

A&W Revenue Royalties Income Fund

Q1

First Quarter Report to Unitholders
for the period ended
March 24, 2019

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To our Unitholders

On behalf of the Trustees of the A&W Revenue Royalties Income Fund (the Fund), I am pleased to report the results of the quarter ended March 24, 2019.

The Fund achieved outstanding results for the first quarter. Same store sales growth was +10.0% for the quarter as compared to the same quarter of 2018, and total royalty income for the quarter increased by 15.4%. Distributable cash per equivalent unit increased by 3.6¢ to \$0.380 per unit in the first quarter of 2019 from \$0.344 for the first quarter of 2018.

Same store sales increases are the primary driver of growth in distributable cash per unit, and as a result of the strong performance in the quarter, we are pleased to be able to increase monthly distributions, from 14.7¢ per unit to 15.4¢ per unit. This brings the annualized rate of distribution to \$1.848.

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, with an additional 38 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.

A handwritten signature in black ink, appearing to read "John R. McLernon".

John R. McLernon
Chairman, A&W Revenue Royalties Income Fund
On behalf of the Board of Trustees

A&W Revenue Royalties Income Fund Management Discussion and Analysis

This Management Discussion and Analysis (MD&A) covers the first quarter period from January 1, 2019 to March 24, 2019 and is dated May 2, 2019. This MD&A should be read in conjunction with the unaudited interim condensed financial statements of the A&W Revenue Royalties Income Fund (the Fund) for the quarter ended March 24, 2019 and the audited annual consolidated financial statements of the Fund for the year ended December 31, 2018. Readers are also referred to the unaudited interim condensed consolidated financial statements of A&W Food Services of Canada Inc. (Food Services) for the quarter ended March 24, 2019 and the audited annual consolidated financial statement of Food Services for the 52 week year ended December 30, 2018. Such financial statements and additional information about the Fund and Food Services are available at www.sedar.com or www.awincomefund.ca.

The financial results reported in this MD&A are derived from the unaudited interim condensed consolidated financial statements of the Fund, which are prepared in accordance with International Financial Reporting Standards (IFRS) as applicable to interim financial reports, including International Accounting Standards (IAS) 34, Interim Financial Reporting. The accounting policies applied in the interim condensed consolidated financial statements and this report are consistent with those followed in the preparation of the Fund's annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of IFRS 16 – Leases. The Fund adopted IFRS 16 on January 1, 2019 with no impact on the condensed 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 2018 year was 52 weeks and ended December 30, 2018 (2017 – 52 weeks ended December 31, 2017). To align its financial reporting with that of Food Services, the Fund's first quarter of 2019 ended March 24, 2019 (2018 – March 26, 2018), 12 weeks after Food Services' fiscal year end. Readers should be aware that 2019 first quarter results are not directly comparable to 2018 first quarter results, as there were 83 days of sales in Q1, 2019 compared to 84 days in Q1, 2018. Same store sales growth is based on an equal number of days in each quarter.

HIGHLIGHTS

- Same store sales⁽¹⁾ for the first quarter of 2019 grew by +10.0% as compared to the same quarter of 2018.
- Total sales in the Royalty Pool (as hereinafter defined) and royalty income increased by 15.4% in the quarter as compared to the same quarter of 2018.
- Distribution to be increased by 4.8%.

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

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

(dollars in thousands except per unit amounts)	Period from Jan 1, 2019 to Mar 24, 2019	Period from Jan 1, 2018 to Mar 25, 2018
Same store sales growth ⁽¹⁾	+10.0%	+5.3%
Number of restaurants in the Royalty Pool	934	896
Sales reported by the restaurants in the Royalty Pool	\$308,823	\$267,688
Royalty income	\$9,265	\$8,031
General and administrative expenses	281	307
Net third party interest expense	572	594
Current income tax provision	1,705	1,360
Total distributable cash generated for distributions and dividends ⁽²⁾	\$6,707	\$5,770
Distributable cash per equivalent unit (2019 – 17,659,154 units; 2018 – 16,874,762 units) ⁽²⁾⁽³⁾	\$0.380	\$0.344
Distributions and dividends declared per equivalent unit	\$0.290	\$0.272
Net income ⁽⁴⁾	\$5,666	\$6,305
Net income, excluding non-cash items ⁽⁴⁾	\$6,297	\$5,883

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

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

⁽³⁾ The number of equivalent units and distributable cash per equivalent unit in 2019 is calculated on a fully-diluted basis and includes the 156,878 LP units (as hereinafter defined) representing the remaining 20% of the consideration for the January 5, 2019 adjustment to the Royalty Pool which is held back until December 2019 when the actual annual sales are reported by the new restaurants. 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.

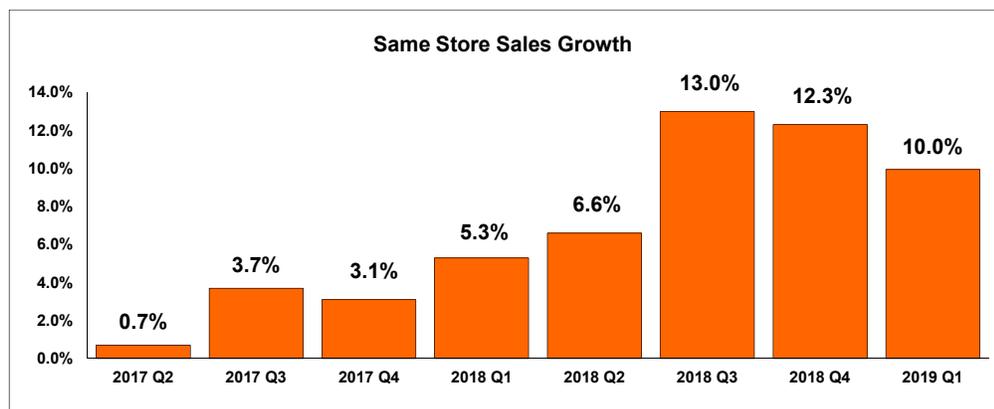
⁽⁴⁾ Net income in 2019 and 2018 includes non-cash gains and losses on an interest rate swap, amortization of deferred financing fees and deferred income taxes. These non-cash items have no impact on the Fund’s ability to pay distributions to unitholders. The Fund’s net income excluding these non-cash items is presented for information purposes only. Net income excluding non-cash items does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

SALES PERFORMANCE

Same store sales growth by A&W restaurants for which the royalty is payable (the Royalty Pool) by Food Services to A&W Trade Marks Limited Partnership (the Partnership) is a key performance indicator for the Fund. Same store sales growth is the change in sales of A&W restaurants in the Royalty Pool that operated during the entire 26 4-week periods ending March 24, 2019.

Same store sales for the first quarter of 2019 increased by 10.0% as compared to the same quarter of 2018 continuing on the momentum built over the past year. Same store sales growth was achieved in all provinces and concepts.

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



Total sales reported by A&W restaurants in the Royalty Pool for the first quarter of 2019 were \$308,823,000, an increase of 15.4% from sales of \$267,688,000 for the first quarter of 2018. The increase in sales was due to the increase in the number of A&W restaurants in the Royalty Pool and same store sales growth, partially offset by the decrease in the number of days of sales in the quarter.

The Fund is pleased to announce that, as a result of the performance by restaurants in the Royalty Pool, the monthly distribution to unitholders will increase from 14.7¢ per unit to 15.4¢ per unit beginning with the April 2019 distribution which is payable on May 31, 2019. The new distribution rate translates into an annualized distribution rate of \$1.848 per unit, an increase of 4.8% from the prior level of \$1.764 per unit.

OVERVIEW

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

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

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

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

Another important aspect of the Fund is that, as at March 24, 2019, Food Services owned the equivalent of 28.6% (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 a result, interests of Food Services are closely aligned with the interests of unitholders.

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

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

ADJUSTMENT TO THE ROYALTY POOL

The 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 sales of the 46 new A&W restaurants was \$62,283,000 and annual 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 remaining 20% of the consideration or \$5,461,000 will be paid in December 2019 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks. The actual amount of the consideration paid in December 2019 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

COMMON SHARES OF TRADE MARKS

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, 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⁾	-	-	(2.7)	1,255,028	21,844	2.7	1,255,028	21,844
Balance as at March 24, 2019	25,009,271	122,494	71.4	9,995,205	127,380	28.6	35,004,476	249,874

⁽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 does not include the 156,878 LP units exchangeable for 313,756 common shares of Trade Marks representing the remaining 20% of the consideration for the for the January 5, 2019 adjustment to the Royalty Pool which is held back until December 2019 when the actual annual sales are reported by the new restaurants.

OWNERSHIP OF THE FUND

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

	March 24, 2019		December 31, 2018	
	Number of units	%	Number of units	%
Fund units held by public unitholders	12,504,673	71.4	12,504,673	74.1
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services ⁽¹⁾	4,997,603	28.6	4,370,089	25.9
Total equivalent units	17,502,276	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 chart below shows the ownership of the Fund, on a fully-diluted basis, when the remaining 20% of the initial consideration for the January 5, 2019 adjustment to the Royalty Pool is expected to be paid in December 2019, by issuance of 156,878 LP units exchangeable for 313,756 common shares of Trade Marks. The actual amount of the consideration paid in December 2019 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

	Number of units	%
Fund units held by public unitholders	12,504,673	70.8
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services	5,154,481	29.2
Total equivalent units	17,659,154	100.0

FINANCIAL RESULTS

INCOME

Royalty income for the first quarter of 2019 was \$9,265,000 based on sales of \$308,823,000. This was an increase of 15.4% from royalty income of \$8,031,000 and sales of \$267,688,000 for the first quarter of 2018. There were 83 days of sales in the first quarter of 2019 as compared to 84 days of sales in the same quarter of 2018. The increase in sales and royalty income was due to the additional net 38 new A&W restaurants in the Royalty Pool and the 10.0% increase in same store sales, less the impact of one less day in the quarter.

EXPENSES

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

(dollars in thousands)	Period from Jan 1, 2019 to Mar 24, 2019	Period from Jan 1, 2018 to Mar 25, 2018
General and administrative	\$281	\$307
Net interest on term loan and other	\$572	\$594

General and administrative expenses for the first quarter of 2019 decreased by \$26,000 to \$281,000 compared to \$307,000 for the first quarter of 2018. The decrease was primarily due to timing of professional fees.

Interest on the term loan was \$572,000 for the first quarter of 2019, \$22,000 lower compared to the first quarter of 2018. The decrease was due to the number of days in the quarter 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 Jan 1, 2019 to Mar 24, 2019	Period from Jan 1, 2018 to Mar 25, 2018
Loss (gain) on interest rate swap	\$809	(\$659)

See “Liquidity and Capital Resources”.

INCOME TAXES

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

(dollars in thousands)	Period from Jan 1, 2019 to Mar 24, 2019	Period from Jan 1, 2018 to Mar 25, 2018
Current		
Current income tax provision	\$1,705	\$1,360
Refundable income tax	410	(113)
Deferred	(186)	229
Total provision for income taxes	\$1,929	\$1,476

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% on investment income which is refundable at a rate of 38.33% of each dollar Trade Marks pays out in taxable dividends to its shareholders. Trade Marks’ provision for income taxes for the first quarter of 2019 includes a payable of refundable income tax of \$45,000 based on its first quarter share of annual estimated 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 \$45,000 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 \$345,000 higher than the prior year due to an increase in operating income.

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 Jan 1, 2019 to Mar 24, 2019	Period from Jan 1, 2018 to Mar 25, 2018
Net income and comprehensive income attributable to unitholders of the Fund	\$3,988	\$4,924
Net income and comprehensive income attributable to Food Services' non-controlling interest in Trade Marks	1,678	1,381
Total net income and comprehensive income	\$5,666	\$6,305

DISTRIBUTABLE CASH

The distributable cash and payout ratio measures are provided as they identify the amount of actual cash generated to pay distributions to unitholders and dividends to Food Services and provide information regarding the extent to which the Fund distributes cash. The distributable cash and payout ratios do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

Distributable cash is calculated as the operating cash flows of the Fund, adjusted for net changes in items of working capital. Changes in items of working capital are excluded as the Fund's working capital requirements are not permanent and are primarily due to the timing of payments between related parties. No deduction is made for capital expenditures as the Fund has no capital expenditures. There are no restrictions on distributions arising from compliance with financial covenants. The payout ratio is calculated by dividing the total of (i) distributions declared per unit plus (ii) accrued distributions per unit to the last day of the quarter or year, as applicable, by the distributable cash per unit generated in that period.

As discussed under "Income Taxes", Trade Marks' provision for income taxes includes refundable income tax paid or recoverable. This refundable income tax is not deducted in calculating the amount of distributable cash generated, in order to more accurately reflect the actual amount of cash generated by the business to pay distributions to unitholders and dividends to Food Services. In 2016 the refundable income tax expense was \$2,029,000. There was a sufficient surplus of cash on hand to pay the refundable income tax. Trade Marks' provision for

income taxes included a recovery of refundable income tax of \$371,000 for 2017 and \$1,284,000 for 2018. The Q1 2019 provision includes an additional payable of \$45,000 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 except per unit amounts)	Period from Jan 1, 2019 to Mar 24, 2019	Period from Jan 1, 2018 to Mar 25, 2018
Net cash generated from operating activities	\$7,063	\$5,849
Changes in non-cash working capital including interest and tax	(356)	(79)
Distributable cash generated	\$6,707	\$5,770
Cumulative surplus – beginning of period	7,660	3,363
Distributable cash for unitholders at current annual distribution rate (2019 - \$1.760 per unit, 2018 - \$1.674 per unit)	(5,005)	(4,697)
Distributable cash for Food Services at equivalent annual distribution rate (2019 - \$1.760 per equivalent unit, 2018 - \$1.674 per equivalent unit)	(2,063)	(1,598)
Refundable income tax (see “Income Taxes”)	(410)	113
Cumulative surplus – end of period	\$6,889	\$2,951
Number of equivalent units ⁽¹⁾	17,659,154	16,874,762
Distributable cash generated per equivalent unit ⁽¹⁾	\$0.380	\$0.344
Monthly distributions declared per unit ⁽²⁾	\$0.290	\$0.272
Total distributions declared and accrued per unit	\$0.400	\$0.376
Payout ratio ⁽³⁾	105.3%	109.2%

(1) The number of equivalent units and distributable cash per equivalent unit in 2019 includes the 156,878 LP units exchangeable for 313,756 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2019 adjustment to the Royalty Pool which is held back until December 2019 when the actual annual sales are reported by the new restaurants. 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) The payout ratio is calculated by dividing the total distributions per unit (which includes distributions declared and distributions accrued to the last day of the quarter or year, as applicable) by distributable cash per unit generated in that period. This information is provided as it identifies the extent to which distributable cash is distributed to unitholders and Food Services.

Distributable cash generated in the first quarter of 2019 to pay distributions to unitholders and dividends to Food Services was \$6,707,000 compared to \$5,770,000 in the first quarter of 2018. The \$937,000 increase in distributable cash quarter over quarter was primarily comprised of the \$1,234,000 increase in royalty income and the \$48,000 net decrease in general and administrative

expenses and interest expense, partially offset by a \$345,000 increase in the current income tax provision (excluding refundable income tax).

Distributable cash generated per equivalent unit increased by 3.6¢ to 38.0¢ per unit in the first quarter of 2019 from 34.4¢ for the first quarter of 2018. The 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.

Two monthly distributions totalling 29.0¢ per unit were declared in the first quarter of 2019 compared to 27.2¢ per unit in the same quarter of 2018. The payout ratio for the first quarter was 105.3% compared to 109.2% for the same quarter of 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.



The cumulative surplus of distributable cash on reserve at the end of the first quarter of 2019 was \$6,889,000, compared to a reserve of \$7,660,000 at the beginning of the year, a decrease of \$771,000.

Due to the performance by restaurants in the Royalty Pool, the monthly distribution to unitholders will increase from 14.7¢ per unit to 15.4¢ per unit beginning with the April 2019 distribution which is payable on May 31, 2019. The new distribution rate translates into an annualized distribution rate of \$1.848 per unit, an increase of 4.8% from the prior level of \$1.764 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
		\$3,626	\$0.290

The February 2019 distribution was declared on March 5, 2019 and paid on March 29, 2019 and is reported as a current liability as at March 24, 2019. On April 2, 2019 the Fund declared the March 2019 monthly distribution to unitholders of 14.7¢ per unit or \$1,838,000, payable on April 30, 2019.

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)		Aggregate amount paid to the Fund	Aggregate amount paid to Food Services
Month declared/paid	Per share		
January	\$0.0715	\$1,788	\$714
February	0.0735	1,838	735
	\$0.1450	\$3,626	\$1,449

The February dividend was paid on March 29, 2019 and Food Services' share of \$735,000 is reported as a current liability as at March 24, 2019. On April 2, 2019 Trade Marks declared an aggregate dividend on its voting and non-voting common shares of \$2,573,000 payable to Food Services and the Fund on April 30, 2019.

SEASONALITY

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

SUMMARY OF QUARTERLY RESULTS

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

(dollars in thousands except per unit amounts)	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Number of restaurants in the Royalty Pool	934	896	896	896
Royalty income	\$9,265	\$13,199	\$10,506	\$9,154
General and administrative expenses	281	236	80	90
Term loan and other interest expense	572	788	594	592
Amortization of deferred financing fees	8	10	8	7
Non cash loss (gain) on interest rate swap	809	638	(278)	(30)
Current income tax expense	1,705	1,960	1,523	1,503
Refundable income tax expense (recovery)	410	(601)	(285)	(285)
Deferred income tax expense (recovery)	(186)	345	499	195
Net income	5,666	\$9,823	\$8,365	\$7,082
Distributable cash ⁽¹⁾	\$6,707	\$10,216	\$8,307	\$6,969
Number of equivalent units ⁽²⁾	17,659,154	16,874,762	16,760,352	16,760,352
Distributable cash per equivalent unit ⁽¹⁾⁽²⁾	\$0.380	\$0.605	\$0.496	\$0.416
Monthly distributions declared per unit ⁽³⁾	\$0.290	\$0.570	\$0.420	\$0.412
Number of days in the quarter	83	113	84	84
(dollars in thousands except per unit amounts)	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Number of restaurants in the Royalty Pool	896	861	861	861
Royalty income	\$8,031	\$11,181	\$8,905	\$8,224
General and administrative expenses	307	228	75	78
Term loan and other interest expense	594	789	593	597
Amortization of deferred financing fees	8	11	8	7
Non cash gain on interest rate swap	(659)	(464)	(1,945)	(260)
Current income tax expense	1,360	1,879	1,457	1,456
Refundable income tax recovery	(113)	(145)	(-)	(76)
Deferred income tax expense	229	723	476	27
Net income	\$6,305	\$8,160	\$8,241	\$6,395
Distributable cash ⁽¹⁾	\$5,770	\$8,119	\$6,779	\$6,094
Number of equivalent units ⁽²⁾	16,760,352	16,015,038	15,950,970	15,950,970
Distributable cash per equivalent unit ⁽¹⁾⁽²⁾	\$0.344	\$0.507	\$0.425	\$0.382
Monthly distributions declared per unit ⁽³⁾	\$0.272	\$0.541	\$0.399	\$0.399
Number of days in the quarter	84	112	84	84

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

⁽²⁾ The number of equivalent units and distributable cash per equivalent unit in 2019 includes the 156,878 LP units exchangeable for 313,756 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2019 adjustment to the Royalty Pool which is held back until December 2019 when the actual annual sales are reported by the new restaurants. 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.

LIQUIDITY AND CAPITAL RESOURCES

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

Trade Marks has a \$2,000,000 demand operating loan facility with a Canadian chartered bank (the Bank) to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at bank prime rate plus 0.4% and are repayable on demand. As at May 2, 2019 and March 24, 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 which is repayable on December 22, 2022, and contains covenants including the requirement to meet certain earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) levels and debt to EBITDA ratios during each trailing four quarter period. Interest only is payable monthly, providing that Trade Marks' EBITDA tested quarterly on a trailing four quarters basis is not less than specified amounts. In the event that EBITDA is less than these specified amounts, the term loan will be fully amortized over the greater of three years and the remaining term and repayment will be by way of blended monthly instalments of principal and interest. Trade Marks is generally prohibited from paying dividends on its common shares if those dividends would result in a breach of the term loan. Trade Marks was in compliance with all of its financial covenants as at May 2, 2019, March 24, 2019 and December 31, 2018.

Trade Marks uses an interest rate swap agreement to manage risks from fluctuations in interest rates and facilitate uniform monthly distributions. This instrument is used only for risk management purposes. Under the interest rate swap, the term loan bears interest at 3.95% per annum, comprised of 2.8% per annum which is fixed under the swap agreement until December 22, 2022, plus a 1.15% per annum credit charge. Depending on the future performance of the business, the per annum credit charge may be reduced to as low as 0.9%. The fair value of this interest rate swap as at March 24, 2019 was \$1,945,000 unfavourable (December 31, 2018 - \$1,136,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income as a loss on the interest rate swap.

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

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS AND BALANCES

During the period, royalty income of \$9,265,000 (2018 - \$8,031,000) was earned from Food Services of which \$3,197,000 (December 31, 2018 - \$3,262,000) is receivable at March 24, 2019.

During the period, Trade Marks declared and paid dividends to Food Services of \$1,449,000 (2018 - \$1,118,000). The \$735,000 dividend declared on March 5, 2019 and paid on March 29, 2019 is reported as a current liability as at March 24, 2019 (December 31, 2018 - \$nil).

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

A significant area requiring the use of a management estimate is the fair value of the interest rate swap. However, this estimate is not a “critical accounting estimate” as (i) it does not require the Fund to make assumptions about matters that are highly uncertain at the time the estimate is made, and (ii) a different estimate that could have been used, or changes in the accounting estimates that are reasonably likely to occur from period to period, would not have had a material impact on the Fund’s financial condition, changes in financial condition or financial performance.

The fair value of the interest rate swap as at March 24, 2019 was \$1,945,000 unfavourable (December 31, 2018 - \$1,136,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income as a loss on interest rate swaps.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

RISKS AND UNCERTAINTIES

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

OUTLOOK

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

A&W has been a leader in the QSR industry, sourcing simple, all-natural ingredients that guests can feel good about. This focus began in 2013, when Food Services became the first national QSR in Canada to use only beef raised without the use of hormones and steroids, free of additives, fillers or preservatives. And the whole Burger Family[®] - from Baby[®] to Uncle[®] to Grandpa[®] - contains 100% pure beef. Over the following years, Food Services began to serve only chicken raised without the use of antibiotics and enhanced its breakfast menu by moving to eggs from hens fed a fully vegetarian diet without animal by-products. In January 2015, organic and Fair Trade coffee was introduced, another first for a national QSR in Canada. In 2016, Food Services became the first national QSR in Canada to use bacon from pork that is raised without the use of antibiotics, and announced that A&W restaurants switched to French's ketchup and mustard, made with 100% Canadian tomatoes and 100% Canadian mustard seeds. In 2017, A&W launched the new Root Beer Guarantee. A&W Root Beer served in the restaurants is now made from natural cane sugar and all-natural flavours - another first for the QSR industry.

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

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.

Food Services' continues to rapidly grow new A&W restaurants, particularly in the key Ontario and Quebec markets. Nine new A&W restaurants have opened across the country in the first three months of 2019. As of March 24, 2019, an additional seventy-three are 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 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-imagining 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, almost all of A&W's restaurants now have the new design. A new "Good Food Makes Good Food" design is now being introduced in restaurants to communicate Food Services' ingredients guarantee to its guests. Costs of re-imagining A&W restaurants are borne by the franchisees and there is no cost to the Fund.

Food Services is also striving to lead the industry in minimizing its environmental footprint. Changes have been made to food packaging and dine-in customers are served with ceramic and glass mugs for hot and cold beverages, metal baskets for fries and onion rings, ceramic bowls for poutine and ceramic plates and stainless steel cutlery for breakfast in an effort to reduce waste going to landfills. In 2018, Food Services eliminated all plastic straws from all restaurants. A&W is the first QSR chain in North America to make this commitment. The switch to paper straws, which are 100% biodegradable, compostable and are sustainably sourced, will keep 82 million plastic straws out of landfills every year.

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

FORWARD LOOKING INFORMATION

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

The forward-looking information in this MD&A includes, but is not limited to: the increase in the monthly distribution to unitholders commencing with the April 2019 distribution, which will be payable on May 31, 2019; expected future consideration payable on adjustments to the Royalty Pool; management's expectation that its refundable income tax will be recovered in future years when sufficient dividends are paid by Trade Marks; the Fund's objective to maintain an annual payout ratio at or below 100%; Food Services' plans to reposition and differentiate A&W in the QSR industry through its use of "better ingredients", new restaurant growth, and delivering an industry leading guest experience; Food Services' strategic initiatives, including ongoing reimagining and modernizing of existing A&W restaurants, innovation in technology and minimizing its environmental footprint; Food Services' continued efforts to consistently deliver great food and a better guest experience, in combination with reimage progress,

contributing to winning guest visits, building loyalty and enhancing performance over the long term; the Fund's policy to distribute all available cash in order to maximize returns to unitholders over time, after allowing for reasonable reserves; any change in the Fund's distributions will be implemented with a view to maintain the continuity of uniform monthly distributions; the Fund expects that future distributions will continue to be funded entirely by cash flow from operations and the cash reserve; the possibility that the fund may adjust the amount of distributions paid to its unitholders in the future in order to maintain or adjust the Fund's capital structure; the reduction in the rate of the per annum credit charge under the interest rate swap agreement and the potential for further decreases depending on future performance; the operating and administrative expenses of the Fund, Trade Marks and the Partnership are expected to be stable and reasonably predictable; the Fund, through dividends from Trade Marks, is expected to have sufficient financial resources to pay future distributions; and, the number of new A&W restaurants under construction and the expected timing for their opening.

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

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

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

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

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

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

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

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

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

A&W Revenue Royalties Income Fund
Interim Condensed Consolidated Balance Sheets
Unaudited

(in thousands of dollars)

	Note	March 24 2019	December 31 2018
Assets			
Current assets			
Cash and cash equivalents		\$ 7,311	\$ 4,538
Accounts receivable	9	3,197	3,262
Prepaid interest		538	508
Income taxes recoverable		658	1,513
		11,704	9,821
Non-current assets			
Intangible assets	3	307,217	279,912
Total assets		\$ 318,921	\$ 289,733
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 275	\$ 399
Dividends payable to A&W Food Services of Canada Inc.	9	735	-
Distributions payable to Unitholders	7	1,838	1,788
		2,848	2,187
Non-current liabilities			
Term loan	4	59,877	59,869
Fair value of interest rate swaps	4	1,945	1,136
Deferred income tax liabilities		13,867	14,053
Other liabilities	3	5,461	-
		83,998	77,245
Unitholders' Equity			
Fund Units	5	263,452	263,452
Accumulated deficit		(153,763)	(154,125)
		109,689	109,327
Non-controlling interest			
		125,234	103,161
Total equity		234,923	212,488
Total liabilities and equity		\$ 318,921	\$ 289,733

Subsequent events

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A&W Revenue Royalties Income Fund

Interim Condensed Consolidated Statement of Income and Comprehensive Income

Unaudited

(in thousands of dollars except per Unit amounts)

	Note	Period from Jan 1, 2019 to Mar 24, 2019	Period from Jan 1, 2018 to Mar 25, 2018
Gross sales reported by A&W restaurants in the Royalty Pool		\$ 308,823	\$ 267,688
Royalty income	9	\$ 9,265	\$ 8,031
Expenses			
General and administrative		281	307
Interest expense			
Term loan and other		572	594
Amortization of financing fees		8	8
		861	909
Operating income		8,404	7,122
Loss (gain) on interest rate swaps	4	809	(659)
Net income before income taxes		7,595	7,781
Provision for (recovery of) income taxes	6		
Current			
Current income tax provision		1,705	1,360
Refundable income tax		410	(113)
Deferred		(186)	229
		1,929	1,476
Net income and comprehensive income for the period		\$ 5,666	\$ 6,305
Net income and comprehensive income attributable to:			
Unitholders of A&W Revenue Royalties Income Fund		\$ 3,988	\$ 4,924
A&W Food Services of Canada Inc.'s non-controlling interest in A&W Trade Marks Inc.		1,678	1,381
		\$ 5,666	\$ 6,305
Basic and diluted income per weighted average Unit outstanding		\$ 0.319	\$ 0.394
Weighted average number of Units outstanding		12,504,673	12,504,673

The accompanying notes form an integral part of these financial statements.

A&W Revenue Royalties Income Fund
Interim Condensed Consolidated Statement of Unitholders' Equity
Unaudited

(in thousands of dollars)

	Note	Fund Units	Accumulated deficit	Total	Non-controlling interest	Total equity
Balance - December 31, 2017		\$ 263,452	\$ (156,589)	\$ 106,863	\$ 72,321	\$ 179,184
Net income for the period		-	4,924	4,924	1,381	6,305
Distributions on Units		-	(3,402)	(3,402)	-	(3,402)
Dividends on common shares		-	-	-	(1,118)	(1,118)
Issue of common shares		-	-	-	20,791	20,791
Balance - March 25, 2018		\$ 263,452	\$ (155,067)	\$ 108,385	\$ 93,375	\$ 201,760
Net income for the period		-	18,473	18,473	6,797	25,270
Distributions on Units		-	(17,531)	(17,531)	-	(17,531)
Dividends on common shares		-	-	-	(6,198)	(6,198)
Issue of common shares		-	-	-	9,187	9,187
Balance - December 31, 2018		\$ 263,452	\$ (154,125)	\$ 109,327	\$ 103,161	\$ 212,488
Net income for the period		-	3,988	3,988	1,678	5,666
Distributions on Units	7	-	(3,626)	(3,626)	-	(3,626)
Dividends on common shares	9	-	-	-	(1,449)	(1,449)
Issue of common shares	3	-	-	-	21,844	21,844
Balance - March 24, 2019		\$ 263,452	\$ (153,763)	\$ 109,689	\$ 125,234	\$ 234,923

The accompanying notes form an integral part of these financial statements.

A&W Revenue Royalties Income Fund
Interim Condensed Consolidated Statement of Cash Flows
Unaudited

(in thousands of dollars)

	Note	Period from Jan 1, 2019 to Mar 24, 2019	Period from Jan 1, 2018 to Mar 25, 2018
Operating activities			
Net income for the period		\$ 5,666	\$ 6,305
Adjustments for:			
Non-cash loss (gain) on interest rate swaps	4	809	(659)
Amortization of financing fees		8	8
Deferred income taxes		(186)	229
Refundable income tax		410	(113)
Interest expense		572	594
Current income tax provision		1,705	1,360
Net changes in items of non-cash working capital		(59)	32
Interest paid		(602)	(678)
Income tax paid		(1,260)	(1,229)
Net cash generated from operating activities		7,063	5,849
Financing activities			
Dividends paid to non-controlling interest		(714)	(559)
Distributions paid to Unitholders		(3,576)	(3,402)
Net cash used in financing activities		(4,290)	(3,961)
Increase in cash and cash equivalents		2,773	1,888
Cash and cash equivalents - beginning of period		4,538	2,534
Cash and cash equivalents - end of period		\$ 7,311	\$ 4,422

The accompanying notes form an integral part of these financial statements.

(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.

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as applicable to interim financial reports including International Accounting Standards (IAS) 34, Interim Financial Reporting. The interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the Fund's audited annual consolidated financial statements as at December 31, 2018.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Fund's annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of IFRS 16 – Leases. The Fund adopted IFRS 16 on January 1, 2019 with no impact on the condensed consolidated financial statements.

These interim condensed consolidated financial statements were authorized for issue by the Board of Trustees of the Fund on May 2, 2019.

3. Intangible assets

	Royalty Pool	Amount \$
Balance as at December 31, 2018	896	279,912
Annual adjustment January 5, 2019	38	27,305
Balance as at March 24, 2019	<u>934</u>	<u>307,217</u>

The intangible assets are 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

A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 24, 2019

(in thousands of dollars)

Services pays a royalty of 3% of sales reported to Food Services by specific A&W restaurants (the Royalty Pool).

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. Food Services is paid for the additional royalty stream related to the sales of the net new restaurants, based on a formula set out in the Amended and Restated Licence and Royalty Agreement. The formula provides for a payment to Food Services based on 92.5% of the amount of estimated sales from the net new 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 shares of Trade Marks which are in turn exchangeable for Units of the Fund on the basis of two common shares for one Unit of the Fund. The consideration paid for the annual adjustment to the Royalty Pool is recorded as an increase in the value of the A&W trade-marks.

The 2019 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 estimated annual sales of the 46 new A&W restaurants are \$62,283,000 and annual sales for the eight permanently closed restaurants were \$4,795,000. The initial consideration for the estimated additional royalty stream was \$27,305,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the units of the Fund for the 20 trading days ending October 29, 2018. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$21,844,000, by issuance of 627,514 LP units which were subsequently exchanged for 1,255,028 non-voting common shares of Trade Marks. The remaining 20% of the consideration or \$5,461,000 will be paid in December 2019 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks. The actual amount of the consideration paid in December 2019 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

4. Term loan, operating loan facility and interest rate swap

Trade Marks has a \$2,000,000 demand operating loan facility with HSBC Bank Canada (the Bank) to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the bank prime rate plus 0.4% and are repayable on demand. As at March 24, 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 which is repayable on December 22, 2022. The term loan contains covenants including the requirement to meet certain earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) levels and debt to EBITDA ratios during each trailing four quarter period. Interest

A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 24, 2019

(in thousands of dollars)

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 March 24, 2019 and December 31, 2018.

Trade Marks uses interest rate swap agreements to manage risks from fluctuations in interest rates. Trade Marks has entered into an interest rate swap, with an effective date of December 22, 2015 and a maturity date of December 22, 2022. Under this interest rate swap, the term loan bears interest at 3.95% per annum, comprising 2.8% per annum which is fixed under the swap agreement until December 22, 2022 plus a 1.15% per annum credit charge. The fair value of this interest rate swap as at March 24, 2019 was \$1,945,000 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 on interest rate swaps.

Trade Marks continues to fair value the interest rate swap as a Level 3 financial instrument. There have been no changes to the valuation techniques in the period.

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

The term loan comprises:

	March 24, 2019	December 31, 2018
	\$	\$
Term loan	60,000	60,000
Financing fees	(123)	(131)
	<u>59,877</u>	<u>59,869</u>

5. Fund Units

Following the 2019 annual adjustment to the Royalty Pool on January 5, 2019, Food Services owned approximately 28.6% of the Units of the Fund on a fully-diluted basis.

	Number of Units	Equity \$
Balance - December 31, 2018	12,504,673	263,452
Balance – March 24, 2019	<u>12,504,673</u>	<u>263,452</u>

(in thousands of dollars)

6 Income taxes

The Fund as a legal entity is not subject to the Specified Investment Flow-Through (SIFT) tax, as its only source of income is dividends from Trade Marks which are not subject to SIFT tax. The provision for income taxes shown in the consolidated statements of income is the expected current and deferred tax payable by Trade Marks, and differs from the amount obtained by applying statutory tax rates to Trade Marks' income before income taxes for the following reasons:

	Period from Jan 1, 2019 to Mar 24, 2019	Period from Jan 1, 2018 to Mar 25, 2018
	\$	\$
Statutory combined federal and provincial income tax rates on investment income	<u>20.0%</u>	<u>20.0%</u>
Provision for current income tax	1,705	1,360
Provision for deferred income taxes	<u>(186)</u>	<u>229</u>
Provision for income taxes based on statutory income tax rates	1,519	1,589
True-up of prior year refundable income tax	365	-
Refundable income tax	<u>45</u>	<u>(113)</u>
Provision for income taxes	<u>1,929</u>	<u>1,476</u>

Trade Marks' taxable income is taxed at an effective rate of 20.0% (2018 – 20.0%), plus an additional tax of 30.67% on investment income that has not been distributed to its shareholders as dividends. This additional tax is refundable in a future year when Trade Marks pays sufficient dividends. Under IFRS, refundable income tax is required to be expensed on the income statement when paid or payable. Subsequently, these amounts are recognized on the income statement as income taxes recoverable when received or receivable.

(in thousands of dollars)

7. Distributions

During the period ended March 24, 2019, the Fund declared distributions to its Unitholders of \$3,626,000 or \$0.290 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
		<u>3,626</u>	<u>0.290</u>

The February 2019 distribution was declared on March 5, 2019 and paid on March 29, 2019, and is reported as a current liability as at March 24, 2019.

8. Compensation to key management

Key management personnel are the Trustees of the Fund. During the year to date period, the Trustees earned \$31,000 (2018- \$32,000).

9. Related party transactions and balances

During the year to date period, royalty income of \$9,265,000 (2018 - \$8,031,000) was earned from Food Services of which \$3,197,000 (December 31, 2018 - \$3,262,000) is receivable at March 24, 2019.

During the year to date period, Trade Marks declared common share dividends payable to Food Services of \$1,449,000 (2018 - \$1,118,000). The \$735,000 dividend declared on March 5, 2019 and paid to Food Services on March 29, 2019 is reported as a current liability as at March 24, 2019 (December 31, 2018 - \$nil).

Other related party transactions and balances are referred to elsewhere in these notes.

10. Subsequent events

On April 2, 2019, the Fund declared a distribution to Unitholders of \$0.147 per unit or \$1,838,000, payable on April 30, 2019 to Unitholders of record as at April 15, 2019.

On April 2, 2019, Trade Marks declared common share dividends of \$2,573,000 payable to Food Services and the Fund on April 30, 2019.

Unitholder Information

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Vancouver, BC, V7Y 1B3

Mailing Address

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North Vancouver, BC, V7M 3K9

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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