A&W Food Services of Canada Inc.
Report to Unitholders of A&W Revenue Royalties Income Fund
January 2, 2017 to December 31, 2017

This report and the audited annual consolidated financial statements of A&W Food Services of Canada Inc. (A&W or Food Services) for the 52 weeks ended December 31, 2017 are provided as a supplement to the audited annual consolidated financial statements and Management Discussion and Analysis of the A&W Revenue Royalties Income Fund (the Fund) for the year ended December 31, 2017. This report is dated February 13, 2018 and should be read in conjunction with the audited annual consolidated financial statements of Food Services for the 52 weeks ended December 31, 2017. Such financial statements and additional information about the Fund and Food Services are available at www.sedar.com or www.awincomefund.ca.

Glossary

Consolidated Financial Statements	Consolidated financial statements which include the accounts of A&W Food Services of Canada Inc. and its 60% ownership interest in A&W Root Beer Beverages of Canada Inc.
A&W or Food Services	Financial and operating results of A&W Food Services of Canada Inc. and A&W Root Beer Beverages of Canada Inc.
The Fund	A&W Revenue Royalties Income Fund
Trade Marks	A&W Trade Marks Inc. and A&W Trade Marks Limited Partnership
The Partnership	A&W Trade Marks Limited Partnership
Beverages	A&W Root Beer Beverages of Canada Inc.

To align its financial reporting with the business cycle of its operations, Food Services uses a fiscal year comprising a 52 or 53 week period ending on the Sunday nearest December 31. The fiscal 2017 year was 52 weeks and ended December 31, 2017 (2016 – 52 weeks ended January 1, 2017). System sales, system sales growth and same store sales growth for the 16 weeks and 52 weeks ended December 31, 2017 are compared to the 16 weeks and 52 weeks ended January 1, 2017 so that the two years are comparable.

The financial results reported in this MD&A are in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRIC). The accounting policies applied in the audited annual consolidated financial statements and this report to all years presented unless otherwise stated.

Financial Highlights

The following selected information, other than "System sales", "System sales growth" and "Same store sales growth" has been derived from financial statements prepared in accordance with IFRS and all dollar amounts are reported in Canadian currency.

(dollars in thousands)	**52 week period ended Dec 31, 2017**	52 week period ended Jan 1, 2017
System sales[(1)]	**$1,239,442**	$1,162,483
System sales growth[(1)]	**+6.6%**	+6.3%
Same store sales growth[(1)]	**+2.0%**	+3.4%
New restaurants opened	**45**	31
Restaurants closed	**6**	6
Number of restaurants	**918**	879
Franchising & corporate restaurant revenue	**$149,213**	$133,168
Operating costs and general and administrative expenses	**(100,697)**	(87,584)
Depreciation of plant and equipment	**2,073**	1,883
Earnings before royalty expense, gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	**$50,589**	$47,467
Royalty expense	**(35,616)**	(33,993)
Net income	**$22,703**	$14,616

(1) Same store sales growth does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies. This important information is provided as it is a key driver of growth.

Same Store Sales

Same store sales growth is the change in sales of A&W restaurants that operated during the entire 13 4-week periods of both the current and the prior year.

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

System Sales

System sales grew 8.1% for the fourth quarter and 6.6% for the full year as compared to 2016. Total system sales for all A&W restaurants in Canada for the 16 weeks ended December 31, 2017 were $395,791,000, an increase of $29,691,000 from the 16 weeks ended January 1, 2017. System sales for the 52 weeks ended December 31, 2017 were $1,239,442,000, an increase of $76,959,000 from the 52 weeks ended January 1, 2017. The increase in system sales was due to the same store sales growth plus the increase in the number of restaurants from 879 at the end of 2016 to 918 at the end of 2017.

New Restaurant Openings and Restaurant Closures

Food Services opened 45 new A&W restaurants during 2017 compared to 31 new restaurants in 2016. Six restaurants were closed in 2017, compared to six closures in 2016. As at December 31, 2017, there were 918 A&W restaurants in Canada, of which 910 were operated by franchisees and eight were corporately owned and operated.

Overview

Food Services is the franchisor of the A&W restaurant chain in Canada. Food Services' revenue consists of fees from franchised restaurants, revenue from the sale of food and supplies to franchisees and distributors, revenue from the opening of new franchised restaurants, revenue from company-owned restaurants, and revenue from sales of A&W Root Beer concentrate to licensed bottlers who produce and distribute A&W Root Beer for sale in retail grocery stores.

Food Services' operating costs include the cost of materials, supplies and equipment sold either directly to franchisees or to distributors that service the restaurants or that are sold to the licensed bottlers, and costs of sales and other expenses of the restaurants operated corporately by Food Services. General and administrative expenses are expenses associated with providing services to the franchised A&W restaurants and establishing new A&W restaurants.

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

Annual Adjustment to the Royalty Pool

The Royalty Pool is adjusted annually to reflect sales from new A&W restaurants added to the Royalty Pool, net of the sales of any A&W restaurants that have permanently closed. Food Services is paid for the additional royalty stream related to the sales of the net new A&W restaurants, based on a formula set out in the Amended and Restated Licence and Royalty Agreement. The formula provides for a payment to Food Services based on 92.5% of the amount of estimated sales from the net new A&W restaurants and the current yield on the units of the Fund, adjusted for income taxes payable by Trade Marks. The consideration is paid to Food Services in the form of additional limited partnership units (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. The consideration paid for the annual adjustment to the Royalty Pool is recorded by Food Services as an increase in its investment in Trade Marks, and an increase in the deferred gain.

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

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

After the initial consideration was paid for the January 5, 2018 adjustment to the Royalty Pool, Food Services' indirect interest in the Fund increased to 24.7%.

Common Shares of A&W Trade Marks Inc.

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

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

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

On March 3, 2017, Food Services exchanged 746,600 common shares of Trade Marks for 373,300 Units of the Fund, which were then sold by Food Services at a price of $39.25 per Unit. Food Services recognized a gain at fair value on the exchange of $6,314,000, net of transaction costs. The Fund did not receive any proceeds of the sale of the units. Food Services used the net proceeds from the sale to pay a dividend to its shareholder, A&W of Canada Inc. See "Related Party Transactions and Balances".

Ownership of the Fund

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

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

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

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

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

The chart below shows the ownership of the Fund, on a fully-diluted basis, when the remaining 20% of the consideration for the January 5, 2018 adjustment to the Royalty Pool is expected to be paid in December 2018, by issuance of 149,062 LP units exchangeable for 298,126 common shares of Trade Marks. The actual amount of the consideration paid in December 2018 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

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

2017 Operating Results

Revenue

Food Services' franchising and corporate revenue for 2017 was $149,213,000 compared to $133,168,000 for 2016. 2017 franchising revenue was $135,015,000 compared to $119,480,000, an increase of $15,535,000. Revenue related to the opening of new restaurants increased by $11,036,000 due to higher turnkey construction revenue, as more of the new restaurants opened in 2017 were constructed by Food Services and then sold to franchisees, as compared to 2016, and to additional equipment sales. Forty-five new restaurants were opened in 2017 compared to 31 in 2016. The remainder of the increase is due to revenue generated by system sales growth which resulted in higher franchise fees and sales of goods to franchisees and distributors.

Corporate restaurant sales were $14,198,000 in 2017 compared to $13,688,000 in 2016. Additional sales generated by a new corporate restaurant opened in late 2016 in the Ottawa market were partially offset by the impact of two restaurants operated corporately in 2016 until they were refranchised in the third quarter of 2016.

Operating costs and general and administrative expenses

Operating costs for 2017 were $64,629,000 compared to $53,089,000 in 2016, an increase of $11,540,000. Turnkey construction costs increased as well as costs of sales of equipment, and food and packaging in line with the increase in revenue noted above.

General and administrative expenses represent costs of providing services to franchised restaurants and establishing new restaurants, and were $36,068,000 in 2017 compared to $34,495,000 for 2016, an increase of $1,573,000 or 4.6%. The increase was due to inflationary increases, investments in strategic initiatives and the growth in the number of restaurants and system sales.

Operating earnings

(dollars in thousands)	**52 week period ended Dec 31, 2017**	52 week period ended Jan 1, 2017
Franchising & corporate restaurant revenue	**$149,213**	$133,168
Operating costs and general and administrative expenses	**(100,697)**	(87,584)
Depreciation of plant and equipment	**2,073**	1,883
Earnings before royalty expense, gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	**$50,589**	$47,467

Operating earnings (earnings before royalty expense, gain on sale of Fund units, Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) increased by $3,122,000 to $50,589,000 for 2017 compared to $47,467,000 for 2016. The operating margin was 33.9% for 2017 compared to 35.6% for the 2016.

Royalty expense

Royalty expense for 2017 increased by $1,623,000 to $35,616,000 compared to $33,993,000 for 2016. The increase in royalty expense resulted from the additional net 23 restaurants in the Royalty Pool and the same store sales growth of restaurants in the Royalty Pool.

Earnings after royalty expense

(dollars in thousands)	**52 week period ended Dec 31, 2017**	52 week period ended Jan 1, 2017
Earnings before royalty expense, gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	**$50,589**	$47,467
Royalty expense	**(35,616)**	(33,993)
Earnings after royalty expense (before gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	**$14,973**	$13,474

Earnings after royalty expense (but before the gain on sale of Fund units, Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) increased by $1,499,000 to $14,973,000 for 2017 compared to $13,474,000 for 2016. The increase was comprised of the $3,122,000 increase in operating earnings, offset by the $1,623,000 increase in royalty expense related to the same store sales growth of restaurants in the Royalty Pool and the additional net 23 restaurants in the Royalty Pool.

Finance expense - net

(dollars in thousands)	**52 week period ended Dec 31, 2017**	52 week period ended Jan 1, 2017
Interest income	**($45)**	($72)
Interest on term loan	**181**	-
Interest cost on supplementary retirement benefit plan	**533**	556
Finance leases	**155**	146
	$824	$630

Interest expense increased by $194,000 to $824,000 for 2017 compared to $630,000 for 2016. The increase is primarily due to interest expense on Food Services' new term loan and a reduction in interest income. See "Liquidity and Capital Resources".

Food Services' share of Trade Marks' income

Food Services' share of Trade Marks' income for 2017 increased by $1,043,000 to $6,257,000 compared to $5,214,000 for 2016. Trade Marks' net income was higher than the prior year due primarily to higher royalty income, an increase in the non-cash gain on the interest rate swap in 2017 compared to 2016, and lower income tax expense.

Net income

(dollars in thousands)	**52 week period ended Dec 31, 2017**	52 week period ended Jan 1, 2017
Earnings after royalty expense (before gain on sale of Units of the Fund, share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	**$14,973**	$13,474
Finance expense	**(824)**	(630)
Depreciation of plant and equipment	**(2,073)**	(1,883)
Amortization of deferred gain	**1,821**	1,616
Amortization of deferred finance fees	**(17)**	-
Gain on sale of Units of A&W Revenue Royalties Income Fund	**6,314**	-
Share of income from A&W Trade Marks Inc.	**6,257**	5,214
Earnings before income taxes	**26,451**	17,791
Provision for income taxes	**(3,748)**	(3,175)
Net income	**$22,703**	$14,616

The increase in year to date earnings before income taxes, income taxes and net income is due primarily to the gain on the exchange of common shares of Trade Marks for Units of the Fund and subsequent sale of the Units of the Fund. See "Common Shares of A&W Trade Marks Inc.".

Net income attributable to non-controlling interests

The non-controlling interest in Beverages represents the 40% interest of Beverages owned by Unilever Canada Inc.

Other comprehensive loss

Other comprehensive loss consists of actuarial losses, net of tax, on the supplementary retirement benefit plan. Actuarial losses result from a decrease in the discount rate used to determine the accrued benefit obligation. The actuarial loss, net of tax, for 2017 was $28,000 compared to an actuarial loss, net of tax, of $301,000 for 2016.

Liquidity and Capital Resources

Food Services is primarily a franchise business with 910 of its 918 restaurants franchised. Food Services' capital requirements are related to its corporate restaurants and head office and investments in technology and information. Future restaurant growth will continue to be funded by franchisees although from time to time, Food Services expects to incur capital expenditures to open new corporate restaurants in the Ottawa market. Food Services also expects to incur capital expenditures for the Urban Franchise Associate program aimed at attracting millennials to become owner-operators of urban concept restaurants where Food Services will contribute to the cost of building the physical location. Food Services expects to have sufficient capital resources to fund these capital requirements and has sufficient cash on hand to meet its obligations. On March 3, 2017, Food Services increased its $5,000,000 demand operating loan facility with a Canadian chartered bank (the Bank) to $8,000,000 to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the bank prime rate plus 0.5% and are repayable on demand. As at December 31, 2017, letters of credit totalling $329,000 (January 1, 2017 - $236,000) have been issued by the Bank to landlords and cities for development of new restaurants, leaving $7,671,000 of the facility available (January 1, 2017 - $4,764,000).

On March 3, 2017, Food Services entered into a $7,000,000 term loan with the Bank to fund long term working capital and operating requirements. The term loan bears interest at the bank prime rate plus 0.5% and is repayable on December 31, 2020. Interest only is payable monthly. The term loan contains a number of covenants including the requirement to meet certain debt to earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) ratios and debt to Food Services' investment in A&W Trade Marks Inc. ratios during each trailing four quarter period. Food Services was in compliance with all of its financial covenants as at December 31, 2017.

Food Services has provided 2,000,000 common shares of Trade Marks as security for the operating loan facility and the term loan.

Off-Balance Sheet Arrangements

Food Services has no off-balance sheet arrangements.

Cash Flows

Cash flows from operating activities decreased by $1,831,000 in 2017 as compared to 2016. The decrease was primarily driven by the decrease in deposits on franchise and equipment sales and turnkey construction projects for restaurants expected to open in the coming months partially offset by a decrease in inventories and an increase in the earnings after royalty expense.

Related Party Transactions and Balances

Royalty expense for the year was $35,616,000 (January 1, 2017 - $33,993,000), of which $2,742,000 (January 1, 2017 - $2,516,000) is payable to the Partnership at December 31, 2017.

During the year, Trade Marks declared dividends on common shares held by Food Services of $5,684,000 (January 1, 2017 - $5,276,000).

During the year, Food Services contracted with a private company controlled by a shareholder and director of Food Services, for rental of a private plane and crew for business travel. The cost of services provided under the contract during the year totalled $80,000 (January 1, 2017 - $221,000). At December 31, 2017, $nil (January 1, 2017 - $nil) is payable to the private company by Food Services.

During the year, Food Services paid $125,000 (January 1, 2017 - $125,000) to a professional baseball club, of which a shareholder, director and officer of Food Services is a part owner, in exchange for advertising the A&W brand at the ballpark. At December 31, 2017, $nil (January 1, 2017 - $nil) is payable to the baseball club by Food Services.

Food Services maintains an advertising fund that is supported by prescribed contributions from corporate and franchise restaurants. The advertising fund paid $502,000 (January 1, 2017 - $484,000) to Food Services during the year for marketing, promotional and administrative services provided to the advertising fund. At December 31, 2017, the advertising fund had a deficit balance of $6,000 which is included in accounts receivable (January 1, 2017 – deficit balance of $475,000). The advertising fund balance is affected by seasonality of sales and timing of expenditures for advertising and promotional programs.

On February 23, 2017, May 3, 2017 and December 6, 2017, Food Services paid a dividend of $14,532,000, $3,000,000 and $6,000,000, respectively, from working capital to its shareholder, A&W of Canada Inc. On March 3, 2017 Food Services paid a dividend of $12,919,000 from the proceeds of the sale of Units of the Fund to its shareholder, A&W of Canada Inc. See "Common Shares of A&W Trade Marks Inc.". A&W of Canada Inc. used the dividends received to repurchase, indirectly, 10% of its outstanding shares from certain shareholders. There was no change of control of A&W of Canada Inc.

Other related party transactions and balances are referred to elsewhere in this report.

Critical Accounting 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. It is reasonably possible that circumstances may arise that would cause actual results to differ from management estimates; however, management does not believe it is likely that such differences will materially affect Food Services' financial position. Significant areas requiring the use of management estimates are investment in Trade Marks, supplementary retirement benefit plan and deferred income taxes. However, such estimates are not "critical accounting estimates" as (i) they do not require Food Services to make assumptions about matters that are highly uncertain at the time the estimate is made, and (ii) different estimates 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 Food Services' financial condition, changes in financial condition or financial performance.

New standards and interpretations not yet adopted

IFRS 16, *Leases*, replaces the current guidance in International Accounting Standards (IAS) 17 and is effective for periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15, *Revenue from Contracts with Customers*, is also applied. The standard requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts. For lessors, the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts). As a result of adopting this standard, Food Services will recognize a "right-of-use" asset and a corresponding lease liability for leases of property and equipment where it is the lessee, including its corporate restaurant locations. Management is evaluating the impact of the adoption of this standard for leases where it is a party in lease arrangements with franchisees. The impact of IFRS 16 is non-cash in nature, as such, it will not affect the Company's cash flows.

IFRS 15, *Revenue from Contracts with Customers*, converges standards from the IASB and the Financial Accounting Standards Board (FASB) on revenue recognition. The standard is effective for periods beginning on or after January 1, 2018. The new guidance provides a single framework in which revenue is required to be recognized to depict the transfer of goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The Company will adopt this new guidance on January 1, 2018 using the full retrospective method, which will result in restating each prior reporting period presented in the year of adoption.

The Company expects the adoption of the new guidance to change the timing of recognition of initial franchise fees and renewal fees. Currently, these fees are recognized upfront upon either opening of the respective restaurant or when a renewal agreement becomes effective. Under the new guidance, the Company will defer the fees and recognize revenues over the term of the related franchise agreement. Based on analysis performed to date, upon adoption of this standard, the cumulative adjustment to deferred revenue is expected to be approximately 12% of the Company's consolidated total liabilities. The impact to the Company's consolidated revenues and net income is not expected to be material. No impact to the Company's consolidated statement of cash flows is expected as the initial fees and renewal fees will continue to be collected upon the restaurant opening date or the beginning of a new franchise term.

The Company anticipates that the new guidance will also change the reporting of advertising fund contributions received from franchisees and the related advertising expenditures. These advertising fund contributions and expenditures are currently reported on a net basis in the consolidated statements of income. Under the current standard, as of the balance sheet date, advertising fund contributions received may not equal advertising expenditures for the period due to timing of promotions. To the extent that contributions received exceeded advertising expenditures, the excess contributions are treated as a deferred liability. To the extent that advertising expenditures temporarily exceeded advertising fund contributions, the difference is recorded as a receivable. Under the new standard, the Company anticipates advertising contributions from franchisees and advertising fund expenditures will be reported on a gross basis and the related advertising fund revenues and expenses may be reported in different period in the consolidated statement of comprehensive income.

Based on analysis performed to date, the Company expects an increase in revenues of approximately $34.3 million and an increase in expenses of approximately $33.9 million for the 52-week period ended December 31, 2017. The Company does not expect a material change to its consolidated net income, assets, liabilities or shareholders' deficiency as a result of this standard. The Company does not expect an impact on cash flows as a result of the adoption of this standard.

Based on analysis performed to date, the Company anticipates that other revenue streams will not materially change as a result of adopting the new guidance.

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

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

Risks and Uncertainties

Restaurant Industry

The performance of Food Services is dependent upon the ability to generate Gross Sales. Gross Sales are subject to a number of factors that affect the restaurant industry generally and the quick service segment of this industry in particular, including the highly competitive nature of the industry, traffic patterns, demographic considerations, weather, locations of restaurants and the type, number and proximity of competing quick service restaurants and government regulations affecting the restaurant industry in general and the quick service restaurant segment of this industry particularly.

Competition

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

Retail Hamburger Market and Changes in Consumer Taste

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

Food Borne Illnesses

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

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

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

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

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

Climate Change

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

Additional Franchise Sales and Franchise Operations

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

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

The Closure of A&W Restaurants

Each year a number of A&W restaurants close. There is no assurance that Food Services will be able to obtain sufficient new A&W restaurants to replace the Gross Sales of the A&W restaurants that have closed. Many of the remaining terms of the leases from which A&W restaurants operate are shorter than the remaining terms of the associated franchise agreements, and it will be necessary to renew these leases or to obtain satisfactory alternate locations. There is no assurance that the leases will be renewed or suitable alternate locations will be obtained and, in this event, the A&W restaurant will close. As a result, the closure of A&W restaurants may adversely affect the amount of Gross Sales.

Changes in Traffic Patterns at Shopping Centres

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

Franchise Fees and Other Revenues

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

Government Regulation

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

Franchise Legislation

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

The Impact of Sales Tax upon Gross Sales

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

Dependence on Key Personnel

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

Intellectual Property

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

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

Reliance on Technology and Cybersecurity

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

Effect of Media and Social Media

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

Catastrophic Events

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

Outlook

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

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

In 2017, A&W was proud to announce a substantial investment in the Canadian beef industry with a $5 million donation toward the University of Saskatchewan's Livestock and Forage Centre of Excellence. This donation is an investment in the future of Canadian food and best practices and will be used to develop new tools and techniques for healthy, sustainable growth.

A&W's menu innovations have continued in 2017. Building on an already strong breakfast daypart, all-day breakfast was launched in February. This has been well received. Limited time offers in 2017 have included the Peppered Bacon Burger, Sriracha Teen Burgers and Eggers, and Smoky BBQ Teen, Double Cheese Double Bacon, Spicy Mama Burgers and Mushroom Mozza Burgers and Eggers. The introduction of "Pick Your Perfect Size" in connection with the limited time burger promotions, allows guests to enjoy feature burgers in a size of their choice. These menu items have been well received by Food Services' guests.

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

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

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

FORWARD LOOKING INFORMATION

Certain statements in this report 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 report includes, but is not limited to: expected future consideration payable on adjustments to the Royalty Pool; Food Services' plans to reposition and differentiate A&W in the QSR industry through its use of "better ingredients", accelerating new restaurant growth, the number of new A&W restaurants under construction and the expected timing for their opening, and delivering an industry leading guest experience; Food Services expects to have sufficient capital resources to fund the expansion of corporate restaurants.

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

- the general risks that affect the restaurant industry will not arise;
- there are no changes in availability of experienced management and hourly employees;
- there are no material changes in government regulations concerning menu labelling and disclosure and drive-thru restrictions;
- no publicity from any food borne illness;
- no material changes in competition;
- no material changes in the quick service restaurant burger market including as a result of changes in consumer taste or health concerns or changes in economic conditions or unemployment or a disease outbreak;
- no material impact on sales from closures of "anchor" stores in shopping centres;
- no material increases in food and labour costs;
- the continued availability of quality raw materials;
- continued additional franchise sales and maintenance of franchise operations;
- Food Services is able to continue to grow same store sales;
- Food Services is able to maintain and grow the current system of franchises;
- Food Services is able to locate new retail sites in prime locations;
- Food Services is able to obtain qualified operators to become A&W franchisees;
- no closures of A&W restaurants that materially affect the amount of the royalty;
- no material changes in traffic patterns at shopping centres;
- no supply disruptions;
- franchisees duly pay franchise fees and other amounts;
- no material impact from new or increased sales taxes upon gross sales;
- continued availability of key personnel;
- continued ability to preserve intellectual property;
- no material litigation from guests at A&W restaurants;
- Food Services continues to pay the royalty;
- Trade Marks continues to pay dividends on the common shares and the Partnership continues to make distributions on its units;
- Trade Marks can continue to comply with its obligations under its credit arrangements; and,
- Trade Marks' performance does not fluctuate such that cash distributions are affected.

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

- the general risks that affect the restaurant industry in general and the quick service segment in particular;

- changes in consumer preferences that adversely affect the consumption of quick service restaurant hamburgers, chicken, fries, breakfast items or soft drinks;
- negative publicity, litigation or complaints from perceived or actual food safety events or other events involving the foodservice industry in general or A&W restaurants in particular;
- changes in the availability and quality of raw materials, including A&W's "better ingredients;
- changes in climate or increases in environmental regulation;
- changes in Food Services' ability to continue to grow same store sales, locate new retail sites in prime locations and obtain qualified operators to become A&W franchisees;
- increases in closures of A&W restaurants adversely affecting the Royalty;
- decreases in traffic at shopping centers;
- changes in Food Services' ability to pay the Royalty due to changes in A&W franchisees' ability to generate sales and pay franchise fees and other amounts to Food Services;
- changes in government regulation that affects the restaurant industry in general or the quick service restaurant industry in particular;
- changes in the availability of key personnel, including qualified franchise operators;
- changes in the ability to enforce or maintain intellectual property;
- risks related to technological breakdowns and cybersecurity breaches;
- risks related to the amplificatory effects of media and social media; and,
- increases in catastrophic events.

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

- dependence of the Fund on Trade Marks, Partnership and Food Services;
- dependence of the Partnership on Food Services;
- risks related to leverage and restrictive covenants;
- the risk that cash distributions are not guaranteed and will fluctuate with the Partnership's performance;
- risks related to the nature of units;
- risks related to the distribution of securities on redemption or termination of the Fund;
- risks related to the Fund issuing additional units diluting existing unitholders' interests; and,
- risks related to income tax matters.

These risks, uncertainties and other factors are more particularly described in the Fund's most recent Annual Information Form under the heading "Risk Factors".

All forward-looking information in this report is qualified in its entirety by this cautionary statement and, except as required by law, the Food Services 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.