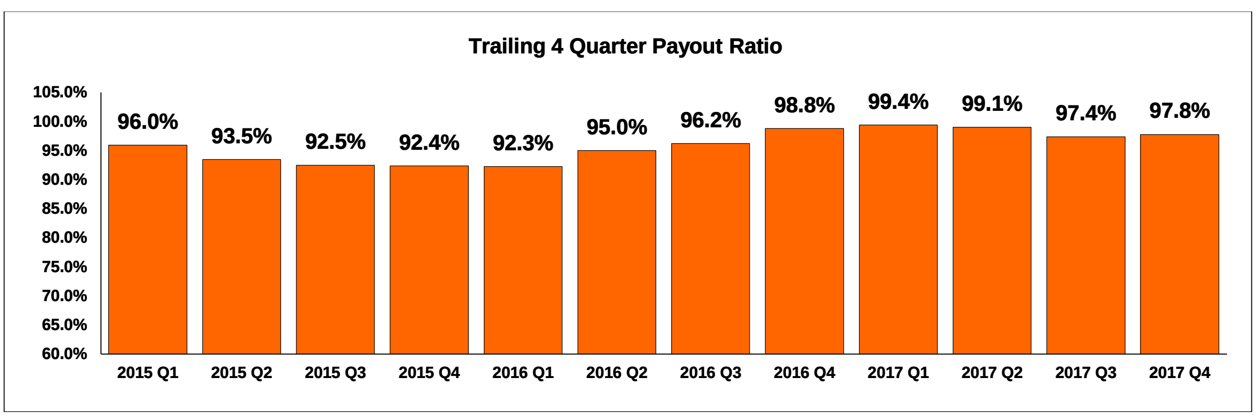
paid on the last business day of the immediate subsequent month. The distributions declared in the fourth quarter of each year are in respect of the calendar months September to December, and the distributions declared in the year are for the calendar months January to December.

(3) The payout ratio is calculated by dividing the total distributions per unit (which includes distributions declared and distributions accrued to the last day of the quarter or year, as applicable) by distributable cash per unit generated in that period. This information is provided as it identifies the extent to which distributable cash is distributed to unitholders and Food Services.

Distributable cash generated in the fourth quarter of 2017 to pay distributions to unitholders and dividends to Food Services was $8,119,000 compared to $7,568,000 in the fourth quarter of 2016. Distributable cash generated in 2017 was $26,279,000 compared to $24,475,000 in 2016. The $1,804,000 annual increase in distributable cash was comprised of the $1,530,000 increase in royalty income less the $241,000 net increase in general and administrative expenses, financing fees and interest expense and a $515,000 decrease in the current income tax provision (excluding refundable income tax).

Distributable cash generated per equivalent unit increased by 1.9¢ to 50.7¢ per unit in the fourth quarter of 2017 from 48.8¢ for the fourth quarter of 2016. There were 112 days of sales in the fourth quarter of 2017 as compared to 111 days in the fourth quarter of 2016. Annual distributable cash per unit increased by 6.4¢ to $1.641 per unit in 2017 from $1.577 for 2016. The annual increase in distributable cash per equivalent unit was due to the increase in royalty income resulting from same store sales growth less increases in cash expenses and a decrease in taxes.

Four monthly distributions totalling 54.1¢ per unit were declared in the fourth quarter of 2017 compared to 53.2¢ per unit in the same quarter of 2016. Total distributions declared in 2017 were $1.605 per unit compared to $1.558 per unit in 2016, an increase of 3.0%. The fund strives to provide unitholders with regular monthly distributions, and as a result of seasonality of sales in A&W restaurants, the Fund historically experiences seasonal fluctuations in its payout ratio. The Fund's objective is to maintain an annual payout ratio at or below 100%. The annual payout ratio for 2017 was 97.8% compared to 98.8% for 2016. The following table shows the trailing four quarter payout ratios for 2015, 2016 and 2017.



The cumulative surplus of distributable cash at the end of 2017 was $3,363,000, compared to a cumulative surplus of $2,417,000 at the beginning of the year, an increase of $946,000.

The Fund's trustees announced an increase in the monthly distribution rate in from 13.3¢ per unit to 13.6¢ per unit beginning with the distribution payable on November 30, 2017. The current monthly distribution rate of 13.6¢ per unit translates into an annualized distribution rate of $1.632 per unit, an increase of 2.3% from the 2016 annualized rate of $1.596 per unit.

The Fund's policy is to distribute all available cash in order to maximize returns to unitholders over time, after allowing for reasonable reserves. The Fund's trustees review distribution levels on a regular basis and any change in distributions will be implemented with a view to maintain the continuity of uniform monthly distributions.

DISTRIBUTIONS TO UNITHOLDERS

Distributions declared and paid during 2017 year to date were as follows:

(dollars in thousands except per unit amounts) **Month**	**Record date**	**Amount**	**Per unit**
January	February 15, 2017	$1,613	$0.133
February	March 15, 2017	1,663	0.133
March	April 15, 2017	1,663	0.133
April	May 15, 2017	1,663	0.133
May	June 15, 2017	1,663	0.133
June	July 15, 2017	1,663	0.133
July	August 15, 2017	1,663	0.133
August	September 15, 2017	1,663	0.133
September	October 15, 2017	1,663	0.133
October	November 15, 2017	1,701	0.136
November	December 15, 2017	1,701	0.136
December	December 29, 2017	1,701	0.136
		$20,020	$1.605

The December 2017 distribution was declared on December 29, 2017 and paid on January 31, 2018 and is reported as a current liability as at December 31, 2017. On February 5, 2018 the Fund declared the January 2018 monthly distribution to unitholders of 13.6¢ per unit or $1,701,000, payable on February 28, 2018.

TAX TREATMENT OF DISTRIBUTIONS

All of the distributions declared in 2017 year to date are designated as non-eligible dividends.

DIVIDENDS ON TRADE MARKS' COMMON SHARES

During 2017 year to date, Trade Marks declared and paid dividends on its voting and non-voting common shares as follows:

(dollars in thousands except per share amounts) Month declared/paid	Per share	Aggregate amount paid to the Fund	Aggregate amount paid to Food Services
January	$0.0665	$1,613	$496
February	0.0665	1,663	447
March	0.0665	1,663	447
April	0.0665	1,663	447
May	0.0665	1,663	447
June	0.0665	1,663	447
July	0.0665	1,663	447
August	0.0665	1,663	447
September	0.0665	1,663	447
October	0.0680	1,701	457
November	0.0680	1,701	457
December	0.0680	1,701	477
	$0.8025	$20,020	$5,463

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 $221,000 representing the dividends that Food Services would have received on the 301,330 non-voting common shares issued to Food Services on December 8, 2017 in relation to the final consideration for the January 5, 2017 adjustment to the Royalty Pool, had they been issued on January 5, 2017.

On February 1, 2018 Trade Marks declared an aggregate dividend on its voting and non-voting common shares of $2,259,000 payable to Food Services and the Fund on February 28, 2018.

SEASONALITY

Sales at A&W restaurants fluctuate seasonally. In freestanding A&W restaurants, weather impacts sales. In A&W restaurants in shopping centres, sales fluctuate due to higher traffic during the back-to-school and Christmas shopping seasons.

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.

(dollars in thousands except per unit amounts)	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Number of restaurants in the Royalty Pool	861	861	861	861
Royalty income	$11,181	$8,905	$8,224	$7,355
General and administrative expenses	228	75	78	271
Term loan and other interest expense	789	593	597	604
Amortization of deferred financing fees	11	8	7	8
Non cash gain on interest rate swaps	(464)	(1,945)	(260)	(38)
Current income tax expense	1,879	1,457	1,456	1,193
Refundable income tax (recovery) expenses	(145)	(-)	(76)	(150)
Deferred income tax (recovery) expense	723	476	27	43
Net income	$8,160	$8,241	$6,395	$5,424
Distributable cash(1)	$8,119	$6,779	$6,094	$5,287
Number of equivalent units(2)	16,015,038	15,950,970	15,950,970	15,950,970
Distributable cash per equivalent unit(1)(2)	$0.507	$0.425	$0.382	$0.331
Monthly distributions declared per unit(3)	$0.541	$0.399	$0.399	$0.266
Number of days in the quarter	112	84	84	85
(dollars in thousands except per unit amounts)	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**
Number of restaurants in the Royalty Pool	838	838	838	838
Royalty income	$10,545	$8,354	$7,922	$7,314
General and administrative expenses	214	56	60	256
Term loan and other interest expense	781	593	589	611
Amortization of deferred financing fees	10	7	8	8
Non cash loss (gain) on interest rate swaps	(1,986)	(26)	(161)	1,084
Current income tax expense	1,982	1,596	1,519	1,009
Refundable income tax	363	400	257	1,403
Deferred income tax (recovery) expense	208	(128)	(108)	(386)
Net income	$8,973	$5,856	$5,758	$3,329
Distributable cash(1)	$7,568	$6,109	$5,754	$5,044
Number of equivalent units(2)	15,517,988	15,517,988	15,517,988	15,517,988
Distributable cash per equivalent unit(1)(2)	$0.488	$0.393	$0.371	$0.325
Monthly distributions declared per unit(3)	$0.532	$0.396	$0.380	$0.250
Number of days in the quarter	111	84	84	87

(1) Distributable cash and distributable cash per equivalent unit do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. This information is provided as it identifies the amount of actual cash available to pay distributions to unitholders and dividends to Food Services. See "Distributable Cash".

(2) The number of equivalent units and distributable cash per equivalent unit in 2017 includes the 150,665 LP units exchanged for 301,330 common shares of Trade Marks representing the final consideration paid in December 2017 for the January 5, 2017 adjustment to the Royalty Pool. The number of equivalent units and distributable cash per equivalent unit in 2016 includes the 157,774 LP units exchanged for 315,548 common shares of Trade Marks representing the final consideration paid in December 2016 for the January 5, 2016 adjustment to the Royalty Pool.

(3) The distribution for December of each year, which is paid on January 31 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.

SELECTED ANNUAL INFORMATION

The following selected annual information, other than "Same store sales growth", "Total distributable cash available for distributions and dividends" and "Net income, excluding non-cash items", has been prepared in accordance with IFRS and all dollar amounts are reported in Canadian currency.

(dollars in thousands except per unit amounts)	2017	2016	2015
Same store sales growth(1)	+2.0%	+3.4%	+7.6%
Number of restaurants in the Royalty Pool	861	838	814
Sales reported by the restaurants in the Royalty Pool	$1,188,818	$1,137,820	$1,060,851
Royalty income	$35,665	$34,135	$31,826
Total distributable cash generated for distributions and dividends(2)	$26,279	$24,475	$23,189
Total distributions declared per unit	$1.605	$1.558	$1.440
Net income	$28,220	$23,916	$21,319
Basic and diluted income per weighted average unit outstanding	$1.765	$1.542	$1.434
Net income, excluding non-cash items(3)	$26,816	$22,446	$23,189
Total assets	$255,600	$237,366	$221,526
Trade Marks' term loan	$59,836	$59,967	$59,934

(1) Same store sales growth does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. This information is provided as it is a key driver of growth in the Fund. See "Sales Performance".

(2) Distributable cash does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. This information is provided as it identifies the amount of actual cash available to pay distributions to unitholders and dividends to Food Services. See "Distributable Cash".

(3) Net income includes non-cash gains and losses on interest rate swaps, 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.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

IFRS 15, *Revenue from contracts with customers*, converges standards from the IASB and the Financial Accounting Standards Board (FASB) on revenue recognition. The standard is effective for periods beginning on or after January 1, 2018. The standard is intended to improve the financial reporting of revenue and improve comparability of the top line financial statements globally. The adoption of this standard will not have a material impact on the consolidated financial statements.

IFRS 9, *Financial Instruments*, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010 and is effective for periods beginning on or after January 1, 2018. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The adoption of this standard will not have a material impact on the consolidated financial statements.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Fund.

LIQUIDITY AND CAPITAL RESOURCES

The Fund’s policy is to distribute all available cash in order to maximize returns to unitholders over time, after allowing for reasonable reserves. In light of seasonal variances inherent to the restaurant industry and fluctuations in business performance, the Fund’s policy is to make equal distribution payments to unitholders on a monthly basis in order to smooth out these fluctuations. The Fund’s trustees review distribution levels on a regular basis and any change in distributions will be implemented with a view to maintain the continuity of uniform monthly distributions. It is expected that future distributions will continue to 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 bank prime rate plus 0.4% and are repayable on demand. As at December 31, 2017, the amount of the facility available was $2,000,000 (December 31, 2016 - $1,510,000).

On December 22, 2017 Trade Marks entered into an agreement to refinance its $60,000,000 term loan with the Bank. The new term loan is repayable on December 22, 2022, and contains the same covenants as the original term loan 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 quarters 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 is generally prohibited from paying dividends on its common shares if those dividends would result in a breach of the term loan. Trade Marks was in compliance with all of its financial covenants as at February 13, 2018, December 31, 2017 and December 31, 2016.

Trade Marks uses an interest rate swap agreement to manage risks from fluctuations in interest rates and facilitate uniform monthly distributions. This instrument is used only for risk management purposes. Under the interest rate swap, the term loan bears interest at 4.2% per annum, comprised of 2.8% per annum which is fixed under the swap agreement until December 22, 2022, plus a 1.4% per annum credit charge which, depending on the future performance of the business will be reduced to 1.15% or as low as 0.9%. The fair value of this interest rate swap as at December 31, 2017 was $1,465,000 unfavourable (December 31, 2016 - $4,173,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income as a gain on the interest rate swap.

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	$0	$60,000	$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 $35,665,000 (2016 - $34,135,000) was earned from Food Services of which $2,742,000 (December 31, 2016 - $2,467,000) is receivable at December 31, 2017. Royalty income earned during the fourth quarter was $11,181,000 (2016 - $10,545,000).

During the year, Trade Marks declared and paid dividends to Food Services of $5,684,000 (2016 - $5,276,000). Dividends declared payable to Food Services during the fourth quarter were $2,059,000 (2016 - $1,964,000).

Other related party transactions and balances are referred to elsewhere in this MD&A.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

A significant area requiring the use of a management estimate is the fair value of the interest rate swap. However, this 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 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, 2017 was $1,465,000 unfavourable (December 31, 2016 - $4,173,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income as a gain on interest rate swaps.

FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, distributions payable to unitholders, 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 loans and receivables, which are initially measured at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.
- Accounts payable and accrued liabilities, distributions payable to unitholders, the demand operating loan facility and the term loan as financial liabilities. Accounts payable and accrued liabilities 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 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.
- The interest rate swap is a derivative financial instrument and is recorded at fair value 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, 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 $1,465,000 unfavourable (2016 - $4,173,000 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 relate to royalties due from Food Services to the Partnership which were paid on January 25, 2018.

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.

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

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

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

RISKS AND UNCERTAINTIES

The risks and uncertainties described below are not the only risks and uncertainties applicable to the business operations of the Fund. Additional risks and uncertainties not currently known to the Trustees of the Fund or that are currently not considered to be material also may impair the Fund's business operations. If any of the following 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.

Risks and Uncertainties Related to the Quick Service Restaurant Industry

Restaurant Industry

The performance of the Fund is dependent upon the royalty the Fund receives from Food Services. The amount of the royalty is dependent upon Gross Sales (as defined in the Amended and Restated Licence and Royalty Agreement) of the A&W restaurants in the Royalty Pool. Gross Sales are subject to a number of factors that affect the restaurant industry generally and the quick service segment of this industry in particular, including the highly competitive nature of the industry, traffic patterns, demographic considerations, weather, locations of restaurants and the type, number and proximity of competing quick service restaurants and government regulations affecting the restaurant industry in general and the quick service restaurant segment of this industry particularly.

Competition

Food Services competes with other well-capitalized franchisors and operators of quick service restaurants with extensive financial, technological, marketing and personnel resources and high brand name recognition and awareness. There can be no assurance that Food Services will be able to respond to various competitive factors affecting the franchise operations of Food Services in the quick service restaurant industry. In addition, from time to time, new quick service restaurants may enter the Canadian market, presenting new competitors.

Retail Hamburger Market and Changes in Consumer Taste

A&W franchisees receive most of their revenues from the sale of hamburgers, chicken, fries, breakfast items and soft drinks and Food Services, in turn, receives fees from A&W franchisees based on Gross Sales and payments on goods supplied to franchisees. The quick service restaurant industry is characterized by the frequent introduction of new products, accompanied by substantial promotional campaigns. In recent years, Food Services in particular, and numerous others in the quick service restaurant industry have introduced products positioned to capitalize on the growing consumer preference for food products that are, or are perceived to be, healthful and nutritious. Any significant event that adversely affects consumption of hamburgers, chicken, fries, breakfast items and soft drinks, such as cost, changing tastes, health concerns, economic conditions, unemployment, changes in disposable consumer income, a disease outbreak or inclement weather, could adversely impact the Gross Sales of A&W restaurants and consequently, the amount of the royalty payable to the Fund.

Food Borne Illnesses

Publicity from any food borne illness, such as salmonella and E. coli, could adversely affect the sales of A&W restaurants and consequently the amount of the royalty. A&W restaurants are committed to ensuring customers enjoy safe, quality food products. However, food safety events have occurred in the food industry in the past and could occur in the future, and both the actual occurrence of these food safety events as well as the attendant negative publicity associated with these events could have an adverse effect upon Gross Sales.

Food Services and A&W franchisees may be the subject of complaints or litigation from guests alleging food-related illness, injuries suffered on the premises or other food quality, health or operational concerns. Adverse publicity, including on social media, resulting from these allegations or from public health inspection reports may adversely affect the sales by A&W restaurants, regardless of whether such allegations are true or whether Food Services or an A&W franchisee is actually held responsible. Any outbreak of a food borne illness or contamination at an A&W restaurant or within the foodservice industry more generally (even if it does not affect any A&W restaurants), or the perception of such an outbreak, could have an adverse effect on Gross Sales.

Availability and Quality of Raw Materials and A&W's Commitment to use Better Ingredients

Sales by A&W franchisees are dependent upon the availability and quality of the raw materials used in A&W products. The availability and prices of these raw materials, such as beef or chicken, may fluctuate due to an increase in demand, a shortage of supply, disease and other factors. Additionally, certain products purchased by A&W franchisees are sourced from a single or a limited number of suppliers. A significant reduction in the availability or quality of raw materials purchased by A&W franchisees resulting from any of the above factors could have an adverse effect on Gross Sales.

Food Services has broadly advertised its commitment to use, in the A&W restaurants, "better ingredients", including beef raised without the use of hormones or steroids; chicken raised without the use of antibiotics and fed a grain-based vegetarian diet without animal by-products; eggs from hens fed a diet without animal by-products; and, bacon from pork raised without the use of antibiotics. There are risks associated with this commitment. In particular, restricting the supply of meat and dairy products to suppliers who meet these specifications reduces the total number of suppliers and makes prices for these products more sensitive to a fluctuation in supply. If there is a shortage of ingredients that meet these specifications, A&W may not be able to meet this commitment, which could damage A&W restaurants' reputation. In addition, it is necessary for Food Services to carefully monitor its supply chain and the ingredients A&W restaurants use in the preparation of its products, as publicity regarding a break in this commitment or supply chain could have an adverse affect upon sales at A&W restaurants.

Climate Change

The operations of Food Services and A&W franchisees may be adversely affected by climate change. Changes to the climate, such as increased greenhouse gases and diminishing energy and water resources, may reduce the availability and quality of food ingredients purchased by A&W franchisees. Increased public focus on climate change and environmental sustainability may require A&W franchisees to take initiatives to, among other things, reduce packaging and waste and increase animal health and welfare. Executing these initiatives could involve substantial costs, and failing to execute these initiatives could damage the reputation of A&W restaurants. Increased public focus on climate change could also result in additional government regulation, increasing compliance costs for A&W restaurants. Failure to comply with government regulations could result in A&W restaurants being subject to administrative penalties and negative publicity. These events could result in diminished sales at A&W restaurants.

Additional Franchise Sales and Franchise Operations

The growth of the royalty is dependent upon the ability of Food Services to (i) grow same store sales, (ii) maintain and grow the current system of franchises, (iii) locate new retail sites in prime locations and (iv) obtain qualified operators to become A&W franchisees. Food Services faces competition for retail locations and franchisees from its competitors and from franchisors of other businesses. Food Services' inability to successfully obtain qualified operators for its franchisees could adversely affect its business development. The opening and success of A&W franchised restaurants is dependent on a number of factors, including availability of skilled individuals to become A&W franchisees, availability of suitable sites, securing suitable financing for franchisees to open new restaurants, negotiations of acceptable lease or purchase terms for new locations, permits and government regulatory compliance, the ability to meet construction schedules, and the availability of experienced management and hourly employees (including of limitations on temporary foreign workers). Increases in minimum wage rates may also affect the opening and success of franchised restaurants, as a significant portion of the employees of these restaurants are paid at rates related to minimum wage. A&W franchisees may not have all these business abilities or access to financial resources necessary to open an A&W restaurant or to successfully develop or operate an A&W restaurant in their franchise areas in a manner consistent with Food Services' standards.

Food Services provides training and support to A&W franchisees, but the quality of franchised operations may be diminished by any number of factors beyond its control. Consequently, A&W franchisees may not successfully operate restaurants in a manner consistent with Food Services' standards and requirements, or may not hire and train qualified managers and other restaurant personnel. If they do not, the image and reputation of Food Services may suffer, and Gross Sales of the A&W restaurants could decline.

The Closure of A&W Restaurants may Affect the Amount of the Royalty

The amount of the royalty payable to the Partnership by Food Services is dependent upon the Gross Sales by A&W franchisees which is dependent, for its stability, on the number of A&W restaurants that are included in the Royalty Pool and the Gross Sales by these A&W restaurants. Each year a number of A&W restaurants close, and while Food Services is required to replace the Gross Sales that are lost as a result of the closure of A&W restaurants with the Gross Sales from new A&W restaurants, or pay the Make-whole Payment (as defined in the Amended and

Restated Licence and Royalty Agreement) for closed A&W restaurants, there is no assurance that Food Services will be able to obtain sufficient new A&W restaurants to replace the Gross Sales of the A&W restaurants that have closed, or will have the financial resources to make the Make-whole Payment. Pursuant to the agreements between Food Services and the Fund, Food Services is not required to make the Make-whole Payment after the number of A&W restaurants included in the Royalty Pool first includes 1,000 A&W restaurants, although Gross Sales from closed A&W restaurants will continue to be netted against the Gross Sales from new A&W restaurants in the annual adjustment to the Royalty Pool. In addition, many of the remaining terms of the leases from which A&W restaurants operate are shorter than the remaining terms of the associated franchise agreements, and it will be necessary to renew these leases or to obtain satisfactory alternate locations. There is no assurance that the leases will be renewed or suitable alternate locations will be obtained and, in this event, the A&W restaurant will close. As a result, the closure of A&W restaurants may adversely affect the amount of the royalty.

Changes in Traffic Patterns at Shopping Centres

A number of A&W restaurants are located in shopping centers. Any significant event that adversely impacts traffic to shopping centres, including closures of "anchor stores", could result in deceased traffic to shopping centers, which could adversely impact the Gross Sales of A&W restaurants in these shopping centres and, consequently, the amount of royalty paid to the Fund.

Franchise Fees and Other Revenues

The ability of Food Services to pay the royalty is dependent on A&W franchisees' ability to generate sales and to pay franchise fees and other amounts to Food Services. The impact of an increase in food and packaging costs, labour costs, occupancy costs or interest rates could also adversely affect A&W franchisees' profitability and therefore ability to pay franchise fees and other amounts to Food Services. Failure to achieve adequate levels of collection from A&W franchisees, including by reason of disputes or litigation, could have a serious effect on the ability of Food Services to pay the royalty.

Government Regulation

Food Services and A&W franchisees are subject to a wide variety of laws, regulations, rules and policies, including laws involving product liability, tax, labour and employment, franchises, competition, food safety, intellectual property, privacy, environmental and other matters. Changes to any of the laws, regulations, rules or policies applicable to Food Services or A&W franchisees could adversely affect the operations or financial condition or performance of A&W restaurants and in turn the Fund.

Franchise Legislation

Food Services is required to comply with franchise disclosure laws and regulations of the provinces of British Columbia, Alberta, Manitoba, Ontario, New Brunswick and Prince Edward Island. Claims arising from any non-compliance with franchise disclosure laws may adversely affect the performance of Food Services and affect the payment of the royalty to the Fund. The failure to provide a disclosure document as required by those franchise disclosure laws gives a franchisee a two-year absolute right of rescission. Franchise legislation also provides a franchisee with a statutory right of action to sue if a franchisee suffers a loss because of a misrepresentation contained in a franchise disclosure document, or as a result of the franchisor's failure to comply with its disclosure obligations. These rights are in addition to any rights that might exist at common law.

The Impact of Sales Tax upon Gross Sales

Sales tax upon the products sold by A&W Restaurants has a negative impact on Gross Sales. Accordingly, increases in sales taxes upon sales by restaurants generally, or quick service restaurants particularly, could negatively affect sales at A&W restaurants. In addition, an increase in provincial, federal or harmonized sales taxes on sales by restaurants could adversely affect disposable consumer income and consequently consumer visits to restaurants in general and Gross Sales of A&W restaurants in particular.

Dependence on Key Personnel

The success of Food Services depends upon the personal efforts of senior management, including their ability to retain and attract qualified franchisee operators. The loss of the services of such key personnel or the inability to attract qualified franchise operators could have an adverse effect on the operations of Food Services, and consequently the Fund.

Intellectual Property

The ability of Food Services to maintain or increase its Gross Sales depends on its ability to maintain "brand equity" through the use of the A&W Marks licenced from the Partnership. If the Partnership fails to enforce or maintain any of its intellectual property rights, Food Services may be unable to capitalize on its efforts to establish brand equity. All registered trade-marks in Canada can be challenged pursuant to provisions of the *Trade-marks Act* (Canada), and if any A&W Marks are ever successfully challenged, this may have an adverse impact on Gross Sales and therefore on the royalty.

The Partnership owns the A&W Marks in Canada; however, it does not own identical and similar trade-marks in other jurisdictions. Third parties may use such trade-marks in jurisdictions other than Canada in a manner that diminishes the value of such trade-marks. If this occurs, the value of the A&W Marks may suffer and Gross Sales by A&W restaurants could decline. Similarly, negative publicity or events associated with A&W in jurisdictions outside of Canada may negatively affect the image and reputation of A&W restaurants in Canada, resulting in a decline in Gross Sales.

Reliance on Technology and Cybersecurity

Food Services depends on the uninterrupted operation of its information systems, networks and services including point-of-sale processing at restaurants, to operate its business. Food Services' operations depend on its ability to protect its computer equipment and systems against damage from physical theft, fire, power loss, computer and telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses and other disruptive events. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new systems or platforms or a breach in security of these systems could result in transaction errors, processing inefficiencies, the destruction or corruption of data, a decrease in the effectiveness of internal financial controls, the loss of or failure to attract new customers, the loss of sales, the loss of or unauthorized access to confidential and personal information, the loss of or damage to intellectual property or trade secrets, damage to Food Services' reputation, litigation, regulatory enforcement actions, higher insurance premiums, violation of privacy, security or other laws and regulations and remediation costs. Furthermore, adverse publicity resulting from allegations of security breaches resulting in the theft of credit and debit card information or personal information of guests may adversely affect the sales of A&W restaurants.

Effect of Media and Social Media

Food Services and A&W franchisees may be adversely effected by the increased use of social media. Events reported in the media, including social media, whether or not accurate or involving A&W restaurants, could create and/or amplify negative publicity for A&W restaurants or the industry or market segments in which A&W restaurants operate. This could reduce demand for A&W's products and could decrease guest traffic to A&W restaurants as customers shift their preferences to competitors or to other products or food types. A decrease in guest traffic to A&W restaurants as a result of negative publicity from the media, including social media, could result in a decline in sales at those restaurants and in turn reduce the royalty paid to the Fund.

Catastrophic Events

Food Services and A&W franchisees may be adversely affected by catastrophic events, or the prospect of catastrophic events, including war, terrorism and other domestic and international conflicts, public health issues, including health epidemics or pandemics, and natural disasters such as earthquakes or other adverse weather and climate conditions, whether occurring in Canada or abroad, could disrupt A&W restaurants operations, suppliers or customers, or result in political or economic instability. These events could reduce demand for A&W products or make it difficult or impossible to receive products from suppliers.

Risks and Uncertainties Related to the Structure of the Fund

Dependence of the Fund on the Trade Marks, Partnership and Food Services

The Fund is a limited purpose trust which is entirely dependent, through Trade Marks and Partnership, upon the obligation of Food Services to pay the royalty. The cash distributions to the Unitholders are dependent on the ability of Trade Marks to declare and pay dividends or make other distributions on the common shares of Trade Marks. Trade Marks is in turn dependent upon distributions on its interest in the Partnership.

Dependence of the Partnership on Food Services

The sole source of revenue of the Partnership is the royalty payable to it by Food Services. Food Services collects franchise fees and other amounts from A&W franchisees. In the conduct of the business, Food Services incurs debts and obligations to third parties. These debts and obligations could impact the ability of Food Services to pay the royalty to the Partnership.

The Partnership is entirely dependent upon the operations and assets of Food Services to pay the royalty to the Partnership, and is subject to the risks encountered by Food Services in the operation of its business, including the risks relating to the quick service restaurant industry referred to above.

Leverage; Restrictive Covenants

Trade Marks has third-party debt service obligations under the term loan and the operating loan with the Bank, which have been guaranteed by the Partnership. The degree to which Trade Marks is leveraged could have important consequences to the holders of the Units, including: (i) Trade Marks' and Partnership's ability to obtain additional financing for working capital may be limited; (ii) a portion of Trade Marks' or Partnership's cash flow may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for distribution to the Fund and Company, respectively; and (iii) certain of Trade Marks' borrowings are at variable rates of interest, which exposes Trade Marks and Partnership to the risk of increased interest rates. Trade Marks will need to refinance or renew the term loan when its term expires on December 22, 2022. There can be no assurance that refinancing will be available to Trade Marks, or that the current lender will renew the term loan on terms acceptable to Trade Marks. Trade Marks' ability to make scheduled payments of the principal of or interest on, or to refinance, its indebtedness depends on its future cash flow, which is subject to distributions from the Partnership that are in turn subject to the operations of Food Services, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The term loan and operating loan contain numerous covenants that limit the discretion of the Trade Marks' management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Trade Marks to:

- permit EBITDA, measured quarterly on a trailing four quarters basis, to be less than $23 million in any fiscal quarter;
- permit the ratio of consolidated funded debt to EBITDA, measured quarterly on a trailing four quarters basis, to exceed 2.50:1 in any fiscal quarter until the date that the term loan is repaid in full;
- grant or allow any liens, without the prior written consent of the bank;
- grant or permit to exist any debt;
- become a guarantor or otherwise liable for any note or obligation, other than in the ordinary course of business;
- sell, dispose, transfer or permit the Partnership to sell, dispose or transfer any material subsidiaries or material operating assets except in the nominal course of business of Trade Marks or the Partnership, provided that if the net proceeds thereof are in excess of $750,000, 100% of the net proceeds are to be used to pay down the term loan and the authorized limit of the term loan is permanently reduced to the extent of such repayment;
- amalgamate or sell substantially all of the assets of Trade Marks;

- make capital investments or provide financial assistance, except for payments to Food Services in respect of additional restaurants added to the Royalty Pool under the Licence and Royalty Agreement;

- issue shares other than to Food Services and the Fund;

- make principal payments on debt;

- amend or waive any right under certain material contracts, which would reasonably be expected to result in a material adverse financial impact on (i) any such material contract, such material contracts as a whole, or the interests of Trade Marks or the Partnership therein, or (ii) Trade Marks; and

- to permit any property taxes to be past due;

- enter into any contracts for the purchase and sale of property that is not in the ordinary course of business;

- borrow money, obtain credit or incur additional funded indebtedness;

- declare or pay dividends on any class or kind of its shares, repurchase or redeem any of its shares or reduce its capital in any way whatsoever or repay any shareholders' advances or otherwise advance, pay, disburse or distribute cash or other property in any form to any of its shareholders, directors, officer, senior managers, or subordinated debt holders except as contemplated in the facility letter for the term loan or under certain material contracts, which, in each case, would cause it to breach its financial or other covenants and conditions to the bank under the facility letter for the term loan.

A failure to comply with the obligations in the term loan could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the term loan were to be accelerated, there can be no assurance that Trade Marks' or Partnership's assets would be sufficient to repay in full that indebtedness.

Cash Distributions Are Not Guaranteed and Will Fluctuate with the Partnership's Performance

Although the Fund intends to distribute the dividend income earned by the Fund less expenses of the Fund and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by the Partnership and paid, through Trade Marks, to the Fund. The actual amount distributed in respect of the Units depends upon numerous factors, including payment of the royalty by Food Services, and the determination of taxable income and taxes payable.

Nature of Units

Securities such as the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in Trade Marks or Partnership and should not be viewed by investors as shares in Trade Marks or interests in the Partnership. As holders of Units, Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions or the right to "dissent" on certain material transactions. The Units represent a fractional interest in the Fund. The Fund's only assets are the common shares. The price per Unit is a function, among other things, of anticipated distributable cash.

Distribution of Securities on Redemption or Termination of the Fund

Upon a redemption of Units or termination of the Fund, the Trustees may distribute promissory notes of the Fund (in the case of a redemption) or the common shares of Trade Marks directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for such promissory notes or the common shares of Trade Marks. In addition, such promissory notes and common shares or Trade Marks are not freely tradeable and are not currently listed on any stock exchange. Such promissory notes and common shares of Trade Marks so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, tax-free savings accounts and registered disability savings plans depending upon the circumstances at the time.

The Fund May Issue Additional Units Diluting Existing Unitholders' Interests

The Declaration of Trust authorizes the Fund to issue an unlimited number of Units for such consideration and on such terms and conditions as shall be established by the Trustees without the approval of any Unitholders. Additional Units will be issued by the Fund upon the exchange of the Exchangeable Securities for Units.

Income Tax Matters

There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts and specified investment flow through trusts will not be changed in a manner which adversely affects the Fund and its Unitholders.

The Fund and Trae Marks are of the view that all expenses to be claimed by them in the determination of their respective incomes under the *Income Tax Act* (Canada) (the Tax Act) will be reasonable and deductible in accordance with the applicable provisions of the Tax Act (including the amount of the interest to be deducted by Trade Marks), Trade Marks' Capital Cost Allowance Class 14.1 asset ("eligible capital property"), formerly "cumulative eligible capital", has been determined in accordance with the applicable provisions of the Tax Act and Trade Marks' taxable income will be investment income eligible for refundable tax treatment. However, there can be no assurance that the Tax Act, or the interpretation of the Tax Act will not change, or that Canada Revenue Agency (CRA) will agree with the expenses claimed, the computation of Trade Marks' eligible capital property or the claims made by Trade Marks in respect thereof, or the nature and taxation of Trade Marks' income. If CRA successfully challenges the deductibility of such expenses or the correctness of such amounts or claims or the nature and taxation of Trade Marks' income, Trade Marks' cash available for the payment of dividends or other distributions on the common shares of Trade Marks would be materially adversely affected and the amount of distributable cash available to the Fund, and the distributions by the Fund to the Unitholders would be materially adversely affected and could be suspended.

The amount of Trade Marks' deduction for eligible capital property declines over time. Based on the continuing decline in the amount of deductions for eligible capital property Trade Marks is able to claim, the amount of cash taxes Trade Marks will become liable to pay will increase. The amounts paid by Trade Marks in cash taxes reduces the Trade Marks' cash available for dividends on the common shares of Trade Marks and, as a result, distributable cash available to the Fund and the distributions by the Fund to the Unitholders would be reduced by a pro rata amount.

Food Services agreed to indemnify Trade Marks for any liability Trade Marks may incur for taxes under Part VI.1 of the Tax Act. There is no indemnity by Food Services for any other tax liabilities Trade Marks may incur as a result of the structure of the Fund.

In addition, pursuant to the acquisition agreement by which Food Services sold the A&W trade marks and related intellectual property (collectively, the A&W Marks) to Trade Marks, Food Services and Trade Marks elected under the Tax Act to transfer the A&W Marks on a tax-deferred basis. The cost to Trade Marks of the A&W Marks that are subject to that election is less than fair market value, such that Trade Marks may realize taxable income on the future disposition of such marks.

OUTLOOK

Food Services continues to redefine what Canadians can expect from a quick service restaurant, by giving them great tasting food made with care from quality ingredients. The commitment to its mission "to delight time-crunched Canadian burger lovers with the joy of great tasting natural food, made by people they trust" has delivered remarkable results despite a soft economy and a very competitive market place. Strategic initiatives are focussed on growing market share in the quick service restaurants (QSR) burger market and include repositioning and differentiating the A&W brand through the use of "better ingredients"; accelerating new restaurant growth, and delivering an industry leading guest experience.

Since 2013 A&W has led the QSR industry in sourcing simple, all-natural ingredients that guests can feel good about, when Food Services became the first national QSR in Canada to use only beef raised without the use of hormones and steroids, free of additives, fillers or preservatives. A&W's beef is primarily grass-fed and any feed provided is strictly vegetarian. And the whole Burger Family — from Baby to Uncle® to Grandpa® — contains 100% pure beef. The following year, Food Services began to serve only chicken raised without the use of antibiotics and fed a grain-based diet without animal by-products. All of the chicken menu items on Food Services' menu are made with seasoned 100% chicken breast, without fillers. Also in 2014, Food Services enhanced its breakfast menu by moving to eggs from hens fed a fully vegetarian diet without animal by-products. Breakfast was further supported by the launch in January 2015 of organic and Fair Trade coffee, another first for a national QSR in Canada. In 2016, Food Services became the first national QSR in Canada to use bacon from pork that is raised without the use of antibiotics, and announced that A&W restaurants switched to French's ketchup and mustard, made with 100% Canadian tomatoes and 100% Canadian mustard seeds. In 2017, A&W reached another important milestone with the launch of the new Root Beer Guarantee. A&W Root Beer served in the restaurants is now made from natural cane sugar and all-natural flavours - another first for the QSR industry.

In 2017, A&W was proud to announce a substantial investment in the Canadian beef industry with a $5 million donation toward the University of Saskatchewan's Livestock and Forage Centre of Excellence. This donation is an investment in the future of Canadian food and best practices and will be used to develop new tools and techniques for healthy, sustainable growth. A&W's menu innovations have continued in 2017. Building on an already strong breakfast daypart, all-day breakfast was launched in February. This has been well received. Limited time offers in 2017 have included the Peppered Bacon Burger, Sriracha Teen Burgers and Eggers, and Smoky BBQ Teen, Double Cheese Double Bacon, Spicy Mama Burgers and Mushroom Mozza Burgers and Eggers. The introduction of "Pick Your Perfect Size" in connection with the limited time burger promotions, allows guests to enjoy feature burgers in a size of their choice. These menu items have been well received by Food Services' guests.

Food Services' second strategic initiative is accelerating the pace of growth of new A&W restaurants, particularly in the key Ontario and Quebec markets. Forty-five new A&W restaurants were opened across the country in 2017, including A&W's 900th restaurant, which also represented the 50th urban concept design restaurant. This design, with open ceilings, modern music and communal seating, allows Food Services to leverage the opportunity of the "urbanization" of Canada, with the very rapid growth in the number of people living, working, and "playing" in big cities. Also of note was the opening of the first restaurant under the Urban Franchise Associate program. Launched in 2016, the Urban Franchise Associate program is aimed at attracting millennials to become owner-operators of urban concept restaurants. As this younger demographic may not have the capital and experience necessary to invest in a traditional franchise, under this new program Food Services contributes to the cost of building the physical location and provides extensive training. As of December 31, 2017, an additional fifty-four new restaurants are under construction or in varying stages of permitting and are expected to open in the coming months

A third strategic initiative of Food Services is to deliver an industry leading guest experience. To ensure each guest at an A&W restaurant has a positive experience, Food Services has introduced changes in its satisfaction measurement and feedback systems, system level processes, staffing, CLIMATE, and restaurant equipment. This initiative also includes the ongoing re-imaging and modernizing of our existing restaurants, and innovation in technology. Including the new restaurants opened in the new design since the beginning of the re-image program, approximately 93% of A&W's restaurants now have the new design. New "Good Food Makes Good Food" interior elements are also being introduced in restaurants to communicate Food Services' ingredients guarantee to its guests. Costs of re-imaging A&W restaurants are borne by the franchisees and there is no cost to the Fund.

Food Services is also striving to lead the industry in minimizing its environmental footprint. Changes have been made to food packaging and dine-in customers are served with ceramic and glass mugs for hot and cold beverages, metal baskets for fries and onion rings and ceramic plates and stainless steel cutlery for breakfast in an effort to reduce waste going to landfills.

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: expected future consideration payable on adjustments to the Royalty Pool; 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 objective to maintain an annual payout ratio at or below 100%; Food Services' plans to reposition and differentiate A&W in the QSR industry through its use of "better ingredients", accelerating new restaurant growth, and delivering an industry leading guest experience; the Fund's policy to distribute all available cash in order to maximize returns to unitholders over time, after allowing for reasonable reserves; any change in the Fund's distributions will be implemented with a view to maintain the continuity of uniform monthly distributions; the Fund expects that future distributions will continue to be funded entirely by cash flow from operations and the cash reserve; the operating and administrative expenses of the Fund, Trade Marks and the Partnership are expected to be stable and reasonably predictable; the Fund, through dividends from Trade Marks, is expected to have sufficient financial resources to pay future distributions; and, the number of new A&W restaurants under construction and the expected timing for their opening.

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;
- 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 changes in the quick service restaurant burger market including as a result of changes in consumer taste or health concerns or changes in economic conditions or unemployment or a disease outbreak;
- no material impact on sales from closures of "anchor" stores in shopping centres;
- 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 continue to grow same store sales;
- Food Services is able to maintain and grow the current system of franchises;
- Food Services is able to locate new retail sites in prime locations;
- Food Services is able to obtain qualified operators to become A&W franchisees;
- no closures of A&W restaurants that materially affect the amount of the Royalty;
- no material changes in traffic patterns at shopping centres;
- no supply disruptions;
- franchisees duly pay franchise fees and other amounts;
- 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;
- Trade Marks continues to pay dividends on the common shares and the Partnership continues to make distributions on its units;
- Trade Marks can continue to comply with its obligations under its credit arrangements; and,
- Trade Marks' performance does not fluctuate such that cash distributions are affected.

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;
- 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 "better ingredients;
- 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 prime 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 centers;
- 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 affects the restaurant industry in general or the quick service restaurant industry in particular;
- changes in the availability of key personnel, including qualified franchise operators;
- changes in the ability to enforce or maintain intellectual property;
- risks related to technological breakdowns and cybersecurity breaches;
- risks related to the amplificatory effects of media and social media; and,
- increases in catastrophic events.

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;
- 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; and,
- risks related to income tax matters.

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.

February 13, 2018

Independent Auditor's Report

To the Unitholders of
A&W Revenue Royalties Income Fund

We have audited the accompanying consolidated financial statements of A&W Revenue Royalties Income Fund and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of income and comprehensive income, unitholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of A&W Revenue Royalties Income Fund and its subsidiaries as at December 31, 2017 and 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP")

Chartered Professional Accountants

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

A&W Revenue Royalties Income Fund

Consolidated Balance Sheets

As at December 31, 2017 and 2016

(in thousands of dollars)

	Note	2017 $	2016 $
Assets			
Current assets			
Cash and cash equivalents		2,534	1,751
Accounts receivable	12	2,742	2,467
Prepaid interest		391	306
Income taxes recoverable		-	182
		5,667	4,706
Non-current assets			
Intangible assets	4	249,933	232,660
Total assets		255,600	237,366
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		476	213
Distributions payable to Unitholders	10	1,701	1,613
Income taxes payable		154	-
Demand operating loan facility	5	-	490
Term loan	5	-	59,967
		2,331	62,283
Non-current liabilities			
Term loan	5	59,836	-
Fair value of interest rate swaps	5	1,465	4,173
Deferred income tax liabilities	6	12,784	11,515
		76,416	77,971
Unitholders' Equity			
Fund Units	7	263,452	248,800
Accumulated deficit		(156,589)	(151,694)
		106,863	97,106
Non-controlling interest		72,321	62,289
Total equity		179,184	159,395
Total liabilities and equity		255,600	237,366
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, 2017 and 2016

(in thousands of dollars except per Unit amounts)

	Note	2017 $	2016 $
Gross sales reported by the A&W restaurants in the Royalty Pool		1,188,818	1,137,830
Royalty income		35,665	34,135
Expenses			
General and administrative		654	586
Interest expense			
Term loan and other		2,583	2,574
Amortization of financing fees		33	33
		3,270	3,193
Operating income		32,395	30,942
Gain on interest rate swaps	5	(2,708)	(1,089)
Income before income taxes		35,103	32,031
Provision for (recovery of) income taxes			
Current			
Current income tax provision	6	5,985	6,500
Refundable income tax	6	(371)	2,029
Deferred	6	1,269	(414)
		6,883	8,115
Net income and comprehensive income for the year		28,220	23,916
Net income and comprehensive income attributable to			
Unitholders of A&W Revenue Royalties Income Fund		21,963	18,702
A&W Food Services of Canada Inc.’s non-controlling interest in A&W Trade Marks Inc.		6,257	5,214
		28,220	23,916
Basic and diluted income per weighted average Unit outstanding		1.765	1.542
Weighted average number of Units outstanding		12,441,263	12,131,373

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, 2017 and 2016

(in thousands of dollars)

	Note	Fund Units $	Accumulated deficit $	Total $	Non-controlling interest $	Total equity $
Balance as at December 31, 2015		248,800	(151,495)	97,305	45,345	142,650
Net income for the year		-	18,702	18,702	5,214	23,916
Distributions on Units	10	-	(18,901)	(18,901)	-	(18,901)
Dividends on common shares	12	-	-	-	(5,276)	(5,276)
Issue of common shares	4	-	-	-	17,006	17,006
Balance as at December 31, 2016		248,800	(151,694)	97,106	62,289	159,395
Net income for the year		-	21,963	21,963	6,257	28,220
Distributions on Units	10	-	(20,020)	(20,020)	-	(20,020)
Dividends on common shares	12	-	-	-	(5,684)	(5,684)
Issue of common shares	4	-	-	-	17,273	17,273
Common shares exchanged for units	7	14,652	(6,838)	7,814	(7,814)	-
Balance as at December 31, 2017		263,452	(156,589)	106,863	72,321	179,184

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, 2017 and 2016

(in thousands of dollars)

	Note	2017 $	2016 $
Cash flows from operating activities			
Net income for the year		28,220	23,916
Adjustments for:			
Non-cash gain on interest rate swaps		(2,708)	(1,089)
Amortization of financing fees		33	33
Interest expense		2,583	2,574
Deferred income tax (recovery)		1,269	(414)
Refundable income tax (recovery)		(371)	2,029
Current income tax provision		5,985	6,500
Net changes in items of non-cash working capital	9	(12)	383
Interest paid		(2,668)	(2,584)
Income taxes paid		(5,278)	(8,611)
Net cash provided by operating activities		27,053	22,737
Cash flows used in financing activities			
Financing fees paid	5	(164)	-
(Repayment) use of demand operating loan facility		(490)	490
Dividends paid to non-controlling interest		(5,684)	(5,276)
Distributions paid to Unitholders		(19,932)	(18,804)
Net cash used in financing activities		(26,270)	(23,590)
Increase (decrease) in cash and cash equivalents		783	(853)
Cash and cash equivalents - Beginning of year		1,751	2,604
Cash and cash equivalents - End of year		2,534	1,751

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 sales reported to Food Services by specific A&W restaurants (the Royalty Pool). Food Services is a 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 13, 2018.

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.

(figures in tables are expressed in thousands of dollars)

Consolidation

The financial statements include the accounts of the Fund and its 78.1% 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. A significant area requiring the use of a management estimate is the fair value of the interest rate swap. However, this 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.

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.

(figures in tables are expressed in thousands of dollars)

Accounts receivable

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

Intangible 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.

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. If a loan or held-to-maturity investment 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.

Income per Fund Unit

The Fund's income per Unit is based on the net 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 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.

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 reported sales from specific A&W restaurants in Canada that are in the Royalty Pool.

Interest paid

Cash flows relating to interest paid have been classified as operating activities in the consolidated statements of cash flows.

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.

At initial recognition, the Fund classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

a) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund's loans and receivables comprise cash and cash equivalents and accounts receivable and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(figures in tables are expressed in thousands of dollars)

b) Financial liabilities at amortized cost: 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.

c) 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 records all derivatives at fair value through net income, and its 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.

New standards and interpretations not yet adopted

IFRS 15, *Revenue from Contracts with Customers*, converges standards from the IASB and the Financial Accounting Standards Board (FASB) on revenue recognition. The standard is effective for periods beginning on or after January 1, 2018. The standard is intended to improve the financial reporting of revenue and improve comparability of the top line financial statements globally. The adoption of this standard will not have a material impact on the consolidated financial statements.

IFRS 9, *Financial Instruments*, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010 and is effective for periods beginning on or after January 1, 2018. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The adoption of this standard will not have a material impact on the consolidated financial statements.

(figures in tables are expressed in thousands of dollars)

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Fund.

4 Intangible assets

	Number of new restaurants	Number of closed restaurants	Number of restaurants in Royalty Pool	Amount $
Balance as at December 31, 2015	923	(109)	814	215,654
Annual adjustment January 5, 2016	32	(8)	24	17,006
Balance as at December 31, 2016	955	(117)	838	232,660
Annual adjustment January 5, 2017	30	(7)	23	17,273
Balance as at December 31, 2017	985	(124)	861	249,933

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

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 15th annual adjustment to the Royalty Pool took place on January 5, 2017. The number of A&W restaurants in the Royalty Pool was increased by 30 new restaurants less seven restaurants that permanently closed during 2016. The Partnership paid Food Services $12,037,000, by issuance of 346,386 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 692,772 non-voting common shares of Trade Marks.

The final adjustment to the number of LP units issued was made on December 8, 2017 based on the actual annual sales reported by the new restaurants. The actual annual sales of the 30 new A&W restaurants were $37,693,000 compared to the original estimate of $33,355,000. As a result, $3,009,000 representing the remaining 20% of the initial consideration and additional consideration of $2,226,000 were paid to Food Services by issuance of 150,665 additional LP units, which were exchanged for 301,330 non-voting common shares of Trade Marks.

(figures in tables are expressed in thousands of dollars)

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 prime rate plus 0.4% and are repayable on demand. As at December 31, 2017, the amount of the facility available was $2,000,000 (2016 - $1,510,000).

On December 22, 2017, Trade Marks entered into an agreement to refinance its $60,000,000 term loan with the Bank. The original term loan matured on December 22, 2017 and the new term loan is repayable on December 22, 2022. The new term loan contains the same covenants as the original term loan, 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 December 31, 2017 and December 31, 2016.

Trade Marks uses interest rate swap agreements to manage risks from fluctuations in interest rates. 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, the term loan bears interest at 4.3% per annum, comprising 2.8% per annum which is fixed under the swap agreement until December 22, 2022 plus a 1.4% per annum credit charge. The fair value of this interest rate swap as at December 31, 2017 was $1,465,000 unfavourable (2016 - $4,173,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income as a gain on interest rate swaps.

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

The term loan comprises:

	2017 $	2016 $
Term loan	60,000	60,000
Financing fees	(164)	(33)
	59,836	59,967

(figures in tables are expressed in thousands of dollars)

6 Income taxes

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

	2017	2016
Statutory combined federal and provincial income tax rates on investment income	19.0%	19.0%
	$	$
Provision for income taxes based on statutory income tax rates	6,670	6,086
Refundable tax	(371)	2,029
Rate change on deferred income taxes	584	-
Provision for income taxes	6,883	8,115

b) Deferred income tax liabilities comprise the following:

	2017 $	2016 $
Timing difference of income of A&W Trade Marks Limited Partnership	(231)	(479)
Fair value of interest rate swaps	278	793
Intangible assets	(12,831)	(11,829)
	(12,784)	(11,515)

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.

(figures in tables are expressed in thousands of dollars)

On March 3, 2017, Food Services exchanged 746,600 common shares of Trade Marks for 373,300 Units of the Fund, which were then sold at a price of $39.25 per Unit. The Fund did not receive any proceeds of the sale of the Units. Following the sale of these Units, Food Services owns approximately 21.2% of the Units of the Fund on a fully-diluted basis.

	Number of Units	Equity $
Balance as at December 31, 2016	12,131,373	248,800
Units issued in exchange for common shares of A&W Trade Marks Inc.	373,300	14,652
	12,504,673	263,452

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, 2015	24,262,671	114,680	81.6	5,477,987	49,093	18.4	29,740,658	163,773
January 5, 2016 adjustment to the Royalty Pool	-	-	(3.4)	1,295,242	17,006	3.4	1,295,242	17,006
Balance as at December 31, 2016	24,262,671	114,680	78.2	6,773,229	66,099	21.8	31,035,900	180,779
January 5, 2017 adjustment to the Royalty Pool	-	-	(2.4)	994,102	17,273	2.4	994,102	17,273
March 3, 2017 exchange of common shares for units of the Fund	746,600	7,814	2.3	(746,600)	(7,814)	(2.3)	-	-
Balance as at December 31, 2017	25,009,271	122,494	78.1	7,020,731	75,558	21.9	32,030,002	198,052

(figures in tables are expressed in thousands of dollars)

The summarized financial information of Trade Marks is as follows:

	2017 $	2016 $
Current assets	3,965	3,092
Non-current assets	249,934	232,661
Current liabilities	630	703
Non-current liabilities	74,067	75,637
Revenue	35,665	34,135
Net income and comprehensive income	28,221	23,916

(figures in tables are expressed in thousands of dollars, except per Unit amounts)

9 Working capital

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

	2017 $	2016 $
Accounts receivable	(275)	405
Accounts payable and accrued liabilities	263	(22)
	(12)	383

10 Distributions

During the year ended December 31, 2017, the Fund declared distributions to its Unitholders of $20,020 or $1.605 per Unit (2016 - $18,901,000 or $1.558 per Unit). The record dates and amounts of these distributions are as follows:

Month	Record date	Amount $	Per Unit $
January 2017	February 15, 2017	1,613	0.133
February 2017	March 15, 2017	1,663	0.133
March 2017	April 15, 2017	1,663	0.133
April 2017	May 15, 2017	1,663	0.133
May 2017	June 15, 2017	1,663	0.133
June 2017	July 15, 2017	1,663	0.133
July 2017	August 15, 2017	1,663	0.133
August 2017	September 15, 2017	1,663	0.133
September 2017	October 15, 2017	1,663	0.133
October 2017	November 15, 2017	1,701	0.136
November 2017	December 15, 2017	1,701	0.136
December 2017	December 29, 2017	1,701	0.136
		20,020	1.605

The December 2017 distribution was declared on December 19, 2017 and paid on January 31, 2018, and is reported as a current liability as at December 31, 2017.

11 Compensation to key management

Key management personnel are the Trustees of the Fund. During the year, the Trustees earned $112,000 (2016 - $102,000).

(figures in tables are expressed in thousands of dollars)

12 Related party transactions and balances

During the year, royalty income of $35,665,000 (2016 - $34,135,000) was earned from Food Services, of which $2,742,000 (2016 - $2,467,000) is receivable at December 31, 2017.

During the year, Trade Marks paid dividends to Food Services of $5,684,000 (2016 - $5,276,000). The dividends paid to Food Services in 2017 include special dividends of $221,000 representing the dividends that Food Services would have received on the 301,330 non-voting common shares issued to Food Services on December 8, 2017 in relation to the final consideration for the January 5, 2017 adjustment to the Royalty Pool (note 4), had they been issued on January 5, 2017. In 2016, Trade Marks paid special dividends of $225,000 to Food Services representing the dividends that Food Services would have received on the 315,548 non-voting common shares issued to Food Services on December 19, 2016 in relation to the final consideration for the January 5, 2016 adjustment to the Royalty Pool, had they been issued on January 5, 2016.

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 $1,465,000 unfavourable (2016 - $4,173,000 unfavourable).

Fair value estimation

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

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

The interest rate 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.

(figures in tables are expressed in thousands of dollars)

Credit risk

The Fund's exposure to credit risk is as indicated by the carrying amount of its accounts receivable. All of the accounts receivable relate to royalties due from Food Services to the Partnership which were paid on January 27, 2018.

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.

15 Subsequent events

On January 5, 2018, the number of A&W restaurants in the Royalty Pool was increased by 42 new restaurants less seven restaurants that permanently closed during 2017. The initial consideration for the estimated royalty revenue from the net 35 restaurants added to the Royalty Pool is $25,989,000. The Partnership paid Food Services $20,791,000 by issuance of 596,251 LP units, representing 80% of the initial consideration. The LP units were exchanged for 1,192,502 non-voting common shares of Trade Marks. The remaining 20% or $5,198,000 and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be paid in December 2018 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks.

On February 5, 2018, Trade Marks declared dividends on its voting and non-voting common shares of $2,259,000 payable to Food Services and the Fund on February 28, 2018.

On February 5, 2018, the Fund declared a distribution to Unitholders of $0.136 per Unit or $1,701,000, payable on February 28, 2018 to Unitholders of record as at February 15, 2018.

Unitholder Information

Corporate Head Office

A&W Trade Marks Inc.
c/o 26th Floor
Toronto-Dominion Bank Tower
700 West Georgia Street
Vancouver, BC, V7Y 1B3

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

Don Leslie
Chief Financial Officer

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

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

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