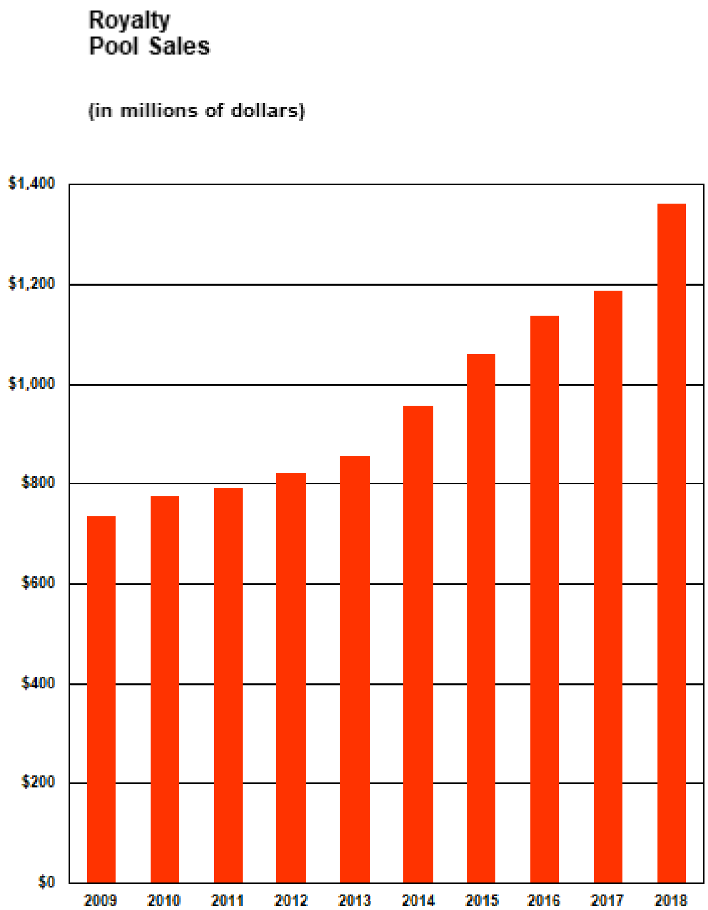
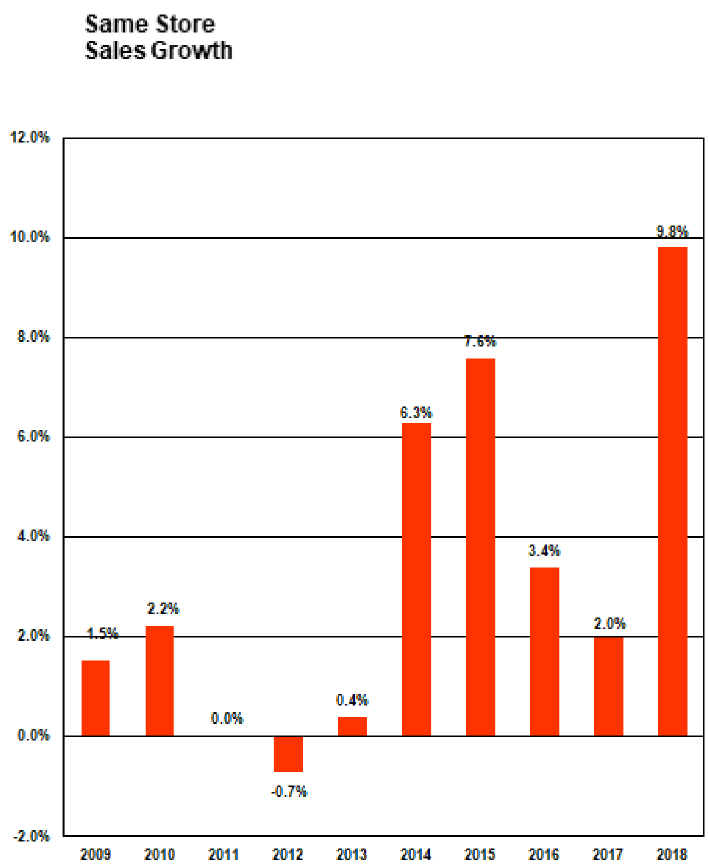
A&W REVENUE ROYALTIES INCOME FUND

2018 ANNUAL REPORT

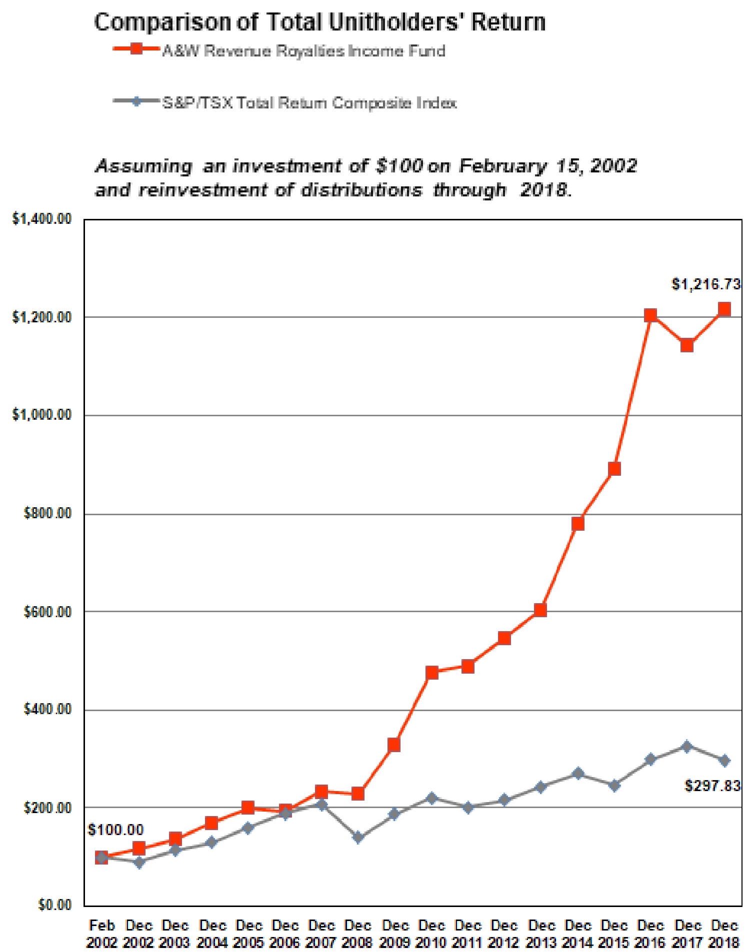


Royalty
Pool Sales
(in millions of dollars)
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018

Distributions to
Unitholders
Special distributions
Distributions
Distributions starting 2011 reflect the introduction of the SIFT tax on income trusts.
$1.80
$1.60
$1.40
$1.20
$1.00
$0.80
$0.60
$0.40
$0.20
$0.00
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018



Same Store
Sales Growth
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
-2.0%
1.5%
2.2%
0.0%
-0.7%
0.4%
6.3%
7.6%
3.4%
2.0%
9.8%
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018



Comparison of Total Unitholders' Return
A&W Revenue Royalties Income Fund
S&P/TSX Total Return Composite Index
Assuming an investment of $100 on February 15, 2002 and reinvestment of distributions through 2018.
$1,400.00
$1,200.00
$1,000.00
$800.00
$600.00
$400.00
$200.00
$0.00
$1,216.73
$297.83
$100.00
Feb 2002
Dec 2002
Dec 2003
Dec 2004
Dec 2005
Dec 2006
Dec 2007
Dec 2008
Dec 2009
Dec 2010
Dec 2011
Dec 2012
Dec 2013
Dec 2014
Dec 2015
Dec 2016
Dec 2017
Dec 2018

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, 2018.

The Fund achieved outstanding results for the fourth quarter and year. Same store sales growth was +12.3% for the quarter, as compared to the same quarter of 2017 and total royalty income for the quarter increased by 18.1%. Annual same store sales growth was +9.8% and royalty income increased by 14.7%.

Same store sales increases are the primary driver of growth in distributable cash per unit, and as a result of the strong performance through the year, we are pleased to be able to increase monthly distributions, from 14.3¢ per unit to 14.7¢ per unit. This brings the annualized rate of distribution to $1.764.

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 896 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, 2018, from 861 to 896 and again on January 5, 2019, with an additional 38 net new restaurants being added to the Royalty Pool.

Distributable cash per equivalent unit increased by 21.2¢ to $1.853 per unit in 2018 from $1.641 for 2017. The Fund's trustees announced three increases in the monthly distribution rate in 2018: from 13.6¢ per unit to 13.8¢ per unit starting with the April distribution, from 13.8¢ per unit to 14.1¢ per unit starting with the July distribution, and then from 14.1¢ per unit to 14.3¢ per unit starting with the October distribution. The monthly distribution rate at December 31, 2018 of 14.3¢ per unit translated into an annualized distribution rate of $1.716 per unit, an increase of 5.1% from the 2017 annualized rate of $1.632 per unit. The annual payout ratio for 2018 was 90.3% compared to 97.8% for 2017.

A&W Food Services recently updated its Mission, committing to "be loved for our natural ingredients, great taste, convenience, and for doing what's right." Strategic initiatives include repositioning and differentiating the A&W brand through innovation with high quality ingredients; continued rapid new restaurant growth, and delivering an industry leading guest experience. The successful execution of this strategy is key to delivering continued strong results and improved market share in the quick service restaurants burger market, and increased royalty income to the Fund.

On behalf of the Trustees, I would like to thank 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's industry leading innovation, along with continued commitment to great tasting food made with care from quality ingredients, is broadening our appeal and winning guest visits. Rapid growth of new locations, coupled with a combination of successful marketing programs and guest experience improvements is making A&W a preferred choice for more and more guests.

Overall system sales grew at a record rate year over year, increasing by 14.5%, bringing our total system sales to $1.42 billion. Building momentum through the past year, we also achieved extremely strong same store sales growth of +12.3% in the fourth quarter and an annual growth rate of +9.8%.

A significant driver behind our sales growth is our focus on innovation and quality ingredients. We have led the QSR industry in sourcing "better ingredients" since 2013, 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. In 2018, Food Services introduced the Beyond Meat Burger and is very excited to be the first national burger chain in Canada to offer burger lovers across Canada this burger patty made using 100% plant-based protein.

Another key strategic initiative is the acceleration of growth through the opening of new A&W restaurants. In 2018, 42 new restaurants opened across Canada, bringing the total number of restaurants in the chain to 952. A&W also expanded upon its strategy to reach more consumers by joining forces with Uber Eats to make ordering and enjoying A&W's menu options more convenient and accessible in more parts of the country.

Also of note, is the effort that has been taken to further reduce A&W's environmental footprint. Food Services was the first quick service restaurant chain in North America to commit that all plastic straws would be eliminated from all restaurants by the end of 2018. The switch to paper straws, which are 100% biodegradable, compostable and are sustainably sourced, will keep 82 million plastic straws out of landfills every year.

A&W was proud to again partner with the Multiple Sclerosis Society of Canada and Christine Sinclair to celebrate its 10th "Burgers to Beat MS Day", as part of a campaign which raised more than $1.9 million. In 10 years, the annual campaign has raised nearly $13 million which has been used to fund world-class MS research, programs and services, and advocacy efforts that aim to improve the quality of life for Canadians living with and affected by the disease.

In closing, we are pleased to see the positive impact that our commitment to strategy has had. We continue to deliver strong results despite some ongoing challenges in the food service industry and are enthusiastic about the potential we see to build on this foundation in the year ahead.

(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 10, 2018 to December 31, 2018 and the year ended December 31, 2018, and is dated February 12, 2019. This MD&A should be read in conjunction with the audited annual consolidated financial statements of the Fund for the year ended December 31, 2018. Readers are also referred to the audited annual consolidated financial statement of A&W Food Services of Canada Inc. (Food Services) for the 52 week year ended December 30, 2018. Such financial statements and additional information about the Fund and Food Services are available at www.sedar.com or www.awincomefund.ca.

The financial results reported in this MD&A are derived from the audited annual consolidated financial statements of the Fund, which are prepared in accordance with International Financial Reporting Standards (IFRS). The accounting policies applied in the audited annual consolidated financial statements for the year ended December 31, 2018 and this report have been consistently applied to all years presented, and reflect the adoption of IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers.

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 2018 year was 52 weeks and ended December 30, 2018 (2017 – 52 weeks ended December 31, 2017). The Fund aligns its quarterly financial reporting with that of Food Services. Readers should be aware that 2018 quarterly results are not directly comparable to 2017 year to date results, as there were 84 days of sales in Q1, 2018 compared to 85 days in Q1, 2017. The second and third quarters of both years had 84 days. The fourth quarter of 2018 had 113 days compared to 112 days in the fourth quarter of 2017. 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 2018 grew by +12.3% as compared to the same quarter of 2017. Annual same store sales growth is +9.8%.
- Total sales in the Royalty Pool (as hereinafter defined) and royalty income increased by 18.1% in the quarter and by 14.7% for 2018 as compared to 2017.
- Annual net income increased in 2018 by 11.9%.
- Monthly distribution rate was increased in 2018 from 13.6¢ to 14.3¢ per unit. The current annual distribution rate is $1.716 per unit, a 5.1% increase over 2017's annual distribution rate.
- Distribution to be increased by 2.8%.

(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 10, 2018 to Dec 31, 2018**	Period from Sep 11, 2017 to Dec 31, 2017	**Period from Jan 1, 2018 to Dec 31, 2018**	Period from Jan 1, 2017 to Dec 31, 2017
Same store sales growth[1]	**+12.3%**	+3.1%	**+9.8%**	+2.0%
Number of restaurants in the Royalty Pool	**896**	861	**896**	861
Sales reported by the restaurants in the Royalty Pool	**$439,950**	$372,679	**$1,362,996**	$1,188,818
Royalty income	**$13,199**	$11,181	**$40,890**	$35,665
General and administrative expenses	**236**	228	**713**	654
Net third party interest expense	**788**	789	**2,568**	2,583
Current income tax provision	**1,960**	1,879	**6,346**	5,985
Total distributable cash generated for distributions and dividends[2]	**$10,216**	$8,119	**$31,262**	$26,279
Distributable cash per equivalent unit (2018 – 16,874,762 units; 2017 – 16,015,038 units)[2][3]	**$0.605**	$0.507	**$1.853**	$1.641
Distributions and dividends declared per equivalent unit	**$0.570**	$0.541	**$1.674**	$1.605
Net income[4]	**$9,823**	$8,160	**$31,575**	$28,220
Net income, excluding non-cash items[4]	**$10,816**	$8,430	**$32,547**	$26,816

(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 2018 is calculated on a fully-diluted basis and includes the 263,472 LP units (as hereinafter defined) representing the final consideration paid in December 2018 for the January 5, 2018 adjustment to the Royalty Pool. The number of equivalent units and distributable cash per equivalent unit in 2017 is calculated on a fully-diluted basis and 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.

(4) Net income in 2018 and 2017 includes non-cash gains and losses on an interest rate swap, amortization of deferred financing fees and deferred income taxes. These non-cash items have no impact on the Fund’s ability to pay distributions to unitholders. The Fund’s net income excluding these non-cash items is presented for information purposes only. Net income excluding non-cash items 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, 2018.

Same store sales for the fourth quarter of 2018 increased by 12.3% as compared to the same quarter of 2017 continuing on the momentum built over the past year. Same store sales growth was achieved in all provinces and concepts, including Saskatchewan, with Ontario and Quebec and the Urban concept restaurants leading the way. Annual same store sales growth was +9.8% compared to 2017.

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 2018 were $439,950,000, an increase of 18.1% from sales of $372,679,000 for the fourth quarter of 2017. Annual sales were $1,362,996,000, an increase of 14.7% from the sales of $1,188,818,000 for 2017. 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.

The Fund is pleased to announce that, as a result of the performance by restaurants in the Royalty Pool, the monthly distribution to unitholders will increase from 14.3¢ per unit to 14.7¢ per unit beginning with the February 2019 distribution which is payable on March 29, 2019. The new distribution rate translates into an annualized distribution rate of $1.764 per unit, an increase of 2.8% from the prior level of $1.716 per unit.

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, 2018, Food Services owned the equivalent of 25.9% (2017 – 21.9%) of the units of the Fund on a fully-diluted basis through its ownership of common shares of Trade Marks, which are exchangeable, at the option of Food Services, for units of the Fund on the basis of two common shares for one unit of the Fund. As a result, 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 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 brought the total number of A&W restaurants in the Royalty Pool to 896. The estimated annual sales of the 42 new A&W restaurants was $55,642,000 and annual sales for the seven permanently closed restaurants was $3,210,000. The initial consideration for the estimated additional royalty stream was $25,989,000, 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 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 final adjustment of the number of LP units issued was made on December 7, 2018 based on the actual annual sales reported by the new A&W restaurants of $63,783,000 compared to the original estimate of $55,642,000. As a result, $5,198,000 representing the remaining 20% of the initial consideration and additional consideration of $3,989,000 were paid to Food Services by issuance of 263,472 additional LP units, which were subsequently exchanged for 526,944 non-voting common shares of Trade Marks.

Subsequent to December 31, 2018, the 2019 adjustment to the Royalty Pool took place on January 5, 2019. The number of A&W restaurants in the Royalty Pool was increased by 46 new restaurants less eight restaurants that permanently closed during 2018. The addition of these 38 net new restaurants brings the total number of A&W restaurants in the Royalty Pool to 934. The estimated annual sales of the 46 new A&W restaurants are $62,283,000 and annual sales for the eight permanently closed restaurants were $4,795,000. The initial consideration for the estimated additional royalty stream was $27,305,000, 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 29, 2018. The yield was adjusted to reflect income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or $21,844,000 by issuance of 627,514 LP units which were subsequently exchanged for 1,255,028 non-voting common shares of Trade Marks. The remaining 20% of the consideration or $5,461,000 will be paid in December 2019 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 2019 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, 2019 adjustment to the Royalty Pool, Food Services' indirect interest in the Fund increased to 28.6% on a fully-diluted basis (25.9% as of December 31, 2018).

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, 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
January 5, 2018 adjustment to the Royalty Pool(2)	-	-	(4.0)	1,719,446	29,978	4.0	1,719,446	29,978
Balance as at December 31, 2018	25,009,271	122,494	74.1	8,740,177	105,536	25.9	33,749,448	228,030

(1) The number of common shares includes the 150,665 LP units exchanged for 301,300 common shares of Trade Marks representing the final consideration paid in December 2017 for the January 5, 2017 adjustment to the Royalty Pool.
(2) The number of common shares includes the 263,472 LP units exchanged for 526,944 common shares of Trade Marks representing the final consideration paid in December 2018 for the for the January 5, 2018 adjustment to the Royalty Pool.

OWNERSHIP OF THE FUND

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

	December 31, 2018		December 31, 2017	
	Number of units	%	Number of units	%
Fund units held by public unitholders	12,504,673	74.1	12,504,673	78.1
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services(1)	4,370,089	25.9	3,510,365	21.9
Total equivalent units	16,874,762	100.0	16,015,038	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, 2019 adjustment to the Royalty Pool.

	Number of units	%
Fund units held by public unitholders	12,504,673	71.4
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services	4,997,603	28.6
Total equivalent units	17,502,276	100.0

The chart below shows the ownership of the Fund, on a fully-diluted basis, when the remaining 20% of the initial consideration for the January 5, 2019 adjustment to the Royalty Pool is expected to be paid in December 2019, by issuance of 156,878 LP units exchangeable for 313,756 common shares of Trade Marks. The actual amount of the consideration paid in December 2019 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	70.8
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services	5,154,481	29.2
Total equivalent units	17,659,154	100.0

FINANCIAL RESULTS

INCOME

Royalty income for the fourth quarter of 2018 was $13,199,000 based on sales of $439,950,000. This was an increase of 18.1% from royalty income of $11,181,000 and sales of $372,679,000 for the fourth quarter of 2017. Annual royalty income was $40,890,000 based on sales of $1,362,996,000, an increase of 14.7% from royalty income of $35,665,000 and sales of $1,188,818,000 for 2017. The increase in sales and royalty income was due to the additional net 35 new A&W restaurants in the Royalty Pool and the 9.8% increase in same store sales.

EXPENSES

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

(dollars in thousands)	**Period from Sep 10, 2018 to Dec 31, 2018**	Period from Sep 11, 2017 to Dec 31, 2017	**Period from Jan 1, 2018 to Dec 31, 2018**	Period from Jan 1, 2017 to Dec 31, 2017
General and administrative	**$236**	$228	**$713**	$654
Net interest on term loan and other	**$788**	$789	**$2,568**	$2,583

General and administrative expenses for the fourth quarter of 2018 increased by $8,000 to $236,000 compared to $228,000 for the fourth quarter of 2017. General and administrative expenses for the full year of 2018 were $713,000 compared to $654,000 for the same period of 2017. The increase was primarily due to higher TSX filing fees and professional fees.

Interest on the term loan was $788,000 for the fourth quarter of 2018, $1,000 lower compared to the fourth quarter of 2017, and decreased by $15,000 to $2,568,000 for the full year of 2018 compared to $2,583,000 for 2017. 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 10, 2018 to Dec 31, 2018**	Period from Sep 11, 2017 to Dec 31, 2017	**Period from Jan 1, 2018 to Dec 31, 2018**	Period from Jan 1, 2017 to Dec 31, 2017
Loss (gain) on interest rate swap	**$638**	($464)	**($329)**	($2,708)

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 10, 2018 to Dec 31, 2018**	Period from Sep 11, 2017 to Dec 31, 2017	**Period from Jan 1, 2018 to Dec 31, 2018**	Period from Jan 1, 2017 to Dec 31, 2017
Current				
Current income tax provision	**$1,960**	$1,879	**$6,346**	$5,985
Refundable income tax	**(601)**	(145)	**(1,284)**	(371)
Deferred	**345**	723	**1,268**	1,269
Total provision for income taxes	**$1,704**	$2,457	**$6,330**	$6,883

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

Trade Marks' taxable income is taxed at an effective rate of 20.0% (2017 – 19.0%), plus an additional tax of 30.67% (2017 – 30.67%) on investment income which is refundable at a rate of 38.33% (2017 – 38.33%) of each dollar Trade Marks pays out in taxable dividends to its shareholders. Trade Marks' provision for income taxes for 2018 includes a recovery of refundable income tax of $1,284,000 based on its taxable income and dividends paid in 2018. 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. In 2017, Trade Marks' provision for income taxed included a recovery of refundable income tax of $371,000 based on its taxable income and dividends paid in 2017. Management expects that the remaining $374,000 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 $361,000 higher than the prior year due to an increase in earnings before income taxes and from the increase in British Columbia's general corporate tax rate from 19% in 2017 to 20% in 2018.

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 10, 2018 to Dec 31, 2018**	Period from Sep 11, 2017 to Dec 31, 2017	**Period from Jan 1, 2018 to Dec 31, 2018**	Period from Jan 1, 2017 to Dec 31, 2017
Net income and comprehensive income attributable to unitholders of the Fund	**$7,018**	$6,269	**$23,397**	$21,963
Net income and comprehensive income attributable to Food Services' non-controlling interest in Trade Marks	**2,805**	1,891	**8,178**	6,257
Total net income and comprehensive income	**$9,823**	$8,160	**$31,575**	$28,220

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. The 2018 provision includes an additional recovery of $1,284,000. Management expects that the remaining $374,000 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 10, 2018 to Dec 31, 2018**	Period from Sep 11, 2017 to Dec 31, 2017	**Period from Jan 1, 2018 to Dec 31, 2018**	Period from Jan 1, 2017 to Dec 31, 2017
Net cash generated from operating activities	**$9,091**	$8,234	**$30,166**	$27,054
Changes in non-cash working capital including interest and tax	**1,125**	(115)	**1,096**	(775)
Distributable cash generated[(1)]	**$10,216**	$8,119	**$31,262**	$26,279
Cumulative surplus – beginning of period	**5,792**	3,157	**3,363**	2,417
Distributable cash for unitholders at current annual distribution rate (2018 - $1.674 per unit, 2017 - $1.605 per unit) [(1)]	**(6,533)**	(6,236)	**(20,933)**	(19,968)
Distributable cash for Food Services at equivalent annual distribution rate (2018 - $1.674 per equivalent unit, 2017 - $1.605 per equivalent unit)[(1)]	**(2,416)**	(1,822)	**(7,316)**	(5,736)
Refundable income tax (see "Income Taxes")	**601**	145	**1,284**	371
Cumulative surplus – end of period	**$7,660**	$3,363	**$7,660**	$3,363
Number of equivalent units[(1)]	**16,874,762**	16,015,038	**16,874,762**	16,015,038
Distributable cash generated per equivalent unit[(1)]	**$0.605**	$0.507	**$1.853**	$1.641
Monthly distributions declared per unit[(2)]	**$0.570**	$0.541	**$1.674**	$1.605
Total distributions declared and accrued per unit	**$0.522**	$0.499	**$1.674**	$1.605
Payout ratio [(3)]	**86.2%**	98.4%	**90.3%**	97.8%

(1) The number of equivalent units and distributable cash per equivalent unit in 2018 includes the 263,472 LP units exchanged for 526,944 common shares of Trade Marks representing the final consideration paid in December 2018 for the January 5, 2018 adjustment to the Royalty Pool. 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.

(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 first quarter of each year are in respect of the calendar months January and February.

(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 2018 to pay distributions to unitholders and dividends to Food Services was $10,216,000 compared to $8,119,000 in the fourth quarter of 2017. Distributable cash generated in 2018 was $31,262,000 compared to $26,279,000 in 2017. The $4,983,000 annual increase in distributable cash was primarily comprised of the $5,225,000 increase in royalty income and a $164,000 decrease in refinancing fees less the $45,000 net increase in general and administrative expenses and interest expense, and a $361,000 increase in the current income tax provision (excluding refundable income tax).

Distributable cash generated per equivalent unit increased by 9.8¢ to 60.5¢ per unit in the fourth quarter of 2018 from 50.7¢ for the fourth quarter of 2017. Annual distributable cash per unit increased by 21.2¢ to $1.853 per unit in 2018 from $1.641 for 2017. The increase in annual distributable cash per equivalent unit was due to the increase in royalty income less increases in cash expenses and current income taxes.

Four monthly distributions totalling 57.0¢ per unit were declared in the fourth quarter of 2018 compared to 54.1¢ per unit in the same quarter of 2017. Total distributions declared in 2018 were $1.674 per unit compared to $1.605 per unit in 2017, an increase of 4.3%. The Fund's objective is to maintain an annual payout ratio at or below 100%, however as the fund strives to provide unitholders with regular monthly distributions, and as a result of seasonality of sales in A&W restaurants, the Fund historically experiences seasonal fluctuations in its payout ratio. The annual payout ratio for 2018 was 90.3% compared to 97.8% for 2017. The following table shows the trailing four quarter payout ratios for 2016, 2017 and 2018.

The cumulative surplus of distributable cash on reserve at the end of 2018 was $7,660,000, compared to a reserve of $3,363,000 at the beginning of the year, an increase of $4,297,000.

The Fund's trustees announced three increases in the monthly distribution rate in 2018: from 13.6¢ per unit to 13.8¢ per unit starting with the April distribution, from 13.8¢ per unit to 14.1¢ per unit starting with the July distribution, and then from 14.1¢ per unit to 14.3¢ per unit starting with the October distribution. The current monthly distribution rate of 14.3¢ per unit translates into an annualized distribution rate of $1.716 per unit.

Due to the performance by restaurants in the Royalty Pool, the monthly distribution to unitholders will increase from 14.3¢ per unit to 14.7¢ per unit beginning with the February 2019 distribution which is payable on March 29, 2019. The new distribution rate translates into an annualized distribution rate of $1.764 per unit, an increase of 2.8% from the prior level of $1.716 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 2018 were as follows:

(dollars in thousands except per unit amounts) Month	Record date	Amount	Per unit
January	February 15, 2018	$1,701	$0.136
February	March 15, 2018	1,701	0.136
March	April 15, 2018	1,701	0.136
April	May 15, 2018	1,726	0.138
May	June 15, 2018	1,726	0.138
June	July 15, 2018	1,725	0.138
July	August 15, 2018	1,763	0.141
August	September 15, 2018	1,763	0.141
September	October 15, 2018	1,763	0.141
October	November 15, 2018	1,788	0.143
November	December 15, 2018	1,788	0.143
December	December 31, 2018	1,788	0.143
		$20,933	$1.674

The December 2018 distribution was declared on December 17, 2018 and paid on January 31, 2019 and is reported as a current liability as at December 31, 2018. On February 5, 2019 the Fund declared the January 2019 monthly distribution to unitholders of 14.3¢ per unit or $1,788,000, payable on February 28, 2019.

TAX TREATMENT OF DISTRIBUTIONS

All of the distributions declared in 2018 are designated as non-eligible dividends.

DIVIDENDS ON TRADE MARKS' COMMON SHARES

During 2018, 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	$0.0680	$1,701	$559
February	0.0680	1,701	559
March	0.0680	1,701	558
April	0.0690	1,726	566
May	0.0690	1,726	567
June	0.0690	1,725	567
July	0.0705	1,763	579
August	0.0705	1,763	579
September	0.0705	1,763	579
October	0.0715	1,788	587
November	0.0715	1,788	587
December	0.0715	1,788	587
	$0.8370	$20,933	$6,875

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 $441,000 representing the dividends that Food Services would have received on the 526,944 non-voting common shares issued to Food Services on December 7, 2018 in relation to the final consideration for the January 5, 2018 adjustment to the Royalty Pool, had such shares been issued on January 5, 2018.

On February 5, 2019 Trade Marks declared an aggregate dividend on its voting and non-voting common shares of $2,503,000 payable to Food Services and the Fund on February 28, 2019.

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 2018**	**Q3 2018**	**Q2 2018**	**Q1 2018**
Number of restaurants in the Royalty Pool	896	896	896	896
Royalty income	$13,199	$10,506	$9,154	$8,031
General and administrative expenses	236	80	90	307
Term loan and other interest expense	788	594	592	594
Amortization of deferred financing fees	10	8	7	8
Non cash loss (gain) on interest rate swap	638	(278)	(30)	(659)
Current income tax expense	1,960	1,523	1,503	1,360
Refundable income tax recovery	(601)	(285)	(285)	(113)
Deferred income tax expense	345	499	195	229
Net income	$9,823	$8,365	$7,082	$6,305
Distributable cash(1)	$10,216	$8,307	$6,969	$5,770
Number of equivalent units(2)	16,874,762	16,760,352	16,760,352	16,760,352
Distributable cash per equivalent unit(1)(2)	$0.605	$0.496	$0.416	$0.344
Monthly distributions declared per unit(3)	$0.570	$0.420	$0.412	$0.272
Number of days in the quarter	113	84	84	84
(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 swap	(464)	(1,945)	(260)	(38)
Current income tax expense	1,879	1,457	1,456	1,193
Refundable income tax recovery	(145)	(-)	(76)	(150)
Deferred income tax 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

(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 2018 includes the 263,472 LP units exchanged for 526,944 common shares of Trade Marks representing the final consideration paid in December 2018 for the January 5, 2018 adjustment to the Royalty Pool. 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.

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

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)	**2018**	**2017**	**2016**
Same store sales growth[1]	+9.8%	+2.0%	+3.4%
Number of restaurants in the Royalty Pool	896	861	838
Sales reported by the restaurants in the Royalty Pool	$1,362,996	$1,188,818	$1,137,820
Royalty income	$40,890	$35,665	$34,135
Total distributable cash generated for distributions and dividends[2]	$31,262	$26,279	$24,475
Total distributions declared per unit	$1.674	$1.605	$1.558
Net income	$31,575	$28,220	$23,916
Basic and diluted income per weighted average unit outstanding	$1.871	$1.765	$1.542
Net income, excluding non-cash items[3]	$32,547	$26,816	$22,446
Total assets	$289,733	$255,600	$237,366
Trade Marks’ term loan	$59,869	$59,836	$59,967

(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.

SEASONALITY

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

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, 2018, the amount of the facility available was $2,000,000 (December 31, 2017 - $2,000,000).

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 12, 2019, December 31 2018 and December 31, 2017.

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. Due to the performance of the business during 2018, this rate will be reduced to 1.15%, and depending on the future performance of the business may be reduced to as low as 0.9%. The fair value of this interest rate swap as at December 31, 2018 was $1,136,000 unfavourable (December 31, 2017 - $1,465,000 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 2018 year, royalty income of $40,890,000 (2017 - $35,665,000) was earned from Food Services of which $3,262,000 (December 31, 2017 - $2,742,000) is receivable at December 31, 2018. Royalty income earned during the fourth quarter was $13,199,000 (2017 – $11,181,000).

During the 2018 year, Trade Marks declared and paid dividends to Food Services of $7,316,000 (2017 - $5,684,000). Dividends declared payable to Food Services during the fourth quarter were $2,202,000 (2017 - $2,059,000).

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, 2018 was $1,136,000 unfavourable (December 31, 2017 - $1,465,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income as a gain on interest rate swaps.

NEW STANDARDS ADOPTED

IFRS 9 – Financial Instruments

The Fund has adopted IFRS 9 effective January 1, 2018, retrospectively without restatement of comparatives. The new standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The Fund classifies all its financial assets and liabilities at amortized cost. Under IFRS 9, the Fund assesses on a forward looking basis the expected credit losses associated with financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Fund applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The adoption of this standard had no impact on the consolidated financial statement and no adjustments to opening retained earnings as at January 1, 2018 were necessary.

IFRS 15 – Revenue from Contracts with Customers
The Fund has adopted IFRS 15 effective January 1, 2018, using the full retrospective method without the use of practical expedients. The timing of the recognition of revenue has not changed as a result of adopting the new guidance. The adoption of this standard had no impact on the consolidated financial statement and no adjustments to opening retained earnings as at January 1, 2018 were necessary.

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 $1,136,000 unfavourable (2017 - $1,465,000 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, 2019.

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

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

Information with regards to the risks and uncertainties applicable to the business operations of the Fund is contained in the Fund's most recent Annual Information Form under the heading "Risk Factors". Additional risks and uncertainties not currently known to the Trustees of the Fund or that are currently not considered to be material also may impair the Fund's business operations. If any of the risks actually occur, the Fund's business, results of operations and financial condition, and the amount of cash available for distribution to Unitholders, could be adversely affected.

OUTLOOK

Food Services recently updated its Mission, committing to "be loved for our natural ingredients, great taste, convenience, and for doing what's right." Strategic initiatives, including repositioning and differentiating the A&W brand through the use of "better ingredients"; continued rapid new restaurant growth, and delivering an industry leading guest experience, are key to delivering strong results and improved market share in the quick service restaurants (QSR) burger market.

A&W has been a leader in the QSR industry, sourcing simple, all-natural ingredients that guests can feel good about. This focus began in 2013, 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. Over the following years, Food Services began to serve only chicken raised without the use of antibiotics and enhanced its breakfast menu by moving to eggs from hens fed a fully vegetarian diet without animal by-products. In January 2015 organic and Fair Trade coffee was introduced, 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 launched 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 Q3 2018, A&W further strengthened its positioning as a leader in food and innovation with the introduction of the Beyond Meat Burger. Food Services is very excited to be the first national burger chain in Canada to offer burger lovers across Canada this burger patty made using 100% plant-based protein including peas, rice, mung beans, coconut oil, pomegranates, potatoes, apples and beets. The Beyond Meat Burger is great for anyone who wants more plant-based options in their diet. The demand for this new burger exceeded expectations, leading to a supply gap which lasted several weeks before the Beyond Meat Burger was relaunched on October 1, 2018.

In Q4 2018, A&W took the next big step in its ingredient journey with a move to using real cheese on all burgers and breakfast sandwiches. A&W's real cheeses include cheddar, mozzarella, jalapeno jack, and cheddar cheese curds, all made in Canada. All processed cheese has been removed from our menu.

Menu innovations are important to A&W's success. In February 2017, all-day breakfast was launched. In 2018, breakfast promotions have featured the new breakfast sandwich recipes along with promotions on the Classic Breakfast and Bacon & Egger. Burger innovation was on the menu as well. In addition to the introduction of the Beyond Meat Burgers as a permanent menu item, limited time offers included the Mushroom Mozzarella Burgers, Cheddar and Roasted Garlic Burgers, Bourbon Steakhouse Burgers, Wild Caught Cod Burgers, Spicy Guacamole Burgers and Topped Fries, Cheddar Jalapeno Burgers and the new '56 Burgers. These menu items have been very well received by Food Services' guests.

Food Services' continues to rapidly grow new A&W restaurants, particularly in the key Ontario and Quebec markets. Forty-two new A&W restaurants were opened across the country in 2018. As of December 31, 2018, an additional sixty-six are under construction or in varying stages of permitting.

A&W expanded upon its strategy to reach more consumers by joining forces with Uber Eats to make ordering and enjoying A&W's menu options more convenient and accessible in more parts of the country. For those who are looking for the convenience of delivery and don't have the chance to visit a restaurant, it's a new way to enjoy their A&W favourites from the comfort of home or wherever they might be.

A further important 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 98% of A&W's restaurants now have the new design. A new "Good Food Makes Good Food" design is now 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, ceramic bowls for poutine and ceramic plates and stainless steel cutlery for breakfast in an effort to reduce waste going to landfills. In 2018, Food Services eliminated all plastic straws from all restaurants. A&W is the first QSR chain in North America to make this commitment. The switch to paper straws, which are 100% biodegradable, compostable and are sustainably sourced, will keep 82 million plastic straws out of landfills every year.

In summary, with rapid growth of new locations and industry leading innovation, A&W's brand positioning is strong. In addition, continued efforts to consistently deliver great food and a better guest experience, in combination with the reimage progress, is contributing to winning guest visits and building loyalty, and to enhancing performance over the long term.

FORWARD LOOKING INFORMATION

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

The forward-looking information in this MD&A includes, but is not limited to: the increase in the monthly distribution to unitholders commencing with the February 2019 distribution, which will be payable on March 29, 2019; 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", new restaurant growth, and delivering an industry leading guest experience; Food Services' strategic initiatives, including ongoing reimaging and modernizing of existing A&W restaurants, innovation in technology and minimizing its environmental footprint; Food Services' continued efforts to consistently deliver great food and a better guest experience, in combination with reimage progress, contributing to winning guest visits, building loyalty and enhancing performance over the long term; 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 possibility that the fund may adjust the amount of distributions paid to its unitholders in the future in order to maintain or adjust the Fund's capital structure; the reduction in the rate of the per annum credit charge under the interest rate swap agreement and the potential for further decreases depending on future performance; 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 and could be suspended at any time;
- 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.

A&W Revenue Royalties Income Fund

Consolidated Financial Statements
December 31, 2018 and 2017
(in thousands of dollars)

Independent auditor's report

To the Unitholders of A&W Revenue Royalties Income Fund

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of A&W Revenue Royalties Income Fund and its subsidiaries (together, the Fund) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Fund's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of unitholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

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

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Vancouver, British Columbia
February 15, 2019

A&W Revenue Royalties Income Fund

Consolidated Balance Sheets

As at December 31, 2018 and 2017

(in thousands of dollars)

	Note	2018 $	2017 $
Assets			
Current assets			
Cash and cash equivalents		4,538	2,534
Accounts receivable	12	3,262	2,742
Prepaid interest		508	391
Income taxes recoverable		1,513	-
		9,821	5,667
Non-current assets			
Intangible assets	4	279,912	249,933
Total assets		289,733	255,600
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		399	476
Distributions payable to Unitholders	10	1,788	1,701
Income taxes payable		-	154
		2,187	2,331
Non-current liabilities			
Term loan	5	59,869	59,836
Fair value of interest rate swap	5	1,136	1,465
Deferred income tax liabilities	6	14,053	12,784
		77,245	76,416
Unitholders' Equity			
Fund Units	7	263,452	263,452
Accumulated deficit		(154,125)	(156,589)
		109,327	106,863
Non-controlling interest		103,161	72,321
Total equity		212,488	179,184
Total liabilities and equity		289,733	255,600
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, 2018 and 2017

(in thousands of dollars except per Unit amounts)

	Note	2018 $	2017 $
Gross sales reported by the A&W restaurants in the Royalty Pool		1,362,996	1,188,818
Royalty income		40,890	35,665
Expenses			
General and administrative		713	654
Interest expense			
Term loan and other		2,568	2,583
Amortization of financing fees		33	33
		3,314	3,270
Operating income		37,576	32,395
Gain on interest rate swap	5	(329)	(2,708)
Income before income taxes		37,905	35,103
Provision for (recovery of) income taxes			
Current			
Current income tax provision	6	6,346	5,985
Refundable income tax	6	(1,284)	(371)
Deferred	6	1,268	1,269
		6,330	6,883
Net income and comprehensive income for the year		31,575	28,220
Net income and comprehensive income attributable to			
Unitholders of A&W Revenue Royalties Income Fund		23,397	21,963
A&W Food Services of Canada Inc.'s non-controlling interest in A&W Trade Marks Inc.		8,178	6,257
		31,575	28,220
Basic and diluted income per weighted average Unit outstanding		1.871	1.765
Weighted average number of Units outstanding		12,504,673	12,441,263

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, 2018 and 2017

(in thousands of dollars)

	Note	Fund Units $	Accumulated deficit $	Total $	Non-controlling interest $	Total equity $
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
Net income for the year		-	23,397	23,397	8,178	31,575
Distributions on Units	10	-	(20,933)	(20,933)	-	(20,933)
Dividends on common shares	12	-	-	-	(7,316)	(7,316)
Issue of common shares	4	-	-	-	29,978	29,978
Balance as at December 31, 2018		263,452	(154,125)	109,327	103,161	212,488

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, 2018 and 2017

(in thousands of dollars)

	Note	2018 $	2017 $
Cash provided by (used in)			
Operating activities			
Net income for the year		31,575	28,220
Adjustments for:			
Non-cash gain on interest rate swap		(329)	(2,708)
Amortization of financing fees		33	33
Interest expense		2,568	2,583
Deferred income tax		1,268	1,269
Refundable income tax recovery		(1,284)	(371)
Current income tax provision		6,346	5,985
Net changes in items of non-cash working capital	9	(597)	(12)
Interest paid		(2,685)	(2,668)
Income taxes paid		(6,729)	(5,278)
Net cash provided by operating activities		30,166	27,053
Cash flows used in financing activities			
Financing fees paid	5	-	(164)
Repayment use of demand operating loan facility		-	(490)
Dividends paid to non-controlling interest		(7,316)	(5,684)
Distributions paid to Unitholders		(20,846)	(19,932)
Net cash used in financing activities		(28,162)	(26,270)
Increase in cash and cash equivalents		2,004	783
Cash and cash equivalents – Beginning of year		2,534	1,751
Cash and cash equivalents – End of year		4,538	2,534

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 12, 2019.

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 74.1% 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.

New standards adopted

The Fund has applied the following new standards for the first time for its annual reporting period commencing January 1, 2018:

IFRS 15, Revenue from Contracts with Customers, has been adopted January 1, 2018, using the full retrospective method without the use of practical expedients. The timing of the recognition of revenue has not changed as a result of adopting the new guidance. The adoption of this standard had no impact on the consolidated financial statements and no adjustments to opening retained earnings as at January 1, 2018 were necessary.

(figures in tables are expressed in thousands of dollars)

IFRS 9, Financial Instruments, has been adopted effective January 1, 2018, retrospectively without restatement of comparatives. The new standard replaces IAS 39, Financial Instruments: Recognition and Measurement. Under IFRS 9, the Fund assesses on a forward looking basis the expected credit losses associated with financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Fund applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The adoption of this standard had no impact on the consolidated financial statements and no adjustments to opening retained earnings as at January 1, 2018 were necessary.

New standards and interpretations not yet adopted

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheets by lessees as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The adoption of this standard will not have a material impact on the consolidated financial statements.

Cash and cash equivalents

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

Accounts receivable

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

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.

(figures in tables are expressed in thousands of dollars)

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 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).

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.

(figures in tables are expressed in thousands of dollars)

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.

The Fund classifies its financial instruments in the following categories:

a) Financial assets and liabilities at amortized cost (2017 – loans and receivables): The Fund classifies its financial assets at amortized cost only if both of the following criteria are met:

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

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

   The Fund's financial assets and liabilities at amortized cost (2017 –loans and receivables) comprise cash and cash equivalents and accounts receivable and are included in current assets due to their short-term nature. Financial assets and liabilities at amortized cost (2017 – 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, financial assets and liabilities at amortized cost (2017 – loans and recivables) are measured at amortized cost using the effective interest method less a provision for impairment.

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

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

(figures in tables are expressed in thousands of dollars)

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

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

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

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

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

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

   i) Debt instruments that do not qualify for measurement at either amortized cost or FVOCI,

   ii) Equity instruments that are held for trading, and,

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

The Fund's financial assets classified as FVPL include derivative financial instruments: The Fund utilizes derivative financial instruments in the normal course of its operations as a means to manage risks from fluctuations in interest rates. The Fund records all derivatives (2017 - 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.

(figures in tables are expressed in thousands of dollars)

4 Intangible assets

	Number of new restaurants	Number of closed restaurants	Number of restaurants in Royalty Pool	Amount $
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
Annual adjustment January 5, 2018	42	(7)	35	29,979
Balance as at December 31, 2018	1,027	(131)	896	279,912

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 16th annual 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 Partnership paid Food Services $20,791,000, by issuance of 596,251 LP units to Food Services, representing 80% of the initial consideration based on the estimated annual sales of the net new restaurants. The LP units were subsequently exchanged for 1,192,502 non-voting common shares of Trade Marks.

The final adjustment to the number of LP units issued was made on December 7, 2018 based on the actual annual sales reported by the new restaurants. The actual annual sales of the 42 new A&W restaurants were $63,783,000 compared to the original estimate of $55,642,000. As a result, $5,198,000 representing the remaining 20% of the initial consideration and additional consideration of $3,989,000 were paid to Food Services by issuance of 263,472 additional LP units, which were exchanged for 526,944 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, 2018, the amount of the facility available was $2,000,000 (2017 – $2,000,000).

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, 2018 and December 31, 2017.

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 4.2% 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, 2018 was $1,136,000 unfavourable (2017 – $1,465,000 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:

	2018 $	2017 $
Term loan	60,000	60,000
Financing fees	(131)	(164)
	59,869	59,836

(8)

(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:

	2018	2017
Statutory combined federal and provincial income tax rates on investment income	20%	19.0%
	$	$
Provision for income taxes based on statutory income tax rates	7,614	6,670
Refundable tax	(1,284)	(371)
Rate change on deferred income taxes	-	584
Provision for income taxes	6,330	6,883

b) Deferred income tax liabilities comprise the following:

	2018 $	2017 $
Timing difference of income of A&W Trade Marks Limited Partnership	(1,004)	(231)
Fair value of interest rate swaps	227	278
Intangible assets	(13,276)	(12,831)
	(14,053)	(12,784)

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 owned 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
Balance as at December 31, 2017	12,504,673	263,452
Balance as at December 31, 2018	12,504,673	263,242

Following the 2018 annual adjustment to the Royalty Pool on January 5, 2018 and the final adjustment to the number of LP units on December 7, 2018, Food Services owns approximately 25.9% of the Units of the Fund on a fully diluted basis.

(figures in tables are expressed in thousands of dollars)

8 A&W Trade Marks Inc.

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

	The Fund			Food Services			Total	
	Number of shares	Amount $	%	Number of shares	Amount $	%	Number of shares	Amount $
Balance as at December 31, 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
January 5, 2018 adjustment to the Royalty Pool	-	-	(4.0)	1,719,446	29,978	4.0	1,719,446	29,978
Balance as at December 31, 2018	25,009,271	122,494	74.1	8,740,177	105,536	25.9	33,749,448	228,030

The summarized financial information of Trade Marks is as follows:

	2018 $	2017 $
Current assets	6,832	3,965
Non-current assets	279,912	249,934
Current liabilities	398	630
Non-current liabilities	73,839	74,067
Revenue	40,890	35,665
Net income and comprehensive income	31,575	28,221

(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:

	2018 $	2017 $
Accounts receivable	(520)	(275)
Accounts payable and accrued liabilities	(77)	263
	(597)	(12)

10 Distributions

During the year ended December 31, 2018, the Fund declared distributions to its Unitholders of $20,933 or $1.674 per Unit (2017 – $20,020 or $1.605 per Unit). The record dates and amounts of these distributions are as follows:

Month	Record date	Amount $	Per Unit $
January 2018	February 15, 2018	1,701	0.136
February 2018	March 15, 2018	1,701	0.136
March 2018	April 15, 2018	1,701	0.136
April 2018	May 15, 2018	1,726	0.138
May 2018	June 15, 2018	1,726	0.138
June 2018	July 15, 2018	1,725	0.138
July 2018	August 15, 2018	1,763	0.141
August 2018	September 15, 2018	1,763	0.141
September 2018	October 15, 2018	1,763	0.141
October 2018	November 15, 2018	1,788	0.143
November 2018	December 15, 2018	1,788	0.143
December 2018	December 31, 2018	1,788	0.143
		20,933	1.674

The December 2018 distribution was declared on December 17, 2018 and paid on January 31, 2019, and is reported as a current liability as at December 31, 2018.

11 Compensation to key management

Key management personnel are the Trustees of the Fund. During the year, the Trustees earned $121,000 (2017 - $112,000).

(figures in tables are expressed in thousands of dollars)

12 Related party transactions and balances

During the year, royalty income of $40,890,000 (2017 - $35,665,000) was earned from Food Services, of which $3,262,000 (2017 - $2,742,000) is receivable at December 31, 2018.

During the year, Trade Marks paid dividends to Food Services of $7,316,000 (2017 - $5,684,000). The dividends paid to Food Services in 2018 include special dividends of $441,000 representing the dividends that Food Services would have received on the 527,994 non-voting common shares issued to Food Services on December 7, 2018 in relation to the final consideration for the January 5, 2018 adjustment to the Royalty Pool (note 4), had they been issued on January 5, 2018. In 2017, Trade Marks paid special dividends of $221,000 to Food Services 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.

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 $1,136,000 unfavourable (2017 – $1,465,000 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.

Credit risk

The Fund's exposure to credit risk is as indicated by the carrying amount of its accounts receivable. All of the accounts receivable relate to royalties due from Food Services to the Partnership which were paid on January 25, 2019.

(figures in tables are expressed in thousands of dollars)

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, 2019, the number of A&W restaurants in the Royalty Pool was increased by 46 new restaurants less eight restaurants that permanently closed during 2018. The initial consideration for the estimated royalty revenue from the net 38 restaurants added to the Royalty Pool is $27,305,000. The Partnership paid Food Services $21,844,000 by issuance of 627,514 LP units, representing 80% of the initial consideration. The LP units were exchanged for 1,255,028 non-voting common shares of Trade Marks. The remaining 20% or $5,461,000 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, 2019, Trade Marks declared dividends on its voting and non-voting common shares of $2,503,000 payable to Food Services and the Fund on February 28, 2019.

On February 5, 2019, the Fund declared a distribution to Unitholders of $0.143 per Unit or $1,788,000, payable on February 28, 2019 to Unitholders of record as at February 15, 2019.

Unitholder Information

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Market Information

Units Listed: Toronto Stock Exchange
Symbol: AW.UN

Registrar and Transfer Agent

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