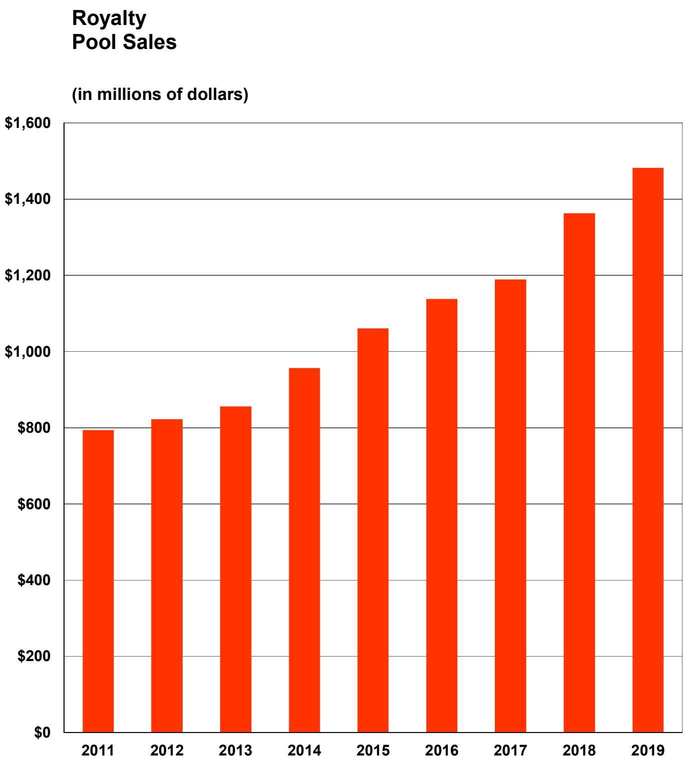
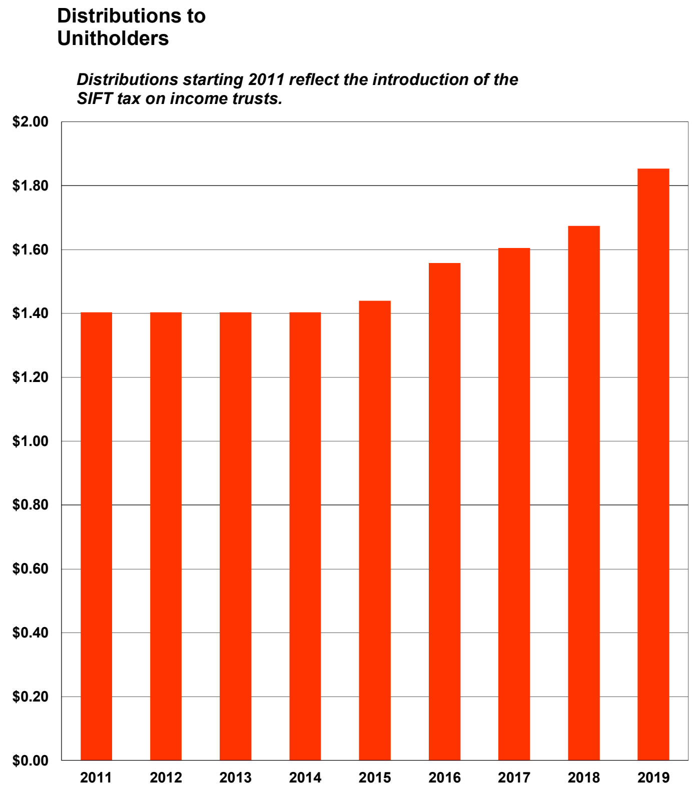
A&W REVENUE ROYALTIES INCOME FUND

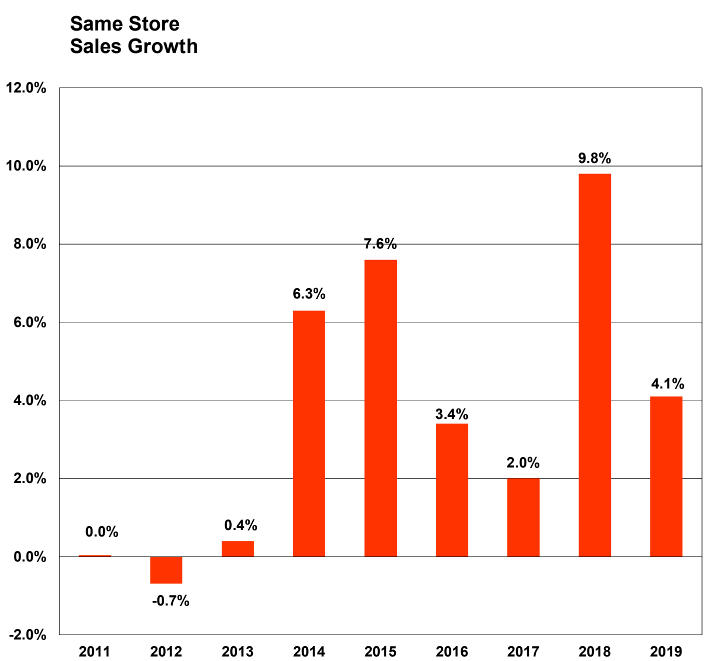
2019 ANNUAL REPORT

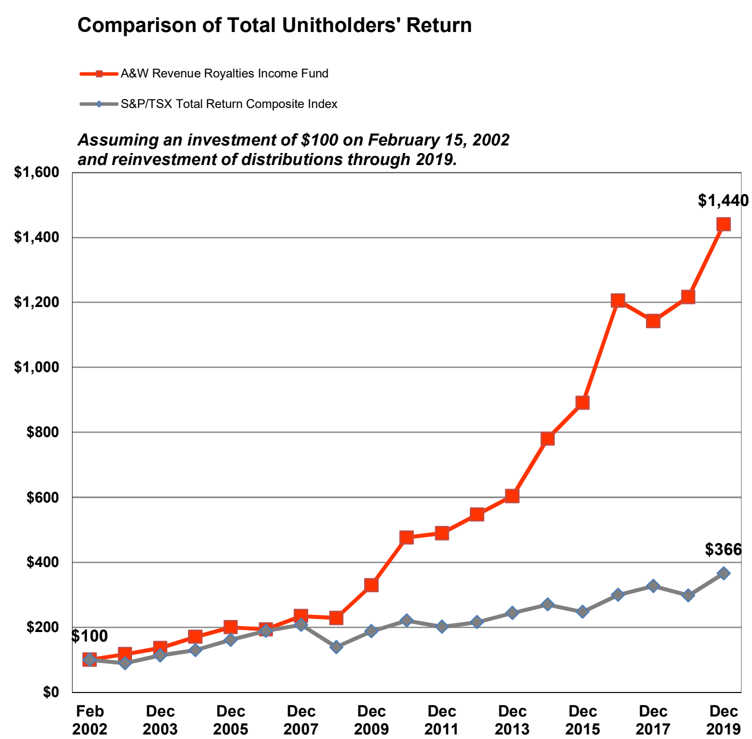
BISON BURGER • $2M RAISED—BURGERS TO BEAT MS • BISTRO BURGER

BEYOND MEAT† SAUSAGE & EGGER • MOBILE APP • PLANT-BASED NUGGETS


Royalty
Pool Sales
(in millions of dollars)
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
2011
2012
2013
2014
2015
2016
2017
2018
2019


Distributions to
Unitholders
Distributions starting 2011 reflect the introduction of the SIFT tax on income trusts.
$2.00
$1.80
$1.60
$1.40
$1.20
$1.00
$0.80
$0.60
$0.40
$0.20
$0.00
2011
2012
2013
2014
2015
2016
2017
2018
2019


Same Store
Sales Growth
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
-2.0%
0.0%
-0.7%
0.4%
6.3%
7.6%
3.4%
2.0%
9.8%
4.1%
2011
2012
2013
2014
2015
2016
2017
2018
2019


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 2019.
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
$1,440
$366
$100
Feb 2002
Dec 2003
Dec 2005
Dec 2007
Dec 2009
Dec 2011
Dec 2013
Dec 2015
Dec 2017
Dec 2019

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 for the year ended December 31, 2019.

A&W same store sales were down by 1.9% for the fourth quarter of 2019 as compared to the fourth quarter of 2018 which, with +12.3% same store sales growth, was one of A&W's strongest quarters on record. The annual 2019 same store sales growth was +4.1%, following 2018's annual same store sales growth of +9.8%, bringing the two year stacked same store sales growth to +13.9%. The same store sales growth in 2019 was achieved in all concepts and was led by strong growth in BC, Quebec and Ontario.

The annual same store sales growth of +4.1%, along with the sales from 38 net new restaurants added to the Fund's Royalty Pool on January 5, 2019 resulted in an 8.8% increase in gross sales reported by A&W restaurants in the Royalty Pool and royalty income for the year.

Distributable cash per equivalent unit increased by 1.0¢ to $1.863 per unit in 2019 from $1.853 in 2018. The Fund's trustees announced three increases in the monthly distribution rate in 2019: from 14.3¢ per unit to 14.7¢ per unit starting with the March distribution, from 14.7¢ per unit to 15.4¢ per unit starting with the May distribution, and then from 15.4¢ per unit to 15.9¢ per unit starting with the August distribution. The monthly distribution rate at December 31, 2019 of 15.9¢ per unit translated into an annualized distribution rate of $1.908 per unit, an increase of 11.2% from the annualized rate at the end of 2018 of $1.716 per unit. The annual payout ratio for 2019 was 99.5% compared to 90.3% for 2018.

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 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, 2019, from 896 to 934 and again on January 5, 2020, with an additional 37 net new restaurants being added to the Royalty Pool.

A&W Food Services' Mission is "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 by 8.7%, bringing our total system sales in 2019 to $1.54 billion. We also achieved same store sales growth of +4.1% in 2019 which we are very pleased with given that we were up against 2018's record same store sales growth 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. Starting in 2018, A&W expanded its plant-based offerings and was proud to be the first national burger chain in Canada to introduce the Beyond Meat Burger. In 2019 we added Beyond Meat sausage to our breakfast menu and launched plant-based nuggets as a limited time menu item in A&W restaurants in BC and Ontario.

Another key strategic initiative is the acceleration of growth through the opening of new A&W restaurants. In 2019 A&W set a new record with 50 new restaurant openings across Canada, bringing the total number of restaurants in the chain to 994. A&W also expanded upon its strategy to reach more consumers by launching a mobile app and by joining forces with several third party delivery services to make ordering and enjoying A&W's menu options more convenient and accessible.

A&W was proud to again partner with the Multiple Sclerosis Society of Canada and Christine Sinclair to celebrate its 11th "Burgers to Beat MS Day", as part of a campaign which raised more than $2.0 million. In 11 years, the annual campaign has raised more than $15 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 continues to have. We have delivered 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 9, 2019 to December 31, 2019 and the year ended December 31, 2019, and is dated February 11, 2020. This MD&A should be read in conjunction with the audited annual consolidated financial statements of the A&W Revenue Royalties Income Fund (the Fund) for year ended December 31, 2019. Readers are also referred to the audited annual consolidated financial statements of A&W Food Services of Canada Inc. (Food Services) for the 52 week year ended December 29, 2019. 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, 2019 and this report have been consistently applied to all years presented and reflect the adoption of IFRS 16, Leases. The Fund adopted IFRS 16 on January 1, 2019 with no impact on the consolidated financial statements.

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 2019 year was 52 weeks and ended December 29, 2019 (2018 – 52 weeks ended December 30, 2018). The Fund aligns its quarterly financial reporting with that of Food Services. Readers should be aware that 2019 quarterly results are not directly comparable to 2018 quarterly results, as there were 83 days of sales in Q1, 2019 compared to 84 days in Q1, 2018. The second and third quarters of both years had 84 days. The fourth quarter of 2019 had 114 days compared to 113 days in the fourth quarter of 2018. Same Store Sales Growth(1) is based on an equal number of days in each quarter.

(1) "Same Store Sales Growth" is calculated as the change in the gross sales reported by A&W restaurants in the Royalty Pool (as defined below) that operated during the entire 26 4-week periods ending December 31, 2019, and is based on an equal number of days in each quarter and year. "Same Store Sales Growth" is a non-IFRS measure – see "Non-IFRS Measures". This important information is provided as it is a key driver of growth in the Fund. See "Sales Performance".

HIGHLIGHTS

- 2019 annual Same Store Sales[1] grew by +4.1% as compared to 2018.
- Gross sales reported by A&W restaurants in the Royalty Pool (as hereinafter defined) and royalty income increased in 2019 by 8.8%.
- Annual net income increased in 2019 by 3.1%.
- The monthly distribution rate was increased three times in 2019, increasing from 14.3¢ per unit to 15.9¢ per unit. The current annual distribution rate is $1.908 per unit, an 11.2% increase over 2018's annual distribution rate.

(1) "Same Store Sales" includes the gross sales reported by A&W restaurants in the Royalty Pool (as defined below) that operated during the entire 26 4-week periods ending December 31, 2019. "Same Store Sales" is a non-IFRS Measure – see "Non-IFRS Measures". This important information is provided as it is a key driver of growth in the Fund. 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", "Net income, excluding non-cash items" and information with respect to numbers of restaurants have been derived from financial statements prepared in accordance with IFRS and all dollar amounts are reported in Canadian currency. See "Non-IFRS Measures".

(dollars in thousands except per unit amounts)	**Period from Sep 9, 2019 to Dec 31, 2019**	Period from Sep 10, 2018 to Dec 31, 2018	**Period from Jan 1, 2019 to Dec 31, 2019**	Period from Jan 1, 2018 to Dec 31, 2018
Same Store Sales Growth	**-1.9%**	+12.3%	**+4.1%**	+9.8%
Number of restaurants in the Royalty Pool	**934**	896	**934**	896
Gross sales reported by A&W restaurants in the Royalty Pool[1]	**$451,279**	$439,950	**$1,482,323**	$1,362,996
Royalty income	**$13,539**	$13,199	**$44,470**	$40,890
General and administrative expenses	**342**	236	**791**	713
Term loan and other interest expense	**545**	788	**2,267**	2,568
Current income tax provision	**2,442**	1,960	**8,269**	6,346
Total distributable cash generated for distributions and dividends[2]	**$10,210**	$10,216	**$33,143**	$31,262
Distributable cash per equivalent unit (2019 – 17,791,555 units; 2018 – 16,874,762 units)[2][3]	**$0.574**	$0.605	**$1.863**	$1.853
Distributions and dividends declared per equivalent unit	**$0.636**	$0.570	**$1.853**	$1.674
Net income[4]	**$10,725**	$9,823	**$32,558**	$31,575
Net income, excluding non-cash items[4]	**$10,246**	$10,816	**$32,736**	$32,547

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

(2) "Distributable cash" and "distributable cash per equivalent unit" are non-IFRS measures – see "Non-IFRS Measures". This information is provided as it identifies the amount of actual cash generated to pay distributions to unitholders and dividends to Food Services. See "Distributable Cash" and footnote (3) below for more information, including a description of how these non-IFRS measures are calculated.

(3) The number of equivalent units and distributable cash per equivalent unit in 2019 is calculated on a fully-diluted basis and includes the 289,279 LP units exchanged for 578,558 common shares of Trade Marks representing the final consideration paid in December 2019 for the January 5, 2019 adjustment to the Royalty Pool. 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 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.

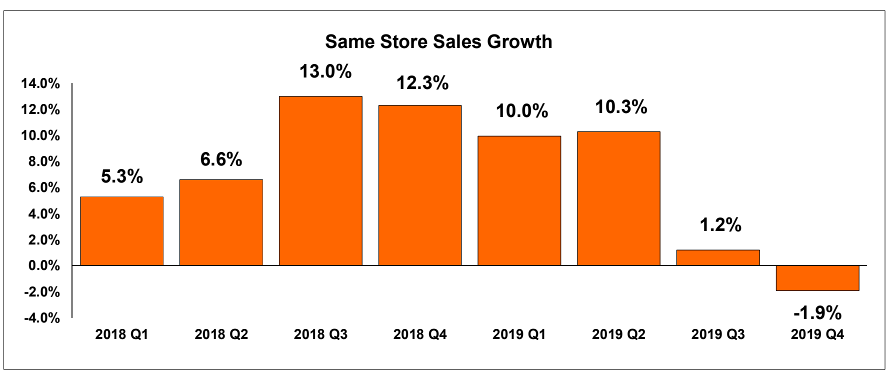
(4) Net income in 2019 and 2018 includes non-cash gains and losses on an interest rate swap, amortization of deferred financing fees and deferred income taxes. These non-cash items have no impact on the Fund's ability to pay distributions to unitholders. The Fund's net income excluding these non-cash items is presented for information purposes only. "Net income excluding non-cash items" is a non-IFRS measure – see "Non-IFRS Measures".

SALES PERFORMANCE

Same Store Sales Growth, which is reported in respect of A&W restaurants for which the royalty is payable (the Royalty Pool) by Food Services to A&W Trade Marks Limited Partnership (the Partnership) is a key performance indicator for the Fund. Same Store Sales Growth 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, 2019. Same Store Sales Growth is a non-IFRS measure - see "Non-IFRS Measures".

Same Store Sales for the Fourth quarter of 2019 decreased by 1.9% as compared to the same quarter of 2018. Same Store Sales for the fourth quarter of 2018 were very strong at +12.3% resulting in a two year stacked Same Store Sales Growth of +10.4%. The annual 2019 Same Store Sales Growth was +4.1% compared to 2018, bringing the two year stacked Same Store Sales Growth to +13.9%. The annual Same Store Sales Growth was achieved in all concepts and was led by strong growth in BC, Quebec and Ontario. Same Store Sales and Same Store Sales Growth are non-IFRS measures - see "Non-IFRS Measures".

The chart below shows the Same Store Sales Growth by A&W restaurants in the Royalty Pool for the eight most recently completed quarters. Same Store Sales Growth is a non-IFRS measure - see "Non-IFRS Measures".



Gross sales reported by A&W restaurants in the Royalty Pool for the fourth quarter of 2019 were $451,279,000, a 2.6% increase from sales of $439,950,000 for the fourth quarter of 2018. Annual gross sales reported by A&W restaurants in the Royalty Pool were $1,482,323,000, an increase of 8.8% from the sales of $1,362,996 for 2018. The increase in such sales was due to the increase in the number of A&W restaurants in the Royalty Pool and Same Store Sales Growth. Same Store Sales Growth is a non-IFRS measure - see "Non-IFRS Measures".

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 gross sales reported to Food Services by A&W restaurants in the Royalty Pool. Food Services is a leading franchisor of hamburger quick service restaurants in Canada.

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

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 gross sales of the A&W restaurants in the Royalty Pool, less operating expenses associated with operating the Fund, interest and taxes. Distributable cash is a non-IFRS measure – see "Non-IFRS Measures". 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, 2019, Food Services owned the equivalent of 20.9% (December 31, 2018 – 25.9%) 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 of the date of this MD&A, Food Services owns the equivalent of 23.6% of the units of the Fund on a fully-diluted basis through its ownership of common shares of Trade Marks – see "Common Shares of Trade Marks". As a result, interests of Food Services are closely aligned with the interests of unitholders.

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

The Royalty Pool is adjusted annually to reflect gross sales from new A&W restaurants added to the Royalty Pool, net of the gross sales of any A&W restaurants that have permanently closed.

Food Services is paid for the additional royalty stream related to the gross sales of the net new restaurants, based on a formula set out in the Amended and Restated Licence and Royalty Agreement. The formula provides for a payment to Food Services based on 92.5% of the amount of estimated gross sales from the net new A&W restaurants and the current yield on the units of the Fund, adjusted for income taxes payable by Trade Marks. The consideration is paid to Food Services in the form of additional 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 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 brought the total number of A&W restaurants in the Royalty Pool to 934. The estimated annual gross sales of the 46 new A&W restaurants was $62,283,000 and annual gross sales for the eight permanently closed restaurants was $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 days 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 final adjustment to the number of units issued was made on December 6, 2019 based on actual annual sales reported by the new A&W restaurants of $72,093,000 compared to the original estimate of $62,283,000. As a result, $5,461,000, representing the remaining 20% of the initial consideration, and additional consideration of $4,609,000 were paid to Food Services on December 6, 2019 by issuance of 289,279 additional LP units, which were subsequently exchanged for 578,558 non-voting common shares of Trade Marks.

COMMON SHARES OF TRADE MARKS

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

(dollars in thousands)	Fund			Food Services			Total	
	Number of shares	Trade Marks' book value $	%	Number of shares	Trade Marks' book value $	%	Number of shares	Trade Marks' book value $
Balance as at December 31, 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[(1)]	-	-	(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
January 5, 2019 adjustment to the Royalty Pool[(2)]	-	-	(4.0)	1,833,586	31,914	4.0	1,833,586	31,914
June 5, 2019 exchange of common shares for units of the Fund	3,120,000	42,111	9.0	(3,120,000)	(42,111)	(9.0)	-	-
Balance as at December 31, 2019	28,129,271	164,605	79.1	7,453,763	95,339	20.9	35,583,034	259,944

(1) 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 January 5, 2018 adjustment to the Royalty Pool.

(2) The number of common shares includes the 289,279 LP units exchanged for 578,558 common shares of Trade Marks representing the final consideration paid in December 2019 for the January 5, 2019 adjustment to the Royalty Pool.

On June 5, 2019, Food Services exchanged 3,120,000 common shares of Trade Marks for 1,560,000 Units of the Fund, which Units were then sold at a price of $44.55 per Unit pursuant to a short form prospectus of the Fund dated May 29, 2019 (the Offering). The net proceeds from the Offering were used to pay dividends to Food Services' shareholder. The Fund did not receive any proceeds from the Offering and Food Services paid for the expenses of the Offering. "See Related Party Transactions and Balances".

OWNERSHIP OF THE FUND

The ownership of the Fund as of December 31, 2019 and December 31, 2018, on a fully-diluted basis, is as follows:

	December 31, 2019		December 31, 2018	
	Number of units	**%**	**Number of units**	**%**
Fund units held by public unitholders	14,064,673	79.1	12,504,673	74.1
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services(1)	3,726,882	20.9	4,370,089	25.9
Total equivalent units	17,791,555	100.0	16,874,762	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 as of the date of this MD&A, on a fully-diluted basis, after the initial consideration for the January 5, 2020 adjustment to the Royalty Pool.

	Number of units	**%**
Fund units held by public unitholders	14,064,673	76.4
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services	4,338,740	23.6
Total equivalent units	18,403,413	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, 2020 adjustment to the Royalty Pool is expected to be paid in December 2020, by issuance of 152,965 LP units exchangeable for 305,930 common shares of Trade Marks. The actual amount of the consideration paid in December 2020 may differ from this amount depending on the actual annual gross sales reported by the new A&W restaurants.

	Number of units	**%**
Fund units held by public unitholders	14,064,673	75.8
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services	4,491,705	24.2
Total equivalent units	18,556,378	100.0

FINANCIAL RESULTS

INCOME

Royalty income for the fourth quarter of 2019 was $13,539,000 based on gross sales reported by restaurants in the Royalty Pool of $451,279,000. This was an increase of 2.6% from royalty income of $13,199,000 and gross sales reported by A&W restaurants in the Royalty Pool of $439,950,000 for the fourth quarter of 2018. Annual royalty income was $44,470,000 based on gross sales reported by A&W restaurants in the Royalty Pool of $1,482,323,000, an increase of

8.8% from royalty income of $40,890,000 and gross sales reported by A&W restaurants in the Royalty Pool of $1,362,996,000 for 2018. The annual increase in gross sales reported by A&W restaurants in the Royalty Pool and royalty income was due to the additional net 38 new A&W restaurants in the Royalty Pool and the 4.1% increase in Same Store Sales. Same Store Sales is a non-IFRS measure – see "Non-IFRS Measures".

EXPENSES

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

(dollars in thousands)	**Period from Sep 9, 2019 to Dec 31 2019**	Period from Sep 10, 2018 to Dec 31, 2018	**Period from Jan 1, 2019 to Dec 31, 2019**	Period from Jan 1, 2018 to Dec 31, 2018
General and administrative	**$342**	$236	**$791**	$713
Net interest on term loan and other	**$545**	$788	**$2,267**	$2,568

General and administrative expenses for the fourth quarter of 2019 increased by $106,000 to $342,000 compared to $236,000 for the fourth quarter of 2018. Annual general and administrative expenses for 2019 were $791,000 compared to $713,000 for 2018. The annual increase was primarily due to higher TSX filing fees and professional fees.

Net interest on the term loan and other was $545,000 for the fourth quarter of 2019, $243,000 lower compared to the fourth quarter of 2018, and decreased by $301,000 to $2,267,000 for the full year of 2019 compared to $2,568,000 for 2018. The decrease was due to the term loan having a lower effective interest rate in 2019 and interest earned on higher cash balances. 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").

LOSS (GAIN) ON INTEREST RATE SWAP

The Fund's net income included non-cash losses (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 9, 2019 to Dec 31 2019**	Period from Sep 10, 2018 to Dec 31, 2018	**Period from Jan 1, 2019 to Dec 31, 2019**	Period from Jan 1, 2018 to Dec 31, 2018
Loss (gain) on interest rate swap	**($720)**	$638	**$173**	($329)

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 9, 2019 to Dec 31 2019**	Period from Sep 10, 2018 to Dec 31, 2018	**Period from Jan 1, 2019 to Dec 31, 2019**	Period from Jan 1, 2018 to Dec 31, 2018
Current				
Current income tax provision	**$2,442**	$1,960	**$8,269**	$6,346
Refundable income tax	**(36)**	(601)	**407**	(1,284)
Deferred	**231**	345	**(28)**	1,268
Total provision for income taxes	**$2,637**	$1,704	**$8,648**	$6,330

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% (2018 – 20.0%), plus an additional tax of 30.67% (2018 – 30.67%) on investment income which is refundable at a rate of 38.33% (2018 – 38.33%) of each dollar Trade Marks pays out in taxable dividends to its shareholders. Trade Marks' provision for income taxes for 2019 includes a payable of refundable income tax of $42,000 based on its taxable income and dividends paid in 2019, as well as true-up of the prior year refundable tax of $365,000. 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. Trade Marks' provision for income taxes included a recovery of refundable income tax of $1,284,000 in 2018 (2017 - $371,000) based on its taxable income and dividends paid. Management expects that the $42,000 payable for 2019, the true-up of $365,000 recorded in the first quarter of 2019, and 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 $1,923,000 higher than the prior year due to an increase in operating income and higher effective tax rate.

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 9, 2019 to Dec 31 2019**	Period from Sep 10, 2018 to Dec 31, 2018	**Period from Jan 1, 2019 to Dec 31, 2019**	Period from Jan 1, 2018 to Dec 31, 2018
Net income and comprehensive income attributable to unitholders of the Fund	**$8,576**	$7,018	**$24,907**	$23,397
Net income and comprehensive income attributable to Food Services' non-controlling interest in Trade Marks	**2,149**	2,805	**7,651**	8,178
Total net income and comprehensive income	**$10,725**	$9,823	**$32,558**	$31,575

DISTRIBUTABLE CASH

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

Distributable cash is calculated as the operating cash flows of the Fund, adjusted for net changes in items of working capital. Changes in items of working capital are excluded as the Fund's working capital requirements are not permanent and are primarily due to the timing of payments between related parties. No deduction is made for capital expenditures as the Fund has no capital expenditures. Distributable cash per equivalent unit is calculated as distributable cash divided by the weighted average number units of the Fund outstanding during the relevant period on a fully diluted basis. There are no restrictions on distributions 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 equivalent unit generated in that period.

As discussed under "Income Taxes", Trade Marks' provision for income taxes includes refundable income tax paid or recoverable. This refundable income tax is not deducted in calculating the amount of distributable cash generated, in order to more accurately reflect the actual amount of cash generated by the business to pay distributions to unitholders and dividends to Food Services. 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 included a recovery of refundable income tax of $371,000 for 2017 and $1,284,000 for 2018. The 2019 provision includes an additional payable of $42,000 and a true-up of prior year refundable tax of $365,000. Management expects that these amounts and 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)	**Period from Sep 9, 2019 to Dec 31 2019**	Period from Sep 10, 2018 to Dec 31, 2018	**Period from Jan 1, 2019 to Dec 31, 2019**	Period from Jan 1, 2018 to Dec 31, 2018
Net cash generated from operating activities	**$10,163**	$9,091	**$35,111**	$30,166
Changes in non-cash working capital including interest and tax	**47**	1,125	**(1,968)**	1,096
Distributable cash(3)	**$10,210**	$10,216	**$33,143**	$31,262
Cumulative surplus – beginning of period	**8,142**	5,792	**7,660**	3,363
Distributable cash for unitholders at current annual distribution rate (2019 - $1.853 per unit, 2018 - $1.674 per unit)	**(8,140)**	(6,533)	**(24,475)**	(20,933)
Distributable cash for Food Services at equivalent annual distribution rate (2019 - $1.853 per equivalent unit, 2018 - $1.674 per equivalent unit)	**(2,157)**	(2,416)	**(7,830)**	(7,316)
Refundable income tax (see "Income Taxes")	**36**	601	**(407)**	1,284
Cumulative surplus – end of period	**$8,091**	$7,660	**$8,091**	$7,660
Number of equivalent units(1)	**17,791,555**	16,874,762	**17,791,555**	16,874,762
Distributable cash per equivalent unit(1)(3)	**$0.574**	$0.605	**$1.863**	$1.853
Monthly distributions declared per unit(2)	**$0.636**	$0.570	**$1.853**	$1.674
Total distributions declared and accrued per unit	**$0.607**	$0.522	**$1.853**	$1.674
Payout ratio (3)	**105.7%**	86.2%	**99.5%**	90.3%

(1) The number of equivalent units and distributable cash per equivalent unit in 2019 includes the 289,279 LP units exchanged for 578,558 common shares of Trade Marks representing the final consideration paid in December 2019 for the January 5, 2019 adjustment to the Royalty Pool. 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.

(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.

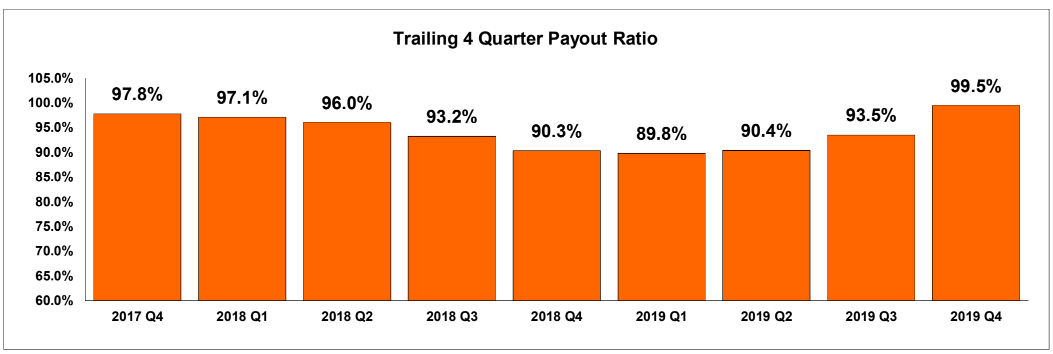
(3) Distributable cash, distributable cash per equivalent unit and payout ratio are Non-IFRS measures - see non-IFRS Measures.

Distributable cash generated in the fourth quarter of 2019 to pay distributions to unitholders and dividends to Food Services was $10,210,000 compared to $10,216,000 in the fourth quarter of 2018. Distributable cash generated in 2019 to pay distributions to unitholders and dividends to Food Services was $33,143,000 compared to $31,262,000 in 2018. The $1,881,000 annual increase in distributable cash was attributable to the $3,580,000 increase in royalty income and the $223,000 net decrease in general and administrative expenses and interest expense, partially offset by a $1,923,000 increase in the current income tax provision (excluding refundable income tax).

Distributable cash per equivalent unit decreased by 3.1¢ to 57.4¢ per unit in the fourth quarter of 2019 from 60.5¢ per unit for the fourth quarter of 2018. The decrease in distributable cash per equivalent unit in the fourth quarter was attributable to the increase in current income taxes, due to an increase in operating income and a higher effective tax rate, less the increase in royalty income and the decrease in cash expenses. Annual distributable cash per equivalent unit increased by 1.0¢ to $1.863 in 2019 from $1.853 for 2018. The annual increase in distributable cash per equivalent unit was due to the increase in royalty income and the decrease in cash expenses, less the increase in current income taxes.

Four monthly distributions totalling 63.6¢ per unit were declared in the fourth quarter of 2019 compared to 57.0¢ per unit in the same quarter of 2018. Total distributions declared in 2019 were $1.853 per unit compared to $1.674 per unit in 2018, an increase of 10.7%. The annual payout ratio for 2019 was 99.5% compared to 90.3% for 2018. 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 following table shows the trailing four quarter payout ratios for 2017, 2018 and 2019. Payout ratio is a non-IFRS measure - see "Non-IFRS Measures".



The cumulative surplus of distributable cash on reserve at the end of 2019 was $8,091,000, compared to a reserve of $7,660,000 at the beginning of the year, an increase of $431,000.

The current monthly distribution rate of 15.9¢ per unit translates to annualized distribution of $1.908 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 2019 were as follows:

(dollars in thousands except per unit amounts) Month	Record date	Amount	Per unit
January	February 15, 2019	$1,788	$0.143
February	March 15, 2019	1,838	0.147
March	April 15, 2019	1,838	0.147
April	May 15, 2019	1,925	0.154
May	June 15, 2019	2,167	0.154
June	July 15, 2019	2,167	0.154
July	August 15, 2019	2,236	0.159
August	September 15, 2019	2,236	0.159
September	October 15, 2019	2,236	0.159
October	November 15, 2019	2,236	0.159
November	December 15, 2019	2,236	0.159
December	December 31, 2019	2,236	0.159
		$25,139	$1.853

The December 2019 distribution was declared on December 11, 2019 and paid on January 31, 2020, and is reported as a current liability as at December 31, 2019. On February 4, 2020, the Fund declared the January 2020 monthly distribution to Unitholders of $0.159 per unit or $2,236,000, payable on February 28, 2020 to Unitholders of record as at February 15, 2020.

TAX TREATMENT OF DISTRIBUTIONS

All of the distributions declared in 2019 are designated as non-eligible dividends.

DIVIDENDS ON TRADE MARKS' COMMON SHARES

During 2019, 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	$0.0715	$1,788	$714
February	0.0735	1,838	735
March	0.0735	1,838	735
April	0.0770	1,925	769
May	0.0770	2,167	529
June	0.0770	2,167	529
July	0.0795	2,236	547
August	0.0795	2,236	547
September	0.0795	2,236	547
October	0.0795	2,236	547
November	0.0795	2,236	547
December	0.0795	2,236	592
	$0.9265	$25,139	$7,338

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 $490,000 on December 6, 2019 representing the dividends that Food Services would have received on the 578,558 non-voting common shares issued to Food Services on December 6, 2019 in relation to the final consideration for the January 5, 2019 adjustment to the Royalty Pool, had such shares been issued on January 5, 2019.

On February 4, 2020 Trade Marks declared an aggregate dividend on its voting and non-voting common shares of $2,926,000 payable to Food Services and the Fund on February 28, 2020.

SUMMARY OF QUARTERLY RESULTS

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

(dollars in thousands except per unit amounts)	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Number of restaurants in the Royalty Pool	934	934	934	934
Royalty income	$13,539	$11,111	$10,555	$9,265
General and administrative expenses	342	51	117	281
Net interest on term loan and other	545	573	577	572
Amortization of deferred financing fees	10	8	7	8
Non cash loss (gain) on interest rate swap	(720)	(203)	287	809
Current income tax expense	2,442	2,125	1,997	1,705
Refundable income tax expense (recovery)	(36)	(67)	100	410
Deferred income tax expense (recovery)	231	11	(84)	(186)
Net income	$10,725	$8,613	$7,554	$5,666
Distributable cash(1)	$10,210	$8,362	$7,864	$6,707
Number of equivalent units(2)	17,791,555	17,659,154	17,659,154	17,659,154
Distributable cash per equivalent unit(1)(2)	$0.574	$0.474	$0.445	$0.380
Monthly distributions declared per unit(3)	$0.636	$0.472	$0.455	$0.290
Number of days in the quarter	114	84	84	83
(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
Net interest on term loan and other	788	594	592	594
Amortization of deferred financing fees	10	8	7	8
Non cash 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	$8,309	$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

(1) Distributable cash and distributable cash per equivalent unit are non-IFRS measures. See "Non-IFRS Measures" and "Distributable Cash".

(2) The number of equivalent units and distributable cash per equivalent unit in 2019 includes the 289,279 LP units exchanged for 578,558 common shares of Trade Marks representing the final consideration paid in December 2019 for the January 5, 2019 adjustment to the Royalty Pool. 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.

(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", "Distributable cash" and "Net income, excluding non-cash items", has been prepared in accordance with IFRS and all dollar amounts are reported in Canadian currency. See "Non-IFRS Measures".

(dollars in thousands except per unit amounts)	**2019**	**2018**	**2017**
Same Store Sales Growth(1)	+4.1%	+9.8%	+2.0%
Number of restaurants in the Royalty Pool	934	896	861
Gross sales reported by A&W restaurants in the Royalty Pool(2)	$1,482,323	$1,362,996	$1,188,818
Royalty income	$44,470	$40,890	$35,665
Distributable cash(3)	$33,143	$31,262	$26,279
Total distributions declared per unit	$1.853	$1.674	$1.605
Net income	$32,558	$31,575	$28,220
Basic and diluted income per weighted average unit outstanding	$1.859	$1.871	$1.765
Net income, excluding non-cash items(4)	$32,736	$32,547	$26,816
Total assets	$322,717	$289,733	$255,600
Trade Marks' term loan	$59,901	$59,869	$59,836

(1) "Same Store Sales Growth" is a non-IFRS measure – see "Non-IFRS Measures".

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

(3) "Distributable cash" is a non-IFRS measure. See "Non-IFRS Measures" and "Distributable Cash".

(4) Net income 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" is a non-IFRS measure – see "Non-IFRS Measures".

SEASONALITY

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

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 the Bank's prime rate plus 0.4% and are repayable on demand. As at December 31, 2019, the amount of the facility available was $2,000,000 (December 31, 2018 - $2,000,000).

Trade Marks has a $60,000,000 term loan with the Bank in the form of a banker's acceptance. Amounts advanced under the term loan bear interest at the Bank's prime rate plus 0.4% and a stamping fee that ranges from 0.90% and 1.40%, depending on Trade Mark's debt to earnings before interest, taxes, depreciation, amortization and non-cash charges/income ("EBITDA") ratio. The term loan is repayable on December 22, 2022. The term loan contains covenants including the requirement to meet certain EBITDA levels and debt to EBITDA ratios during each trailing four quarter period. Interest only is payable monthly, providing that Trade Marks' EBITDA tested quarterly on a trailing four quarter basis is not less than specified amounts. In the event that EBITDA is less than these specified amounts, the term loan will be fully amortized over the greater of three years and the remaining term and repayment will be by way of blended monthly instalments of principal and interest. Trade Marks was in compliance with all of its financial covenants as at December 31, 2019 and December 31, 2018.

Trade Marks uses interest rate swap agreements to manage risks from fluctuations in interest rates. To manage the interest rate risk associated with the $60,000,000 term loan Trade Marks has entered into an interest rate swap, with an effective date of December 22, 2015 and a maturity date of December 22, 2022. Under this interest rate swap, as at December 31, 2019, the term loan's effective interest rate was 3.95% per annum (December 31, 2018 – 4.20%), comprising 2.80% per annum which is fixed under the swap agreement until December 22, 2022 plus a 1.15% per annum stamping fee. The fair value of this interest rate swap as at December 31, 2019 was $1,309,000 unfavourable (December 31, 2018 - $1,136,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income as a (gain) loss on interest rate swaps.

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

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS AND BALANCES

In 2019, royalty income of $44,470,000 (2018 - $40,890,000) was earned from Food Services of which $3,326,000 is receivable at December 31, 2019 (December 31, 2018 - $3,262,000). Royalty income earned during the fourth quarter was $13,539,000 (2018 - $13,199,000).

In 2019, Trade Marks declared common share dividends payable to Food Services of $7,828,000 (2018 - $7,316,000). Dividends declared payable to Food Services during the fourth quarter were $2,176,000 (2018 - $2,202,000). See "Dividends on Trade Marks' Common Shares".

The Offering was completed by Food Services and the Fund following the exercise by Food Services of its registration rights pursuant to the terms of the registration rights agreement between Food Services and the Fund dated February 15, 2002, a copy of which is available on SEDAR at www.sedar.com. Food Services agreed to indemnify the Fund and its subsidiaries and their respective trustees, directors, officers, agents and employees against certain liabilities and expenses of the Offering. For full details of the Offering, see the short form prospectus of the Fund dated May 29, 2019, a copy of which is available on SEDAR at www.sedar.com.

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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, 2019 was $1,309,000 unfavourable (December 31, 2018 - $1,136,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income as a (gain) loss on interest rate swaps.

FINANCIAL INSTRUMENTS

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

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

Management estimates that the fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, distributions payable to unitholders, income taxes payable/recoverable, 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 $1,309,000 unfavourable (2018- $1,136,000 unfavourable).

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

The Fund's exposure to credit risk is as indicated by the carrying amount of its accounts receivable. All of the accounts receivable as at December 31, 2019 relate to royalties then due from Food Services to the Partnership which were paid in full by Food Services on January 24, 2020.

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

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

CAPITAL DISCLOSURE

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

DISCLOSURE CONTROLS

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

As at December 31, 2019, an evaluation of the effectiveness of the Fund's disclosure controls and procedures, as defined in National 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 as at December 31, 2019, the design and operation of these disclosure controls and procedures were effective in providing reasonable assurance that (i) material information relating to the Fund is made known to the Fund's management, including its CEO and CFO particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Fund in its annual filings, interim filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

As at December 31, 2019, an evaluation of the effectiveness of the Fund's internal controls over financial reporting, as defined in National 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 as at December 31, 2019, that the Fund's internal controls over financial reporting were operating effectively.

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

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

RISKS AND UNCERTAINTIES

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 is committed to its mission "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 is proud to be a Canadian company, 100% Canadian owned and operated. As a leader in the QSR industry, we believe that sourcing simple, great-tasting ingredients, farmed with care is the right thing to do. We're known for being an innovator and are driven by both the desires of our guests and the expertise of our partners. In 2013, we became the first and only national burger chain in Canada to serve beef raised without artificial hormones or steroids, and since then we've introduced countless other natural ingredient firsts; including chicken raised without the use of antibiotics and Organic Fairtrade coffee. In 2017, A&W launched a new Root Beer Guarantee. A&W Root Beer served in restaurants is now made from natural cane sugar and all-natural flavours - another first for the QSR industry. A&W also moved 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 was removed from A&W's menu.

In 2018, A&W further strengthened its positioning as a leader in food and innovation with the introduction of the Beyond Meat Burger. Food Services was very excited to be the first national burger chain in Canada to offer burger lovers across Canada this burger patty made using 100% plant-based protein with peas, rice, mung beans, coconut oil, pomegranates, potatoes, apples and beets. In 2019, the Beyond Meat Sausage & Egger was introduced. Also in 2019, A&W added to its plant-based offerings by launching plant-based nuggets as a limited time menu item in A&W restaurants in BC and Ontario.

Food Services' continues to rapidly grow new A&W restaurants, particularly in the key Ontario and Quebec markets. Fifty new A&W restaurants were opened across the country in 2019. As of December 31, 2019, an additional fifty-six were under construction or in varying stages of permitting.

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 introduced new 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. Costs of re-imaging A&W restaurants are borne by the franchisees and there is no cost to the Fund.

A&W is also on a on a journey to reduce our environmental impact and we're proud to lead the way for the quick service food industry. Over the years, we've made changes to food packaging: dine-in guests 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; all in effort to reduce waste going to landfills. In 2018, A&W became the first quick service restaurant chain in North America to remove all plastic straws from restaurants, replacing them with paper straws that are 100% biodegradable, compostable and sustainably sourced.

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, enhancing performance over the long term.

NON-IFRS MEASURES

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

The Fund uses "Same Store Sales", "Same Store Sales Growth", "Distributable cash", "Distributable cash per equivalent unit", "Payout Ratio" and "net income, excluding non-cash items" as non-IFRS measures in this report. These measures do not have a standardized meaning prescribed by IFRS and the Fund's method of calculating these measures may differ from those of other issuers or companies and may not be comparable to similar measures used by other issuers or companies. For further details, including how such measures are calculated by the Fund, see "Highlights" and "Distributable Cash" above.

FORWARD LOOKING INFORMATION

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

The forward-looking information in this MD&A includes, but is not limited to: 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' strategic initiatives, including repositioning and differentiating A&W in the QSR industry through its use of "better ingredients", new restaurant growth, delivering an industry leading guest experience, 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 operating and administrative expenses of the Fund, Trade Marks and the Partnership are expected to be stable and reasonably predictable; and, the Fund, through dividends from Trade Marks, is expected to have sufficient financial resources to pay future distributions.

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, including competition with other well–capitalized franchisors and operators of quick service restaurants;
- changes in consumer preferences that adversely affect the consumption of quick service restaurant hamburgers, chicken, fries, breakfast items or soft drinks;
- negative publicity, litigation or complaints from perceived or actual food safety events or other events involving the foodservice industry in general or A&W restaurants in particular;
- changes in the availability and quality of raw materials, including A&W's "better ingredients";
- the possible lack of success of new products and advertising campaigns;
- changes in climate or increases in environmental regulation;
- changes in Food Services' ability to continue to grow same store sales, locate new retail sites in 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, including franchise legislation and sales tax legislation;
- changes in the availability of key personnel, including qualified franchise operators;
- changes in the ability to enforce or maintain intellectual property;
- technological breakdowns, cybersecurity breaches and the security of consumer and personal information;
- the amplificatory effects of media and social media;
- the availability and adequacy of insurance coverage; and,
- occurrence of 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 reduced or suspended at any time;
- risks related to the unpredictability and volatility of Unit prices;
- risks related to the nature of units;
- risks related to the distribution of securities on redemption or termination of the Fund;
- risks related to the Fund issuing additional units diluting existing unitholders' interests;
- risks related to income tax matters and investment eligibility; and,
- risks related to the limitations of internal controls over financial reporting.

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, 2019 and 2018
(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, 2019 and 2018, 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, 2019 and 2018;
- 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

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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 11, 2020

A&W Revenue Royalties Income Fund

Consolidated Balance Sheets

As at December 31, 2019 and 2018

(in thousands of dollars)

	Note	2019 $	2018 $
Assets			
Current assets			
Cash and cash equivalents		7,130	4,538
Accounts receivable	12	3,326	3,262
Prepaid interest		435	508
Income taxes recoverable		-	1,513
		10,891	9,821
Non-current assets			
Intangible assets	4	311,826	279,912
Total assets		322,717	289,733
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		501	399
Distributions payable to Unitholders	10	2,236	1,788
Income taxes payable		752	-
		3,489	2,187
Non-current liabilities			
Term loan	5	59,901	59,869
Fair value of interest rate swap	5	1,309	1,136
Deferred income tax liabilities	6	14,024	14,053
		78,723	77,245
Unitholders' Equity			
Fund Units	7	332,950	263,452
Accumulated deficit		(181,744)	(154,125)
		151,206	109,327
Non-controlling interest		92,788	103,161
Total equity		243,994	212,488
Total liabilities and equity		322,717	289,733
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, 2019 and 2018

(in thousands of dollars except per Unit amounts)

	Note	2019 $	2018 $
Gross sales reported by the A&W restaurants in the Royalty Pool		1,482,323	1,362,996
Royalty income		44,470	40,890
Expenses			
General and administrative		791	713
Interest expense			
Term loan and other		2,267	2,568
Amortization of financing fees		33	33
		3,091	3,314
Operating income		41,379	37,576
Loss (gain) on interest rate swap	5	173	(329)
Income before income taxes		41,206	37,905
Provision for (recovery of) income taxes			
Current			
Current income tax provision	6	8,269	6,346
Refundable income tax	6	407	(1,284)
Deferred	6	(28)	1,268
		8,648	6,330
Net income and comprehensive income for the year		32,558	31,575
Net income and comprehensive income attributable to			
Unitholders of A&W Revenue Royalties Income Fund		24,907	23,397
A&W Food Services of Canada Inc.'s non-controlling interest in A&W Trade Marks Inc.		7,651	8,178
		32,558	31,575
Basic and diluted income per weighted average Unit outstanding		1.859	1.871
Weighted average number of Units outstanding		13,397,933	12,504,673

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, 2019 and 2018

(in thousands of dollars)

	Note	Fund Units $	Accumulated deficit $	Total $	Non-controlling interest $	Total equity $
Balance as at December 31, 2017		263,452	(156,589)	106,863	72,321	179,184
Net income and comprehensive 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
Net income and comprehensive income for the year		-	24,907	24,907	7,651	32,558
Distributions on Units	10	-	(25,139)	(25,139)	-	(25,139)
Dividends on common shares	12	-	-	-	(7,828)	(7,828)
Issue of common shares	4	-	-	-	31,915	31,915
Common shares exchanged for Units	7	69,498	(27,387)	42,111	(42,111)	-
Balance as at December 31, 2019		332,950	(181,744)	151,206	92,788	243,994

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, 2019 and 2018

(in thousands of dollars)

	Note	2019 $	2018 $
Cash provided by (used in)			
Operating activities			
Net income and comprehensive income for the year		32,558	31,575
Adjustments for:			
Non-cash loss (gain) on interest rate swap		173	(329)
Amortization of financing fees		33	33
Interest expense		2,267	2,568
Deferred income tax (recovery) expense		(28)	1,268
Refundable income tax expense (recovery)		407	(1,284)
Current income tax provision		8,269	6,346
Net changes in items of non-cash working capital	9	38	(597)
Interest paid		(2,195)	(2,685)
Income taxes paid		(6,411)	(6,729)
Net cash provided by operating activities		35,111	30,166
Financing activities			
Dividends paid to non-controlling interest	12	(7,828)	(7,316)
Distributions paid to Unitholders		(24,691)	(20,846)
Net cash used in financing activities		(32,519)	(28,162)
Increase in cash and cash equivalents		2,592	2,004
Cash and cash equivalents – Beginning of year		4,538	2,534
Cash and cash equivalents – End of year		7,130	4,538

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

(figures in tables are expressed in thousands of dollars)

1 General information

A&W Revenue Royalties Income Fund (the Fund) is a limited purpose trust established on December 18, 2001 with an unlimited number of Trust Units (Units) under the laws of the Province of British Columbia pursuant to the Declaration of Trust. The Fund is listed on the Toronto Stock Exchange under the symbol AW.UN. The Fund's place of business is located at 300 – 171 West Esplanade, North Vancouver, BC. The Fund was established to invest in A&W Trade Marks Inc. (Trade Marks) which, through its ownership interest in A&W Trade Marks Limited Partnership (the Partnership), owns the A&W trade-marks used in the A&W quick service restaurant business in Canada.

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

2 Basis of preparation

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

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

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

These consolidated financial statements were authorized for issue by the Board of Trustees of the Fund on February 11, 2020.

3 Significant accounting policies, judgments and estimation uncertainty

Basis of measurement

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

(figures in tables are expressed in thousands of dollars)

Consolidation

The consolidated financial statements include the accounts of the Fund and its 79.1% 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 IFRS 16, Leases (IFRS 16) for the first time for its annual reporting period commencing January 1, 2019. It was determined that the Fund has no leases within the scope of IFRS 16 and therefore the adoption of this standard had no impact on the consolidated financial statements and no adjustments to opening retained earnings as at January 1, 2019 were necessary.

(figures in tables are expressed in thousands of dollars)

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 and comprehensive income.

Impairment of financial assets

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

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

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

Income per Fund Unit

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

(figures in tables are expressed in thousands of dollars)

Interest rate swaps

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

Income taxes

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

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

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

Revenue recognition

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

Interest 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.

(figures in tables are expressed in thousands of dollars)

The Fund classifies its financial instruments in the following categories:

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

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

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

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

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

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

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

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

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

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

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

(figures in tables are expressed in thousands of dollars)

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

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

ii) equity instruments that are held for trading; and

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

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

4 Intangible assets

	Number of new restaurants	Number of closed restaurants	Number of restaurants in Royalty Pool	Amount $
Balance as at December 31, 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
Annual adjustment January 5, 2019	46	(8)	38	31,914
Balance as at December 31, 2019	1,073	(139)	934	311,826

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.

(figures in tables are expressed in thousands of dollars)

The 17th annual 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 Partnership paid Food Services $21,844,000, by issuance of 627,514 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 1,255,028 non-voting common shares of Trade Marks.

The final adjustment to the number of LP units issued was made on December 6, 2019, based on the actual annual sales reported by the new restaurants. The actual annual sales of the 46 new A&W restaurants were $72,093,000, compared to the original estimate of $62,283,000. As a result, $5,461,000 representing the remaining 20% of the initial consideration and additional consideration of $4,609,000 were paid to Food Services by issuance of 289,279 additional LP units, which were exchanged for 578,558 non-voting common shares of Trade Marks.

5 Term loan and operating loan facility

Trade Marks has a $2,000,000 demand operating loan facility with a Canadian chartered bank (the Bank) to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the Bank's prime rate plus 0.4% and are repayable on demand. As at December 31, 2019, the amount of the facility available was $2,000,000 (December 31, 2018 – $2,000,000).

Trade Marks has a $60,000,000 term loan with the Bank in the form of a banker's acceptance. Amounts advanced under the term loan bear interest at the Bank's prime rate plus 0.4% and a stamping fee that ranges from 0.90% and 1.40%, depending on Trade Marks' debt to earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) ratio. The term loan is repayable on December 22, 2022. The term loan contains covenants including the requirement to meet certain EBITDA levels and debt to EBITDA ratios during each trailing four quarter period. Interest only is payable monthly, providing that Trade Marks' EBITDA tested quarterly on a trailing four quarter basis is not less than specified amounts. In the event that EBITDA is less than these specified amounts, the term loan will be fully amortized over the greater of three years and the remaining term and repayment will be by way of blended monthly instalments of principal and interest. Trade Marks was in compliance with all of its financial covenants as at December 31, 2019 and December 31, 2018.

Trade Marks uses interest rate swap agreements to manage risks from fluctuations in interest rates. To manage the interest rate risk associated with the $60,000,000 term loan Trade Marks has entered into an interest rate swap, with an effective date of December 22, 2015 and a maturity date of December 22, 2022. Under this interest rate swap, as at December 31, 2019, the term loan's effective interest rate was 3.95% per annum (December 31, 2018 – 4.20%), comprising 2.80% per annum which is fixed under the swap agreement until December 22, 2022 plus a 1.15% per annum stamping fee. The fair value of this interest rate swap as at December 31, 2019 was $1,309,000 unfavourable (December 31, 2018 – $1,136,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income and comprehensive income as a loss (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 of the indebtedness, covenants and obligations of Trade Marks to the Bank.

(figures in tables are expressed in thousands of dollars)

The term loan comprises:

	2019 $	2018 $
Term loan	60,000	60,000
Financing fees	(99)	(131)
	59,901	59,869

6 Income taxes

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

	2019	2018
Statutory combined federal and provincial income tax rates on investment income	20%	20%
	$	$
Provision for income taxes based on statutory income tax rates	8,241	7,614
Refundable tax	407	(1,284)
Provision for income taxes	8,648	6,330

b) Deferred income tax liabilities comprise the following:

	2019 $	2018 $
Timing difference of income of A&W Trade Marks Limited Partnership	(629)	(1,004)
Fair value of interest rate swaps	262	227
Intangible assets	(13,657)	(13,276)
	(14,024)	(14,053)

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.

(figures in tables are expressed in thousands of dollars)

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.

On June 5, 2019, Food Services exchanged 3,120,000 common shares of Trade Marks, with a book value of $42,111,000, for 1,560,000 Units of the Fund, which were then sold by Food Services at a price of $44.55 per Unit. Food Services recognized a gain for this transaction of $24,307,000, net of transaction costs. Prior to the sale of the Units, Food Services owned approximately 28.6% of the Units of the Fund on a fully diluted basis. Following the sale of the Units, Food Services owned approximately 19.6% of the Units of the Fund on a fully diluted basis. The net proceeds from the sale were used to pay dividends to Food Services' shareholder.

	Number of Units	Equity $
Balance as at December 31, 2017	12,504,673	263,452
Balance as at December 31, 2018	12,504,673	263,452
Units issued in exchange for common shares of A&W Trade Marks Inc.	1,560,000	69,498
Balance as at December 31, 2019	14,064,673	332,950

Following the 2019 annual adjustment to the Royalty Pool on January 5, 2019 and the final adjustment to the number of LP units on December 6, 2019, Food Services owns approximately 20.9% 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, 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
January 5, 2019 adjustment to the Royalty Pool	-	-	(4.0)	1,833,586	31,914	4.0	1,833,586	31,914
June 5, 2019 exchange of common shares for Units of the Fund	3,120,000	42,111	9.0	(3,120,000)	(42,111)	(9.0)	-	-
Balance as at December 31, 2019	28,129,271	164,605	79.1	7,453,763	95,339	20.9	35,583,034	259,944

The summarized financial information of Trade Marks is as follows:

	2019 $	2018 $
Current assets	8,672	6,832
Non-current assets	311,826	279,912
Current liabilities	1,252	398
Non-current liabilities	75,235	73,839
Revenue	44,470	40,890
Net income and comprehensive income	32,558	31,575

(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:

	2019 $	2018 $
Accounts receivable	(64)	(520)
Accounts payable and accrued liabilities	102	(77)
	38	(597)

10 Distributions

During the year ended December 31, 2019, the Fund declared distributions to its Unitholders of $25,139 or $1.853 per Unit (2018 – $20,933 or $1.674 per Unit). The record dates and amounts of these distributions are as follows:

Month	Record date	Amount $	Per Unit $
January 2019	February 15, 2019	1,788	0.143
February 2019	March 15, 2019	1,838	0.147
March 2019	April 15, 2019	1,838	0.147
April 2019	May 15, 2019	1,925	0.154
May 2019	June 15, 2019	2,167	0.154
June 2019	July 15, 2019	2,167	0.154
July 2019	August 15, 2019	2,236	0.159
August 2019	September 15, 2019	2,236	0.159
September 2019	October 15, 2019	2,236	0.159
October 2019	November 15, 2019	2,236	0.159
November 2019	December 15, 2019	2,236	0.159
December 2019	December 31, 2019	2,236	0.159
		25,139	1.853

The December 2019 distribution was declared on December 11, 2019 and paid on January 31, 2020, and is reported as a current liability as at December 31, 2019.

11 Compensation to key management

Key management personnel are the Trustees of the Fund. During the year, the Trustees earned $125,000 (2018 – $121,000).

(figures in tables are expressed in thousands of dollars)

12 Related party transactions and balances

During the year, royalty income of $44,470,000 (2018 – $40,890,000) was earned from Food Services, of which $3,326,000 (2018 – $3,262,000) is receivable as at December 31, 2019.

During the year, Trade Marks paid dividends to Food Services of $7,828,000 (2018 – $7,316,000). The dividends paid to Food Services in 2019 include special dividends of $490,000 representing the dividends that Food Services would have received on the 578,558 non-voting common shares issued to Food Services on December 6, 2019 in relation to the final consideration for the January 5, 2019 adjustment to the Royalty Pool (note 4), had they been issued on January 5, 2019. In 2018, Trade Marks paid special dividends of $441,000 to Food Services 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, had they been issued on January 5, 2018.

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 $1,309,000 unfavourable (2018 – $1,136,000 unfavourable).

Fair value estimation

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

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

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 24, 2020.

(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, 2020, the number of A&W restaurants in the Royalty Pool was increased by 44 new restaurants less seven restaurants that permanently closed during 2019. The initial consideration for the estimated royalty revenue from the net 37 restaurants added to the Royalty Pool is $29,079,000. The Partnership paid Food Services $23,263,000 by issuance of 611,858 LP units, representing 80% of the initial consideration. The LP units were exchanged for 1,223,716 non-voting common shares of Trade Marks. The remaining 20% or $5,816,000 and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be paid in December 2020 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks.

On February 4, 2020, Trade Marks declared dividends on its voting and non-voting common shares of $2,926,000 payable to Food Services and the Fund on February 28, 2020.

On February 4, 2020, the Fund declared a distribution to Unitholders of $0.159 per Unit or $2,236,000, payable on February 28, 2020 to Unitholders of record as at February 15, 2020.

Unitholder Information

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A&W Revenue Royalties Income Fund
Board of Trustees

John R. McLernon (1)
Richard N. McKerracher (1)
Hugh R. Smythe (1)

A&W Trade Marks Inc.
Board of Directors

John R. McLernon (2)
Chairman

Richard N. McKerracher (2)

Hugh R. Smythe (2)

Paul F.B. Hollands

David A. Mindell

Committees of the Board
(1) Audit Committee and
(2) Governance Committee

Market Information

Units Listed: Toronto Stock Exchange
Symbol: AW.UN

Registrar and Transfer Agent

Computershare Investor Services Inc.

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