

A&W Revenue Royalties Income Fund

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Amended First Quarter Report
to Unitholders for the period
ended March 22, 2020

NOTE TO READER:

This Amended First Quarter Report to Unitholders for the period ended March 22, 2020, includes an amended letter to Unitholders and the Amended Management Discussion and Analysis of the Fund for such period.

In the letter to Unitholders and the Management Discussion and Analysis of the Fund for the first quarter period ended March 22, 2020 dated April 28, 2020 and included in the original First Quarter Report to Unitholders for the period ended March 22, 2020 filed on SEDAR at www.sedar.com on April 29, 2020, it was inadvertently reported that as a result of the impacts of COVID-19, starting March 13, 2020, total sales of A&W restaurants in the Royalty Pool were approximately 42% of sales prior to March 13, 2020, including the impact of closed restaurants.

Total sales of A&W restaurants in the Royalty Pool starting March 13, 2020 were actually 58% of sales prior to March 13, 2020, including the impact of closed restaurants. The amended letter to Unitholders and the Amended Management Discussion and Analysis of the Fund for the first quarter period ended March 22, 2020 correct such figure on the first page of such letter and the fifth page of such Amended Management Discussion and Analysis.

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To our Unitholders

On behalf of the Trustees of the A&W Revenue Royalties Income Fund (the Fund), I will share the results for the first quarter ended March 22, 2020 and provide an update on the impact of COVID-19 on the Fund.

A&W same store sales for A&W restaurants in the royalty pool were down by 4.0% for the first quarter of 2020 as compared to the first quarter of 2019. Same store sales growth in January and February 2020 was positive however starting March 13, 2020, COVID-19 began to have an immediate effect on A&W restaurant sales. Approximately 200 A&W restaurants primarily in shopping centre food courts or street front locations are currently temporarily closed and sales at remaining open restaurants are restricted to drive thru, delivery and mobile ordering. As a result, starting March 13, 2020, total sales of A&W restaurants in the Royalty Pool are approximately 58% of sales prior to March 13, 2020, including the impact of closed restaurants.

The decline in same store sales was partially offset by the sales from 37 net new restaurants added to the Fund's Royalty Pool on January 5, 2020, resulting in a 0.1% decrease in gross sales reported by A&W restaurants in the Royalty Pool and royalty income for the quarter.

Based on the experience of other restaurant brands in markets outside of Canada, A&W Food Services of Canada Inc. (A&W Food Services) believes that the food service industry, and more particularly the QSR segment of the industry, will recover from the impact of COVID-19. However, the timing and strength of the recovery cannot now be predicted with any degree of certainty.

Against this backdrop, the success of A&W restaurants is paramount to the long-term success of the Fund.

Both A&W Food Services and its franchisees have been working diligently to develop and implement plans and programs to mitigate the effects of the COVID-19 pandemic. A&W Food Services' objective is to ensure that as many as possible of A&W's 995 restaurants are able to operate (as permitted) during the COVID-19 pandemic and emerge from this period of uncertainty in financial condition that enables them to compete effectively and grow their businesses. From enhancing the appeal and trust of the A&W brand, to ensuring a safe and stable supply chain, to developing programs to ensure the safety of its franchisees, customers and employees, A&W Food Services is committed to the long-term health and success of its franchise network and the Fund. To enable it to continue to support the A&W system through this challenging period, A&W Food Services has taken action to bolster its liquidity, including an equity injection of \$10 million by A&W Food Services' shareholders (as previously announced by A&W Food Services on April 14, 2020), as well as a planned increase in A&W Food Services' credit facility from \$6 million to \$25 million, in respect of which A&W Food Services

has received a term sheet from its senior lender. This credit facility is secured solely by A&W Food Services' indirect interest in the Fund, as permitted under the existing agreements between A&W Food Services and the Fund.

Given the extraordinary level of business uncertainty, especially related to the restaurant industry, coupled with the immediate decline in A&W restaurant sales, the Trustees announced on March 31, 2020 that distributions on the units of the Fund would be temporarily suspended. The Trustees have determined that temporarily suspending distributions to unitholders is the most prudent course of action until business conditions and sales trends become less uncertain. They have done so mindful of the long-term interests of the Fund, recognizing that it is in the long-term interest of unitholders to have a healthy and stable network of A&W restaurants coming out of the COVID-19 crisis.

As announced on April 19, 2020, A&W Food Services has delayed the royalty payment of \$2.9 million payable to the Fund on April 17, 2020 for system sales for the last royalty payment period in Q1 2020 and has informed the Fund that it expects to defer payment of royalty payments for Q2 2020.

In response to these developments, the Trustees have retained independent financial advisors to evaluate A&W Food Services' financial projections, and the Fund has reserved all rights under its agreements with A&W Food Services. A&W Food Services' financial projections show that the deferred royalties are expected to be paid in full, with interest, by December 21, 2021, if not earlier.

The Trustees are continuing to closely monitor the results of operations and outlook of A&W Food Services and the A&W system with the intention to preserve unitholder value by restarting distributions in a prudent manner based upon A&W restaurant sales that permit distributions to be paid in amounts that are reasonably predictable.

On behalf of the Trustees, I would like to thank all of our unitholders who have continued to place their trust with the A&W Revenue Royalties Income Fund during this difficult and unprecedented time for Canada, along with our communities, our guests, A&W franchisees and employees.



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

A&W Revenue Royalties Income Fund Amended Management Discussion and Analysis

This Management Discussion and Analysis (MD&A) covers the first quarter period from January 1, 2020 to March 22, 2020. This MD&A is dated April 28, 2020, and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the A&W Revenue Royalties Income Fund (the Fund) for the quarter ended March 22, 2020 and the audited annual consolidated financial statements of the Fund for year ended December 31, 2019. 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 22, 2020 and the audited annual consolidated financial statements of Food Services for the 52 week year ended December 29, 2019. Such financial statements and additional information about the Fund and Food Services are available at www.sedar.com or www.awincomefund.ca.

The financial results reported in this MD&A are derived from the 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 unaudited 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, 2019.

The Fund uses a fiscal year ending December 31. Food Services uses a fiscal year comprising a 52 or 53 week period ending on the Sunday nearest December 31. Food Services' fiscal 2019 year was 52 weeks and ended December 29, 2019 (2018 – 52 weeks ended December 30, 2018). The Fund aligns its quarterly financial reporting with that of Food Services, and therefore the Fund's first quarter of 2020 ended March 22, 2020 (2019 – March 24, 2019), 12 weeks after Food Services' fiscal year end. Readers should be aware that 2020 quarterly results are not directly comparable to 2019 quarterly results, as there were 82 days of sales in Q1, 2020 compared to 83 days in Q1, 2019. Same Store Sales Growth⁽¹⁾ is based on an equal number of days in each quarter.

⁽¹⁾ "Same Store Sales Growth" is calculated as the change in the gross sales reported by A&W restaurants in the Royalty Pool (as defined below) that operated during the entire 12-week periods ending March 22, 2020 and March 24, 2019, and is based on an equal number of days in each quarter. "Same Store Sales Growth" is a non-IFRS measure – see "Non-IFRS Measures". This important information is provided as it is a key driver of growth in the Fund. See "Sales Performance".

KEY UPDATES

- Same Store Sales⁽¹⁾ was -4.0% for the first quarter of 2020 as compared to the same quarter of 2019.
- On March 31, 2020, the Trustees approved the temporary suspension of monthly distributions on the Units commencing with the distribution that would ordinarily have been declared in April 2020 and been payable on or about April 30, 2020 to unitholders of record on or about April 15, 2020. See "Impact of COVID-19".

(1) "Same Store Sales" includes the gross sales reported by A&W restaurants in the Royalty Pool (as defined below) that operated during the entire 12-week periods ending March 22, 2020 and March 24, 2019 and is based on an equal number of days in each quarter. "Same Store Sales" is a non-IFRS Measure – see "Non-IFRS Measures". This important information is provided as it is a key driver of growth in the Fund. See "Sales Performance".

The following selected information, other than "Same Store Sales Growth", "Total distributable cash generated for distributions and dividends", "Distributable cash per equivalent unit", "Net income, excluding non-cash items" and information with respect to numbers of restaurants have been derived from financial statements prepared in accordance with IFRS and all dollar amounts are reported in Canadian currency. See "Non-IFRS Measures".

(dollars in thousands except per unit amounts)	Period from Jan 1, 2020 to Mar 22, 2020	Period from Jan 1, 2019 to Mar 24, 2019
Same Store Sales Growth	-4.0%	+10.0%
Number of restaurants in the Royalty Pool	971	934
Gross sales reported by A&W restaurants in the Royalty Pool ⁽¹⁾	\$308,679	\$308,823
Royalty income ⁽²⁾	\$9,260	\$9,265
General and administrative expenses	193	281
Term loan and other interest expense	509	572
Current income tax provision	1,030	1,705
Total distributable cash generated for distributions and dividends ⁽³⁾	\$7,528	\$6,707
Distributable cash per equivalent unit (2020 – 18,403,413 units; 2019 – 17,659,154 units) ⁽³⁾⁽⁴⁾	\$0.409	\$0.380
Distributions and dividends declared per equivalent unit	\$0.318	\$0.290
Total distributions and dividends declared and accrued per unit	\$0.427	\$0.400
Net income ⁽⁵⁾	\$5,548	\$5,666
Net income, excluding non-cash items ⁽⁵⁾	\$7,705	\$6,297

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

(2) Royalty income for Q1 2020 includes a receivable of \$2,890,000 from Food Services for the royalty payable in respect of the gross sales reported by restaurants in the Royalty Pool for the period February 24, 2020 to March 22, 2020. Due to the impact of COVID-19, Food Services has delayed this royalty payment which was payable to the Fund on April 17, 2020. Interest accrues on unpaid royalties in accordance with the Amended and Restated Licence and Royalty Agreement. See "Impact of COVID-19".

(3) "Distributable cash" and "distributable cash per equivalent unit" are non-IFRS measures – see "Non-IFRS Measures". This information is provided as it identifies the amount of actual cash generated to pay distributions to unitholders and dividends to Food Services. See "Distributable Cash" and footnote (4) below for more information, including a description of how these non-IFRS measures are calculated.

(4) The number of equivalent units and distributable cash per equivalent unit in 2020 is calculated on a fully-diluted basis, but does not include any additional LP units (as hereinafter defined) in respect of the remaining consideration payable to Food Services for the January 5, 2020 adjustment to the Royalty Pool, which LP units, if any, are held back until the number of LP units is determined in December 2020 based on the actual annual sales reported by the new restaurants. See "Adjustment to the Royalty Pool". The number of equivalent units and distributable cash per equivalent unit in Q1 2019 is calculated on a fully-diluted basis

and includes the 156,878 LP units exchanged for 313,756 common shares of Trade Marks representing the remaining 20% of the initial consideration paid in December 2019 for the January 5, 2019 adjustment to the Royalty Pool, but does not include the 132,401 LP units exchanged for 264,802 common shares of Trade Marks representing the additional consideration paid in December 2019 based on the actual system sales for the A&W Restaurants added to the Royalty Pool as part of the January 5, 2019 adjustment to the Royalty Pool.

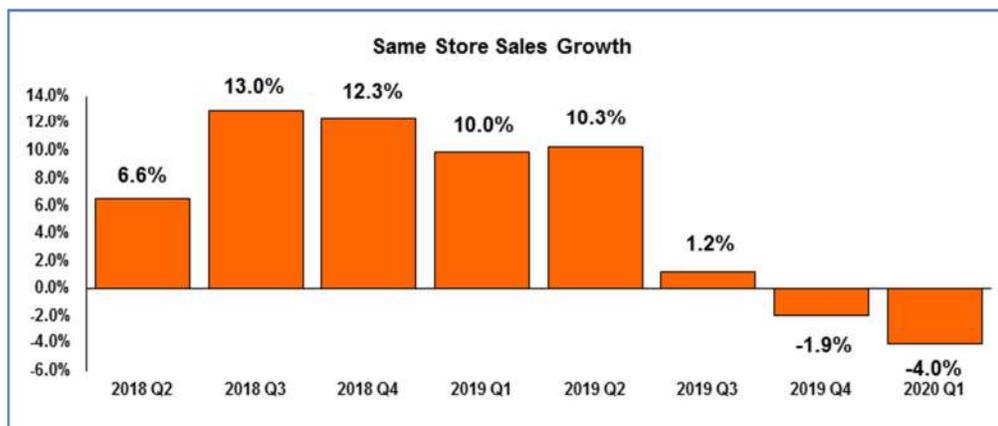
⁽⁵⁾ Net income in 2020 and 2019 includes non-cash gains and losses on an interest rate swap, amortization of deferred financing fees and deferred income taxes. These non-cash items have no impact on the Fund's ability to pay distributions to unitholders. The Fund's net income excluding these non-cash items is presented for information purposes only. "Net income excluding non-cash items" is a non-IFRS measure – see "Non-IFRS Measures".

SALES PERFORMANCE

Same Store Sales Growth, which is reported in respect of A&W restaurants for which the royalty is payable (the Royalty Pool) by Food Services to A&W Trade Marks Limited Partnership (the Partnership) is a key performance indicator for the Fund. Same Store Sales Growth is the change in sales of A&W restaurants in the Royalty Pool that operated during the entire 12-week periods ending March 22, 2020 and March 24, 2019. Same Store Sales Growth is a non-IFRS measure - see "Non-IFRS Measures".

Same Store Sales for the first quarter of 2020 decreased by 4.0% as compared to the same quarter of 2019. Two year stacked Same Store Sales Growth for the quarter was +6.0%. Same Store Sales Growth for January and February was positive, however March sales were significantly impacted by COVID-19 as almost all restaurants in shopping centre food courts and most street front locations were closed and sales in restaurants that remained open fell abruptly. See "Impact of COVID-19". Same Store Sales and Same Store Sales Growth are non-IFRS measures - see "Non-IFRS Measures".

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



Gross sales reported by A&W restaurants in the Royalty Pool for the first quarter of 2020 were \$308,679,000, effectively flat against sales of \$308,823,000 for the first quarter of 2019. The slight decline in gross sales was due to negative Same Store Sales Growth in existing restaurants, which was offset by the gross sales from new restaurants added to the Royalty Pool on January 5, 2020. Same Store Sales Growth is a non-IFRS measure - see "Non-IFRS Measures".

OVERVIEW

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

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

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

A key attribute of the Fund is that the distributable cash available to make distributions to unitholders is based on the gross sales of the A&W restaurants in the Royalty Pool, less operating expenses associated with operating the Fund, interest and taxes and an allowance for reasonable reserves. Distributable cash is a non-IFRS measure – see “Non-IFRS Measures”. The Fund is a top-line fund, meaning it is not subject to variability of earnings or expenses associated with an operating business, but is subject to variability in revenues of the A&W restaurants in the Royalty Pool.

Another important aspect of the Fund is that, as at March 22, 2020, Food Services owned the equivalent of 23.6% (December 31, 2019 – 20.9%) 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 increasing the number of A&W restaurants to the Royalty Pool each year.

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

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

IMPACT OF COVID-19

As previously announced on March 31, 2020 and April 19, 2020, the effects of COVID-19 on many businesses, especially restaurants, have been unexpected, sudden and unprecedented. Early estimates from industry data indicate foodservice sales in Canada have fallen by over 60%. The future effect of COVID-19 on the economy and businesses, in general, remains uncertain. The path that governments will follow in easing restrictions on business operations, and in particular restaurants, is yet to be determined and could last many months. It is also unclear how quickly consumer demand will resume. Various levels of government have announced a number of important programs which are expected to be helpful to the success of individual restaurant businesses, including A&W franchisees.

Food Services and its franchisees have taken significant measures in their restaurants and broader operations to protect the health of employees and guests in compliance with social distancing recommendations and mandates of relevant public health authorities. These measures include significantly restricting food service operations in A&W restaurants. In particular, Food Services has closed all dining rooms in A&W restaurants across Canada on a temporary basis. Drive thru operations, delivery and mobile ordering for pick up remain open, where possible. As a result approximately 200 A&W restaurants of the 995 total A&W restaurants are presently closed on a temporary basis. Customer traffic in the remaining restaurants is down significantly as guests remain at home and practice social distancing. Starting March 13, 2020, sales of restaurants in the Royalty Pool are approximately 58% of sales prior to March 13, 2020, including the impact of temporarily closed restaurants.

To enable Food Services to continue to support the A&W system through this challenging period, Food Services has taken action to bolster its liquidity, including an equity injection of \$10 million by Food Services' shareholders (as previously announced by Food Services on April 14, 2020), as well as a planned increase in Food Services' credit facility from \$6 million to \$25 million, in respect of which Food Services has received a term sheet from its senior lender. This credit facility is secured solely by Food Services' indirect interest in the Fund, as permitted under the existing agreements between Food Services and the Fund. The completion of the increase in Food Services' credit facility remains subject to completion of definitive agreements and other customary conditions for transactions of this nature.

Already, these actions have enabled Food Services to assist its franchisees to deal with the unprecedented drop in sales with support on input costs, the deferral of service fees and other forms of direct assistance.

Modifications to the operations of A&W restaurants in response to COVID-19 as well as temporary restaurant closures have resulted, and are expected to continue to result, in material

declines to system sales at A&W restaurants. These declines will result in significant reductions to the amounts of royalties payable to and earned by the Fund, and, correspondingly, funds available to distribute to unitholders of the Fund.

Since the start of the sudden impact of the COVID-19 pandemic on the A&W business, the Trustees of the Fund have been in close and regular contact with the management of Food Services and are carefully monitoring the results of operations of the A&W system, including Food Services. The Trustees have retained independent financial and legal advisors to assist them in their review and analyses of the A&W system. Food Services has provided the Trustees with financial projections that have been reviewed by the independent financial advisors, and the Trustees' deliberations and decisions have been guided by advice from legal counsel.

Given the extraordinary level of business uncertainty, especially related to the restaurant industry, coupled with the immediate decline in A&W restaurant sales, the Trustees announced on March 31, 2020 that monthly distributions on the Units would be temporarily suspended commencing with the distribution that would ordinarily have been declared in April 2020 and been payable on or about April 30, 2020 to unitholders of record on or about April 15, 2020. The Trustees have determined that temporarily suspending distributions to unitholders is the most prudent course of action until business conditions and sales trends become less uncertain. They have done so mindful of the long-term interests of the Fund, which includes all stakeholders, including unitholders, recognizing that it is in the long-term interest of unitholders to have a healthy and stable network of A&W restaurants coming out of the COVID-19 crisis. The Trustees will continue to closely monitor the results of operations and outlook of Food Services and the A&W system with the intention to preserve unitholder value by restarting distributions in a prudent manner based upon A&W restaurant sales that permit distributions to be paid in amounts that are reasonably predictable.

Food Services has delayed the royalty payment of \$2,890,000 payable to the Fund on April 17, 2020 for gross sales reported by restaurants in the Royalty Pool for the period February 24, 2020 to March 22, 2020 and has informed the Fund that it expects to defer payment of royalty payments for the second quarter of 2020. As contemplated in Amended and Restated Licence and Royalty Agreement, late payments of royalties accrue interest at the rate of 2% per annum over the prime rate. Food Services has not requested a waiver from its obligation to make royalty and interest payments, nor has the Fund provided any waiver of these obligations. The Fund has reserved all rights under its agreements with Food Services.

Food Services has provided the Fund with extensive financial information and projections. The Trustees have retained independent financial and legal advisors who have examined the business performance and the projections in detail. The financial projections prepared by Food Services and reviewed by the Fund's independent financial advisors show that the deferred royalties are expected to be paid in full, with interest, by December 31, 2021, if not earlier. The Fund is currently, and based upon the projections, expects to remain, in compliance with all covenants related to its term loan.

In order to assist the Trustees in their ongoing monitoring of the A&W business, Food Services has agreed to provide the Trustees and their independent legal and financial advisors with timely pertinent financial and other information.

COVID-19 has had an overall negative effect on the performance of restaurants in the Royalty Pool, which ultimately impacts the royalty revenue of the Fund and the expected value of the indefinite life intangible assets. The impact that this had on the performance of restaurants in the Royalty Pool was considered to be an impairment trigger, and therefore the Fund performed an impairment test of the indefinite life intangible assets as at March 22, 2020. Management used a value-in-use model to determine the recoverable amount of the indefinite life intangible assets, which had a carrying amount of \$335,089,000 as at March 22, 2020, and as a result of this test, determined that no impairment was required. See “Critical Accounting Estimates and Judgments”.

ADJUSTMENT TO THE ROYALTY POOL

The 2020 annual adjustment to the Royalty Pool took place on January 5, 2020. The number of A&W restaurants in the Royalty Pool was increased by 44 new restaurants less seven restaurants that permanently closed during 2019. The addition of these 37 net new restaurants brought the total number of A&W restaurants in the Royalty Pool to 971. The estimated annual sales of the 44 new A&W restaurants were \$65,953,000 at the time they were added to the Royalty Pool and annual sales for the seven permanently closed restaurants were \$4,078,000 based on their sales during the first year such restaurants were included in the Royalty Pool. The initial consideration for the estimated additional royalty stream was \$29,079,000, 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 28, 2019. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$23,263,000, by issuance of 611,858 LP units which were subsequently exchanged for 1,223,716 non-voting common shares of Trade Marks. The remaining consideration payable to Food Services for the January 5, 2020 adjustment to the Royalty Pool, if any, is to be paid by issuance of additional LP units, which issuance is held back until the number of LP units is determined in December 2020 based on the actual annual sales reported by the new restaurants. Due to the impact of COVID-19 on restaurant sales, it is currently unlikely that any further consideration will be payable to Food Services in December 2020 in respect of the January 5, 2020 adjustment to the Royalty Pool; therefore, only the initial consideration of \$23,263,000 is recorded in the interim condensed consolidated financial statements of the Fund as at March 22, 2020 and reflected in this report.

COMMON SHARES OF TRADE MARKS

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

(dollars in thousands)	Fund			Food Services			Total	
	Number of shares	Trade Marks' book value		Number of shares	Trade Marks' book value		Number of shares	Trade Marks' book value
		\$	%		\$	%		
Balance as at December 31, 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 ⁽¹⁾	-	-	(4.0)	1,833,586	31,914	4.0	1,833,586	31,914
June 5, 2019 exchange of common shares for units of the Fund ⁽²⁾	3,120,000	42,111	9.0	(3,120,000)	(42,111)	(9.0)	-	-
Balance as at December 31, 2019	28,129,271	164,605	79.1	7,453,763	95,339	20.9	35,583,034	259,944
January 5, 2020 adjustment to the Royalty Pool ⁽³⁾	-	-	(2.7)	1,223,716	23,263	2.7	1,223,716	23,263
Balance as at March 22, 2020	28,129,271	164,605	76.4	8,677,479	118,602	23.6	36,806,750	283,207

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

(2) On June 5, 2019, Food Services exchanged 3,120,000 common shares of Trade Marks for 1,560,000 Units of the Fund, which Units were then sold by Food Services at a price of \$44.55 per Unit pursuant to a short form prospectus of the Fund dated May 29, 2019.

(3) The number of common shares does not include any LP units exchangeable for common shares of Trade Marks in respect of the remaining consideration payable to Food Services for the January 5, 2020 adjustment to the Royalty Pool, which LP units, if any, are held back until the number of LP units is determined in December 2020 based on the actual annual sales reported by the new restaurants. See "Adjustment to the Royalty Pool".

OWNERSHIP OF THE FUND

The ownership of the Fund as of March 22, 2020 and December 31, 2019, on a fully-diluted basis, is as follows:

	March 22, 2020		December 31, 2019	
	Number of units	%	Number of units	%
Fund units held by public unitholders	14,064,673	76.4	14,064,673	79.1
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services ⁽¹⁾	4,338,740	23.6	3,726,882	20.9
Total equivalent units	18,403,413	100.0	17,791,555	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 one unit of the Fund.

FINANCIAL RESULTS

INCOME

Royalty income for the first quarter of 2020 was \$9,260,000 based on gross sales reported by restaurants in the Royalty Pool of \$308,679,000, compared to royalty income of \$9,265,000 and gross sales reported by A&W restaurants in the Royalty Pool of \$308,823,000 for the first quarter of 2019. The increase in gross sales due to the additional net 37 new A&W restaurants in the Royalty Pool was offset by the 4.0% decline in Same Store Sales. Royalty income for the first quarter of 2020 includes a receivable of \$2,890,000 from Food Services for the royalty payable in respect of the gross sales reported by restaurants in the Royalty Pool for the period February 24, 2020 to March 22, 2020. Due to the impact of COVID-19, Food Services has delayed this royalty payment which was payable to the Fund on April 17, 2020. Interest accrues on unpaid royalties in accordance with the Amended and Restated Licence and Royalty Agreement. See “Impact of COVID-19”. Same Store Sales is a non-IFRS measure – see “Non-IFRS Measures”. See “Risks and Uncertainties” and “Outlook”.

EXPENSES

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

(dollars in thousands)	Period from Jan 1, 2020 to Mar 22, 2020	Period from Jan 1, 2019 to Mar 24, 2019
General and administrative	\$193	\$281
Net interest on term loan and other	\$509	\$572

General and administrative expenses for the first quarter of 2020 decreased by \$88,000 to \$193,000 compared to \$281,000 for the first quarter of 2019 due to timing of expenses.

Net interest on the term loan and other was \$509,000 for the first quarter of 2020, \$63,000 lower compared to the first quarter of 2019. The decrease was due to the term loan having a lower effective interest rate in the first quarter of 2020 compared to the first quarter of 2019, and interest earned on higher cash balances. An interest rate swap agreement is used to manage risks from fluctuations in interest rates and facilitate uniform monthly distributions when paid. See “Liquidity and Capital Resources”.

LOSS ON INTEREST RATE SWAP

The Fund’s net income included non-cash losses 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, 2020 to Mar 22, 2020	Period from Jan 1, 2019 to Mar 24, 2019
Loss on interest rate swap	\$1,837	\$809

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, 2020 to Mar 22, 2020	Period from Jan 1, 2019 to Mar 24, 2019
Current		
Current income tax provision	\$1,030	\$1,705
Refundable income tax	(177)	410
Deferred	312	(186)
Total provision for income taxes	\$ 1,165	\$1,929

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% (2019 – 20.0%), plus an additional tax of 30.67% (2019 – 30.67%) on investment income which is refundable at a rate of 38.33% (2019 – 38.33%) of each dollar Trade Marks pays out in taxable dividends to its shareholders. Trade Marks' provision for income taxes for 2020 year to date includes a recovery of refundable income tax of \$177,000 based on its estimated taxable income and dividends paid in 2020. Under IFRS, refundable income tax is recognized on the income statement when it is paid or payable and subsequently when it is received or receivable. Management expects that the net refundable income tax paid in prior years will be recovered in future years when sufficient dividends are paid by Trade Marks.

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, 2020 to Mar 22, 2020	Period from Jan 1, 2019 to Mar 24, 2019
Net income and comprehensive income attributable to unitholders of the Fund	\$4,250	\$3,988
Net income and comprehensive income attributable to Food Services' non- controlling interest in Trade Marks	1,298	1,678
Total net income and comprehensive income	\$ 5,548	\$5,666

DISTRIBUTABLE CASH

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

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

As discussed under “Income Taxes”, Trade Marks’ provision for income taxes includes refundable income tax paid or recoverable. This refundable income tax is not deducted in calculating the amount of distributable cash generated, in order to more accurately reflect the actual amount of cash generated by the business to pay distributions to unitholders and dividends to Food Services. Management expects that net refundable income tax paid in prior years will be recovered in future years when sufficient dividends are paid by Trade Marks.

The following chart reconciles distributable cash to net cash generated from operating activities including net changes in items of working capital, the most directly comparable measure calculated in accordance with IFRS.

(dollars in thousands)	Period from Jan 1, 2020 to Mar 22, 2020	Period from Jan 1, 2019 to Mar 24, 2019
Net cash generated from operating activities	\$7,285	\$7,063
Changes in non-cash working capital including interest and tax	243	(356)
Distributable cash ⁽³⁾	\$7,528	\$6,707
Cumulative surplus – beginning of period	8,091	7,660
Distributable cash for unitholders at current annual distribution rate (2020 –\$1.908 per unit, 2019 - \$1.760 per unit) ⁽⁴⁾	(6,012)	(5,005)
Distributable cash for Food Services at equivalent annual distribution rate (2020 – 1.908 per equivalent unit, 2019 - \$1.760 per equivalent unit) ⁽⁴⁾	(1,855)	(2,063)
Refundable income tax (see “Income Taxes”)	177	(410)
Cumulative surplus – end of period	\$7,929	\$6,889
Number of equivalent units ⁽¹⁾	18,403,413	17,659,154
Distributable cash per equivalent unit ⁽¹⁾⁽³⁾	\$0.409	\$0.380
Monthly distributions declared per unit ⁽²⁾	\$0.318	\$0.290
Total distributions declared and accrued per unit	\$0.427	\$0.400
Payout ratio ⁽³⁾	104.4%	105.3%

(1) The number of equivalent units and distributable cash per equivalent unit in 2020 is calculated on a fully-diluted basis but does not include any LP units in respect of the remaining consideration payable to Food Services for the January 5, 2020 adjustment to the Royalty Pool, which LP units, if any, are held back until the number of LP units is determined in December 2020 based on the actual annual sales reported by the new restaurants. See “Adjustment to the Royalty Pool”. The number of equivalent units and distributable cash per equivalent unit in Q1 2019 is calculated on a fully-diluted basis and includes the 156,878 LP units exchanged for 313,756 common shares of Trade Marks representing 20% of the initial consideration paid in December 2019 for the January 5, 2019 adjustment to the Royalty Pool, but does not include the 132,401 LP units exchanged for 264,802 common shares of Trade Marks representing the additional consideration paid in December 2019 based on the actual system sales for the A&W Restaurants added to the Royalty Pool as part of the January 5, 2019 adjustment to the Royalty Pool..

(2) In accordance with the Fund’s Declaration of Trust, the Fund declares and records distributions in respect of any particular calendar month at the beginning of the immediate subsequent month, with the exception of the distribution for December of each year, which is declared and recorded in December of each year. Distributions in respect of any particular calendar month are paid on the last business day of the immediate subsequent month. The distributions declared in the first quarter of each year are in respect of the calendar months January and February.

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

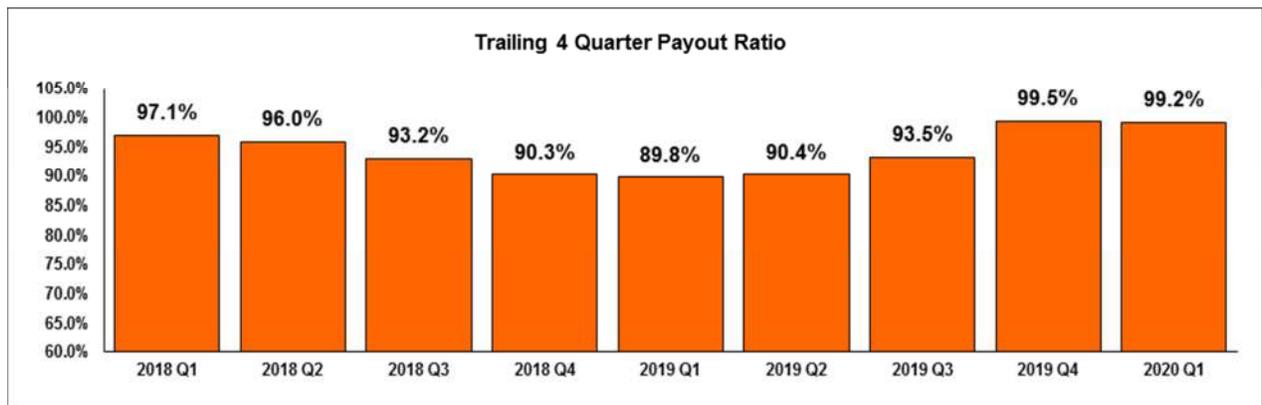
(4) On March 31, 2020, the Trustees approved the temporary suspension of monthly distributions on the Units commencing with the distribution that would ordinarily have been declared in April 2020 and been payable on or about April 30, 2020 to unitholders of record on or about April 15, 2020. See “Impact of COVID-19”.

Distributable cash generated in the first quarter of 2020 to pay distributions to unitholders and dividends to Food Services was \$7,528,000 compared to \$6,707,000 in the first quarter of 2019. The \$821,000 increase in distributable cash was attributable to the \$151,000 decrease in general and administrative expenses and interest expense, and \$675,000 decrease in the current income tax provision (excluding refundable income tax), less the \$5,000 decrease in royalty income.

Distributable cash per equivalent unit increased by 2.9¢ to 40.9¢ per unit in the first quarter of 2020 from 38.0¢ per unit for the first quarter of 2019. The increase in distributable cash per equivalent unit in the quarter was attributable to the decrease in current income taxes, interest expense and cash expenses.

Two monthly distributions totaling 31.8¢ per unit were declared in the first quarter of 2020 compared to 29.0¢ per unit in the same quarter of 2019. Total distributions declared and accrued for the quarter were 42.7¢ per unit compared to 40.0¢ for the first quarter of 2019. The payout ratio for the quarter was 104.4% compared to 105.3% for the same quarter of 2019. The Fund’s long-term 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 2018, 2019 and 2020. Payout ratio is a non-IFRS measure - see “Non-IFRS Measures”.



The cumulative surplus of distributable cash on reserve at the end of the first quarter of 2020 was \$7,929,000, compared to a reserve of \$8,091,000 at the beginning of the year, a decrease of \$162,000.

Without a clear understanding of the duration of the impact of COVID-19 on the revenues of A&W restaurants, on March 31, 2020, the Trustees determined to temporarily suspend monthly distributions on the Units commencing with the distribution that would ordinarily have been declared in April 2020 and been payable on or about April 30, 2020 to unitholders of record on or about April 15, 2020. The Trustees will continue to regularly monitor the performance of Food Services and the royalty in order to determine an appropriate time for reinstatement of monthly distributions. See “Impact of COVID-19”.

DISTRIBUTIONS TO UNITHOLDERS

Distributions declared and paid during 2020 were as follows:

(dollars in thousands except per unit amounts)			
Month	Record date	Amount	Per unit
January	February 15, 2020	\$2,236	\$0.159
February	March 15, 2020	2,237	0.159
		\$4,473	\$0.318

The February 2020 distribution was declared on March 3, 2020 and paid on March 31, 2020, and is reported as a current liability as at March 22, 2020. As noted above, on March 31, 2020, the Trustees have determined to temporarily suspend monthly distributions on the Units commencing with the distribution that would ordinarily have been declared in April 2020 and been payable on or about April 30, 2020 to unitholders of record on or about April 15, 2020. See “Impact of COVID-19”.

TAX TREATMENT OF DISTRIBUTIONS

All of the distributions declared in 2020 are designated as non-eligible dividends.

DIVIDENDS ON TRADE MARKS' COMMON SHARES

During 2020 year to date, Trade Marks declared and paid dividends on its voting and non-voting common shares as follows:

(dollars in thousands except per share amounts)		Aggregate amount paid to the Fund	Aggregate amount paid to Food Services
Month declared/paid	Per share		
January	\$0.0795	\$2,236	\$690
February	0.0795	2,237	690
	\$0.159	\$4,473	\$1,380

The February dividend was declared on March 3, 2020 and paid on March 31, 2020 and Food Services' share of \$690,000 is reported as a current liability as at March 22, 2020.

Trade Marks has temporarily suspended monthly dividends on its voting and non-voting common shares commencing with the dividend that would ordinarily have been declared in April 2020 and been payable on or about April 30, 2020 to the Fund and Food Services. See “Impact of COVID-19”.

SUMMARY OF QUARTERLY RESULTS

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

(dollars in thousands except per unit amounts)	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Number of restaurants in the Royalty Pool	971	934	934	934
Royalty income ⁽⁴⁾	\$9,260	\$13,539	\$11,111	\$10,555
General and administrative expenses	193	342	51	117
Net interest on term loan and other	509	545	573	577
Amortization of deferred financing fees	8	10	8	7
Non cash loss (gain) on interest rate swap	1,837	(720)	(203)	287
Current income tax expense	1,030	2,442	2,125	1,997
Refundable income tax expense (recovery)	(177)	(36)	(67)	100
Deferred income tax expense (recovery)	312	231	11	(84)
Net income	\$5,548	\$10,725	\$8,613	\$7,554
Distributable cash ⁽¹⁾	\$7,528	\$10,210	\$8,362	\$7,864
Number of equivalent units ⁽²⁾	18,403,413	17,791,555	17,659,154	17,659,154
Distributable cash per equivalent unit ⁽¹⁾⁽²⁾	\$0.409	\$0.574	\$0.474	\$0.445
Monthly distributions declared per unit ⁽³⁾	\$0.318	\$0.636	\$0.472	\$0.455
Number of days in the quarter	82	114	84	84
(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
Net interest on term loan and other	572	788	594	592
Amortization of deferred financing fees	8	10	8	7
Non cash gain on interest rate swap	809	638	(278)	(30)
Current income tax expense	1,705	1,960	1,523	1,503
Refundable income tax recovery	410	(601)	(285)	(285)
Deferred income tax expense	(186)	345	499	195
Net income	\$5,666	\$9,823	\$8,365	\$7,082
Distributable cash ⁽¹⁾	\$6,707	\$10,216	\$8,309	\$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

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

⁽²⁾ The number of equivalent units and distributable cash per equivalent unit in 2020 is calculated on a fully-diluted basis, but does not include any LP units in respect of the remaining consideration payable to Food Services for the January 5, 2020 adjustment to the Royalty Pool, which LP units, if any, are held back until the number of LP units is determined in December 2020 based on the actual annual sales reported by the new restaurants. The number of equivalent units and distributable cash per equivalent unit in Q4 2019 includes the 289,279 LP units exchanged for 578,558 common shares of Trade Marks representing the aggregate final consideration paid in December 2019 for the January 5, 2019 adjustment to the Royalty Pool. The number of equivalent units and distributable cash per equivalent unit in Q1, Q2 and Q3, 2019 is calculated on a fully-diluted basis and includes the 156,878 LP units exchanged for 313,756 common shares of Trade Marks representing 20% of the initial

consideration for the January 5, 2019 adjustment to the Royalty Pool which was paid in December 2019 when the actual annual sales were reported by the new restaurants, but does not include the 132,401 LP units exchanged for 264,802 common shares of Trade Marks representing the additional consideration paid in December 2019 based on the actual system sales for the A&W Restaurants added to the Royalty Pool as part of the January 5, 2019 adjustment to the Royalty Pool. The number of equivalent units and distributable cash per equivalent unit in Q2 and Q3, 2018 is calculated on a fully-diluted basis and includes the 149,063 LP units exchanged for 298,126 common shares of Trade Marks representing 20% of the initial consideration for the January 5, 2018 adjustment to the Royalty Pool paid in December 2018, but does not include the 114,409 LP units exchanged for 228,818 common shares of Trade Marks representing the additional consideration paid in December 2018 based on the actual system sales for the A&W Restaurants added to the Royalty Pool as part of the January 5, 2018 adjustment to the Royalty Pool. The number of equivalent units and distributable cash per equivalent unit in Q4 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 aggregate 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.
- (4) Royalty income for Q1 2020 includes a receivable of \$2,890,000 from Food Services for the royalty payable in respect of the gross sales reported by restaurants in the Royalty Pool for the period February 24, 2020 to March 22, 2020. Due to the impact of COVID-19, Food Services has delayed this royalty payment which was payable to the Fund on April 17, 2020. Interest accrues on unpaid royalties in accordance with the Amended and Restated Licence and Royalty Agreement. See "Impact of COVID-19".

SEASONALITY

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

LIQUIDITY AND CAPITAL RESOURCES

Modifications to the operations of A&W restaurants in the Royalty Pool in response to COVID-19 as well as temporary restaurant closures have resulted, and are expected to continue to result in, material declines to system sales at A&W restaurants and therefore, gross sales of A&W restaurants in the Royalty Pool. These declines will result in significant reductions to the amount of royalties payable to and earned by the Fund, and correspondingly, funds available to distribute to unitholders of the Fund.

Food Services has delayed the royalty payment of \$2,890,000 payable to the Fund on April 17, 2020 for gross sales reported by restaurants in the Royalty Pool for the period February 24, 2020 to March 22, 2020 and has informed the Fund that it expects to defer payment of royalty payments for the second quarter of 2020. As contemplated in Amended and Restated Licence and Royalty Agreement, late payments of royalties accrue interest at the rate of 2% per annum over the prime rate. Food Services has not requested a waiver from its obligation to make royalty and interest payments, nor has the Fund provided any waiver of these obligations.

Without a clear understanding of the duration of the impact of COVID-19 on the revenues of A&W restaurants and the extraordinary level of business uncertainty, on March 31, 2020, the Trustees determined to temporarily suspend monthly distributions on the Units commencing with the distribution that would ordinarily have been declared in April 2020 and been payable on or about April 30, 2020 to unitholders of record on or about April 15, 2020. The Fund (and Food Services) currently have a strong cash position and the temporary suspension of its monthly distributions will allow it to preserve liquidity until the sales by A&W restaurants stabilize at sufficient levels to support the reinstatement of distributions. The board of Trustees of the Fund will continue to regularly monitor the performance of Food Services and the royalty in order to determine an appropriate time for reinstatement of monthly distributions.

Following the expected recovery from the impact of COVID-19, the Fund intends to reinstate its normal policy to distribute all available cash, after allowing for reasonable reserves, in order to maximize returns to unitholders over time (see “Impact of COVID-19”). In light of seasonal variances inherent to the restaurant industry and fluctuations in business performance, the Fund’s normal policy, absent the current temporary suspension of distributions, 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 reinstatement or change in distributions will be implemented with a view to maintain the continuity of uniform monthly distributions. It is expected that any future distributions, once reinstated, will be funded entirely by cash flow from operations and the cash reserve.

Trade Marks has a \$2,000,000 demand operating loan facility with a Canadian chartered bank (the Bank) to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the Bank’s prime rate plus 0.4% and are repayable on demand. As at April 28, 2020 and March 22, 2020, the amount of the facility available was \$2,000,000 (December 31, 2019 - \$2,000,000).

Trade Marks has a \$60,000,000 term loan with the Bank in the form of a banker’s acceptance. The term loan 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 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 April 28, 2020, March 22, 2020 and December 31, 2019.

Trade Marks uses interest rate swap agreements to manage risks from fluctuations in interest rates. To manage the interest rate risk associated with the \$60,000,000 term loan, Trade Marks has entered into an interest rate swap, with an effective date of December 22, 2015 and a maturity date of December 22, 2022. Under this interest rate swap, as at March 22, 2020, the term loan’s effective interest rate was 3.95% per annum (December 31, 2019 – 3.95%), comprising 2.80% per annum which is fixed under the swap agreement until December 22, 2022 plus a 1.15% per annum stamping fee. Depending on the performance of the business of Trade Marks, the stamping fee can range between 1.40% and 0.90% in accordance with the following:

<u>Debt to EBITDA Ratio</u>	<u>Credit Charge</u>
< 1.00:1	0.90% per annum
≥ 1:00:1 and < 1:50:1	1.15% per annum
≥ 1:50:1	1.40% per annum

Due to the impact of COVID-19 on gross sales of A&W restaurants in the Royalty Pool and royalty income, the stamping fee is expected to increase to 1.40% per annum in 2020.

The fair value of the interest rate swap as at March 22, 2020 was \$3,146,000 unfavourable (December 31, 2019 - \$1,309,000 unfavourable) and the change in fair value is recorded in the

consolidated statements of income as a loss on interest rate swaps.

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

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS AND BALANCES

In the first quarter of 2020, royalty income of \$9,260,000 (2019 - \$9,265,000) was earned from Food Services of which \$2,890,000 is receivable at March 22, 2020 (December 31, 2019 - \$3,326,000). Food Services has delayed the royalty payment of \$2,890,000 payable to the Fund on April 17, 2020 for gross sales reported by restaurants in the Royalty Pool for the period February 24, 2020 to March 22, 2020. As contemplated in Amended and Restated Licence and Royalty Agreement, late payments of royalties accrue interest at the rate of 2% per annum over the prime rate. See “Impact of COVID-19”.

In the first quarter of 2020, Trade Marks declared common share dividends payable to Food Services of \$1,380,000 (2019 - \$1,449,000) of which \$690,000 is payable at March 22, 2020 (December 31, 2019 - \$nil). See “Dividends on Trade Marks’ Common Shares”.

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Significant areas requiring the use of a management estimate is the fair value of the interest rate swap and of the indefinite life intangible assets. The fair value of the interest rate swap 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 22, 2020 was \$3,146,000 unfavourable (December 31, 2019 - \$1,309,000

unfavourable) and the change in fair value is recorded in the consolidated statements of income as a loss on interest rate swaps.

COVID-19 has had an overall negative effect on the performance of restaurants in the Royalty Pool, which ultimately impacts the royalty revenue of the Fund and the expected value of the indefinite life intangible assets. The impact that this had on the performance of restaurants in the Royalty Pool was considered to be an impairment trigger, and therefore the Fund performed an impairment test of the indefinite life intangible assets as at March 22, 2020. Management used a value-in-use model to determine the recoverable amount of the indefinite life intangible assets, which had a carrying amount of \$335,089,000 as at March 22, 2020. The calculations were based on the Fund's and Food Services' internal forecasts and represent management's best estimates at a specific point in time, and as a result are subject to estimation uncertainty. In arriving at its estimated future cash flows, the Fund and Food Services considered past experience, economic trends and forecasted industry trends. A significant assumption is when dining rooms will be permitted to reopen and at what capacity. The Fund projected revenue, gross profit and cash flows for a period of five years and extrapolated cash flows beyond that using an estimated growth rate of 2%. The Fund assumed a pre-tax discount rate of 10.2% in order to calculate the present value of its projected cash flows. As a result of this test, it was concluded that no impairment was required.

The Fund performed a sensitivity analysis on the most sensitive assumptions which were revenue growth rates (2%) and the discount rate. A 1% increase in the discount rate would have decreased the amount by which the recoverable amount exceeded the carrying amount by approximately \$53,000,000, and would not have resulted in impairment. A 1% decrease in the estimated revenue growth rate would have decreased the amount by which the recoverable amount exceeded the carrying amount by approximately \$50,000,000, and would not have resulted in impairment.

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

COVID-19

The COVID-19 pandemic has had and is continuing to have negative impacts on the Canadian economy, the QSR industry, the willingness of the general public to dine outside their homes and travel, the level of consumer confidence in the safety of QSR restaurants including A&W restaurants, all of which are negatively impacting Food Services, its franchisees and the Fund (including Trade Marks and the Partnership), including their respective investments, results of operations and financial condition, and may negatively impact their ability to obtain additional equity or debt financing, or re-finance existing debt, or make interest and principal payments to their respective lenders, make lease payments and otherwise satisfy their respective financial obligations as they become due and may cause each of Food Services, their franchisees and the Fund (including Trade Marks and the Partnership) to be in non-compliance with one or more of the financial covenants under their respective existing credit facilities and cause a default thereunder. Modifications to the operations of A&W restaurants in the Royalty Pool in response to COVID-19 as well as temporary restaurant closures have resulted, and are expected to continue to result in, material declines to system sales at A&W restaurants and therefore, gross sales of A&W restaurants in the Royalty Pool. These declines will result in significant reductions to the amount of fees payable to Food Services by its franchisees and the amount of royalties payable to and earned by the Fund (through the Partnership), and correspondingly, funds available to be paid as dividends by Trade Marks to Food Services and the Fund and available to distribute to unitholders of the Fund. Food Services may become liable for the lease obligations of certain of its franchisees, if such franchisees default on their leases as a result of the impacts of COVID-19 or otherwise, and such obligations may be significant and Food Services may be unsuccessful in seeking recovery from such franchisees, all of which may adversely affect Food Services' investments, results of operations and financial condition. There is no guarantee that Food Services will repay any delayed royalty payments, and interest thereon, in accordance with the currently expected timing, or at all, or that further royalty payments will not be delayed as a result of continued impacts from COVID-19. Food Services' projections with respect to its business and the timing of the repayment of the delayed royalties may be inaccurate, and do not represent a financial forecast and actual results may differ materially from those anticipated by the projections. There is no guarantee that the Fund (including Trade Marks and the Partnership) will not take any action to enforce its rights under its agreements with Food Services in relation to the delayed royalty payments. There is no guarantee that the Fund (including Trade Marks and the Partnership) would be successful in taking action to enforce any of its rights under its agreements with Food Services in respect of any of the delayed royalty payments, and such actions, if taken, may cause other material adverse effects to the Fund (including Trade Marks and the Partnership) and Food Services to occur. Without a clear understanding of the duration of the impact of COVID-19 on the revenues of A&W restaurants and the extraordinary level of business uncertainty, on March 31, 2020, the Trustees determined to temporarily suspend monthly distributions on the Units commencing with the distribution that would ordinarily have been declared in April 2020 and been payable on or about April 30, 2020 to unitholders of record on or about April 15, 2020. There is no guarantee that monthly distributions will be reinstated, and if reinstated, as to the timing thereof or what the amount of the monthly distribution will be. The pace of recovery following the COVID-19 outbreak cannot be accurately predicted and may be slow. Certain A&W restaurants that are currently temporarily closed may not reopen, and further locations may close temporarily or permanently due to the impacts of COVID-19. Further government restrictions related to COVID-19 may be imposed, which restrict the ability

of A&W restaurants to operate, or result in forced closures, further reduced guest traffic, supply interruptions or staff shortages. Government programs expected to be helpful to A&W franchisees may not be available to some franchisees, and may not be available in amounts expected for those franchisees for which such programs are available. See “Impact of COVID-19”.

Information with regards to the other risks and uncertainties applicable to the business operations of the Fund is contained elsewhere in this MD&A, including under the heading “Forward-Looking Information, and 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 may also 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

Based on the experience of other restaurant brands outside of Canada, Food Services believes that the food service industry, and more particularly the quick service restaurant (QSR) segment of the industry, will recover from the impact of COVID-19. However, the timing and strength of the recovery cannot now be predicted with any degree of certainty.

Against this backdrop, the success of the A&W brand and individual franchised A&W restaurants is paramount to the long-term success of the overall A&W system and, in turn, to the Fund.

Both Food Services and the franchisees have been working diligently to develop and implement plans and programs to mitigate the effects of the COVID-19 pandemic. Food Services’ objective is to ensure that as many as possible of A&W’s 995 restaurants are able to operate (as permitted) during the COVID-19 pandemic and emerge from this period of uncertainty in financial condition that enables them to compete effectively and grow their businesses. From enhancing the appeal and trust of the A&W brand, to ensuring a safe and stable supply chain, to developing programs to ensure the safety of our franchisees, customers and employees, Food Services is committed to the long-term health and success of its franchise network and the Fund.

Food Services believes that its mission “to be loved for our natural ingredients, great taste, convenience, and for doing what’s right” will help it to rebound from the impact of COVID-19. Strategic initiatives, including repositioning and differentiating the A&W brand through the use of “better ingredients”; continued new restaurant growth, and delivering an industry leading guest experience, have all contributed to A&W’s strong appeal and the trust it has built with Canadian consumers over many years. These strengths will be key to delivering strong results and improved market share as the QSR industry and the QSR burger market resume growth.

A&W is proud to be a Canadian company, 100% Canadian owned and operated, and a leader in sourcing simple, great-tasting ingredients, farmed with care. In 2013, Food Services became the first and only national burger chain in Canada to serve beef raised without artificial hormones or steroids, and since then Food Services has introduced countless other natural ingredient firsts; including chicken raised without the use of antibiotics, Organic Fairtrade coffee, eggs from hens fed a diet without animal by-products, bacon from pork raised without the use of antibiotics, real

cheese on all burgers and breakfast sandwiches, and A&W Root Beer served in restaurants made from natural cane sugar and all-natural flavours. In the first quarter of 2020, A&W launched its new coffee, Fairtrade and organic as always, with a new sweet, warming flavour and complex aromas of caramel, chocolate, and red fruit.

In 2018, A&W further strengthened its positioning as a leader in food and innovation with the introduction of the Beyond Meat Burger. Food Services was very excited to be the first national burger chain in Canada to offer burger lovers across Canada this burger patty made using 100% plant-based protein with peas, rice, mung beans, coconut oil, pomegranates, potatoes, apples and beets. A&W continues to enhance its position as a leader in great tasting plant-based options with regular introductions of new recipes and products to its plant-based line-up.

Food Services has continued to grow new A&W restaurants, particularly in the key Ontario and Quebec markets. Three new A&W restaurants were opened across the country in the first quarter of 2020. As of March 22, 2020, an additional 25 were under construction or in varying stages of permitting, although the opening of these restaurants is expected to be delayed due to the impact of COVID-19.

In summary, with 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 innovation in growth areas such as mobile order and pay and third party delivery, are all contributing to winning guest visits and building loyalty, enhancing performance over the long term.

NON-IFRS MEASURES

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

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

FORWARD LOOKING INFORMATION

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

The forward-looking information in this MD&A includes, but is not limited to: the expected amount and terms of the increase to Food Services' credit facility, and the completion of such facility remaining subject to definitive legal documentation and other conditions customary for transactions of this nature; Food Services' expectation that it will defer royalty payments during the second quarter of 2020; Food Services' financial projections show that the deferred royalties are expected to be paid in full, with interest, by December 31, 2021, if not earlier; the path that governments will follow in easing restrictions on business operations is yet to be determined and could last many months; it is unclear how quickly consumer demand will resume; various government programs are expected to be helpful to the A&W franchisees; Food Services' expectation that the food service industry, and more particularly the QSR segment, will recover; the success of the A&W brand and individual franchised restaurants being paramount to the long-term success of the overall A&W system and, in turn, to the unitholders of the Fund; Food Services' objectives with respect to the A&W restaurants and its planned strategies to achieve those objectives; modifications to the operations of A&W restaurants as well as temporary restaurant closures may continue to result in material declines to system sales at A&W restaurants and in turn material reductions to the amounts of royalties payable to and earned by the Fund; the temporary suspension of the Fund's monthly distribution and the reasons for such temporary suspension; the Trustees will continue to monitor the results of operations and future prospects of Food Services and the A&W system with the intention to preserve unitholder value by restarting distributions in a prudent manner based upon A&W restaurant sales that permit distributions to be paid in amounts that are reasonably predictable; the expectation that the Fund will remain in compliance with all covenants related to its term debt based on current projections; the ongoing monitoring by the Trustees of the A&W business and Food Services in consultation with their independent legal and financial advisors; the Fund's belief that it is unlikely that any further consideration will be payable to Food Services in December 2020 in respect of the January 5, 2020 adjustment 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 long-term objective to maintain an annual payout ratio at or below 100%; Food Services belief that its mission "to be loved for our natural ingredients, great taste, convenience, and for doing what's right" will help it to rebound from the impact of COVID-19; Food Service's belief that strategic initiatives will be key to delivering strong results and improved market share as the QSR industry and the QSR burger market resume growth; the expectation that the opening of restaurants currently under construction will be delayed due to the impacts of COVID-19; 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 intention to reinstate its normal policy to distribute all available cash, after allowing for reasonable reserves, in order to maximize returns to unitholders over time, following the expected recovery from the impact of COVID-19; any reinstatement or 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, once reinstated, will continue to be funded entirely by cash flow from operations and the cash reserve; the operating and administrative expenses of the Fund, Trade Marks and the Partnership are expected to be stable and reasonably predictable; and, the Fund's expectation that the stamping fee of Trade Marks' term loan will increase to 1.40% in 2020.

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, other than those related to COVID-19;
- 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 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 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 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, other than those deferred amounts stated herein, which it is assumed will be repaid, with interest, by December 31, 2021;
- Food Services can continue to comply with its obligations under its credit arrangements;
- Trade Marks can continue to comply with its obligations and covenants under its credit arrangements;
- current store closures will be temporary and restaurant performance will recover post COVID-19;
- the Fund will receive sufficient revenue in the future (in the form of royalty payments from Food Services) to recommence the payment of monthly distributions;
- the projections for the A&W business provided by Food Services are accurate and any overdue royalties will be repaid in full, with interest, by December 31, 2021;
- Food Services will be successful in completing the increase in its Credit Facility in the amount and on the terms currently contemplated;
- the impacts of the COVID-19 pandemic on the A&W system will not significantly worsen;
- no further consideration will be payable to Food Services in December 2020 in respect of the January 5, 2020 adjustment to the Royalty Pool; and
- Food Services will be successful in executing its business strategies and such strategies will achieve their intended results.

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

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

- the amplificatory effects of media and social media;
- the availability and adequacy of insurance coverage;
- occurrence of catastrophic events; and
- risks related to COVID-19 set forth in this MD&A, including under the headings “Risks and Uncertainties – COVID-19” and “Impact of COVID-19”.

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

- dependence of the Fund on Trade Marks, Partnership and Food Services;
- dependence of the Partnership on Food Services;
- risks related to leverage and restrictive covenants;
- the risk that cash distributions are not guaranteed and will fluctuate with the Partnership’s performance and could be reduced or suspended at any time;
- risks related to the unpredictability and volatility of Unit prices;
- risks related to the nature of units; risks related to the distribution of securities on redemption or termination of the Fund;
- risks related to the Fund issuing additional units diluting existing unitholders’ interests;
- risks related to income tax matters and investment eligibility;
- risks related to the limitations of internal controls over financial reporting;
- risks related to COVID-19 set forth in this MD&A, including under the headings “Risks and Uncertainties – COVID-19” and “Impact of COVID-19”;
- risks related to Food Services not completing the increase of its credit facility, or if completed, not completing it in the amount or on the terms currently expected; and
- Risks related to Food Services not meeting its objectives, and the possibility that its strategies to meet its objectives may not be successful;

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 22 2020	December 31 2019
Assets			
Current assets			
Cash and cash equivalents		\$ 9,253	\$ 7,130
Accounts receivable	9	2,890	3,326
Prepaid interest		-	435
Income taxes recoverable		406	-
		12,549	10,891
Non-current assets			
Intangible assets	3	335,089	311,826
Total assets		\$ 347,638	\$ 322,717
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 368	\$ 501
Dividends payable to A&W Food Services of Canada Inc.	9	690	-
Distributions payable to Unitholders	7	2,237	2,236
Income taxes payable		-	752
		3,295	3,489
Non-current liabilities			
Term loan	4	59,909	59,901
Fair value of interest rate swaps	4	3,146	1,309
Deferred income tax liabilities		14,336	14,024
		80,686	78,723
Unitholders' Equity			
Fund Units	5	332,950	332,950
Accumulated deficit		(181,967)	(181,744)
		150,983	151,206
Non-controlling interest			
		115,969	92,788
Total equity		266,952	243,994
Total liabilities and equity		\$ 347,638	\$ 322,717

Subsequent events

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

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, 2020 to Mar 22, 2020	Period from Jan 1, 2019 to Mar 24, 2019
Gross sales reported by A&W restaurants in the Royalty Pool		\$ 308,679	\$ 308,823
Royalty income	9	\$ 9,260	\$ 9,265
Expenses			
General and administrative		193	281
Interest expense			
Term loan and other		509	572
Amortization of financing fees		8	8
		710	861
Operating income		8,550	8,404
Loss on interest rate swaps	4	1,837	809
Net income before income taxes		6,713	7,595
Provision for (recovery of) income taxes	6		
Current			
Current income tax provision		1,030	1,705
Refundable income tax		(177)	410
Deferred		312	(186)
		1,165	1,929
Net income and comprehensive income for the period		\$ 5,548	\$ 5,666
Net income and comprehensive income attributable to:			
Unitholders of A&W Revenue Royalties Income Fund		\$ 4,250	\$ 3,988
A&W Food Services of Canada Inc.'s non-controlling interest in A&W Trade Marks Inc.		1,298	1,678
		\$ 5,548	\$ 5,666
Basic and diluted income per weighted average Unit outstanding		\$ 0.302	\$ 0.319
Weighted average number of Units outstanding		14,064,673	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, 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		-	(3,626)	(3,626)	-	(3,626)
Dividends on common shares		-	-	-	(1,449)	(1,449)
Issue of common shares		-	-	-	21,844	21,844
Balance - March 24, 2019		\$ 263,452	\$ (153,763)	\$ 109,689	\$ 125,234	\$ 234,923
Net income for the period		-	20,919	20,919	5,973	26,892
Distributions on Units		-	(21,513)	(21,513)	-	(21,513)
Dividends on common shares		-	-	-	(6,379)	(6,379)
Issue of common shares		-	-	-	10,071	10,071
Common shares exchanged for units		69,498	(27,387)	42,111	(42,111)	-
Balance - December 31, 2019		\$ 332,950	\$ (181,744)	\$ 151,206	\$ 92,788	\$ 243,994
Net income for the period		-	4,250	4,250	1,298	5,548
Distributions on Units	7	-	(4,473)	(4,473)	-	(4,473)
Dividends on common shares	9	-	-	-	(1,380)	(1,380)
Issue of common shares	3	-	-	-	23,263	23,263
Balance - March 22, 2020		\$ 332,950	\$ (181,967)	\$ 150,983	\$ 115,969	\$ 266,952

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)

	Period from Jan 1, 2020 to Note Mar 22, 2020	Period from Jan 1, 2019 to Mar 24, 2019
Operating activities		
Net income for the period	\$ 5,548	\$ 5,666
Adjustments for:		
Non-cash loss on interest rate swaps	4 1,837	809
Amortization of financing fees	8	8
Deferred income taxes	312	(186)
Refundable income tax	(177)	410
Interest expense	509	572
Current income tax provision	1,030	1,705
Net changes in items of non-cash working capital	303	(59)
Interest paid	(74)	(602)
Income tax paid	(2,011)	(1,260)
Net cash generated from operating activities	7,285	7,063
Financing activities		
Dividends paid to non-controlling interest	(690)	(714)
Distributions paid to Unitholders	(4,472)	(3,576)
Net cash used in financing activities	(5,162)	(4,290)
Increase in cash and cash equivalents	2,123	2,773
Cash and cash equivalents - beginning of period	7,130	4,538
Cash and cash equivalents - end of period	\$ 9,253	\$ 7,311

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

(figures in tables are expressed in thousands of dollars)

1. General information

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

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, 2019.

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, 2019.

These interim condensed consolidated financial statements were authorized for issue by the Board of Trustees of the Fund on April 28, 2020.

3. Intangible assets

	Royalty Pool	Amount \$
Balance as at December 31, 2019	934	311,826
Annual adjustment January 5, 2020	37	23,263
Balance as at March 22, 2020	<u>971</u>	<u>335,089</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

(figures in tables are expressed 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 global pandemic known as COVID-19 has resulted in governments at all levels mandating measures to stem the spread of the virus. These measures have included provincial health authorities mandating the closure of restaurant dining rooms. In particular, the effect of COVID-19 has had an overall negative effect on the performance of restaurants in the Royalty Pool, which ultimately impacts the royalty revenue of the Fund and the expected value of the indefinite life intangible assets. The impact that this had on the performance of restaurants in the Royalty Pool was considered to be an impairment trigger, and therefore the Fund performed an impairment test of the indefinite life intangible assets as at March 22, 2020. Management used a value-in-use model to determine the recoverable amount of the indefinite life intangible assets, which had a carrying amount of \$335,089,000 as at March 22, 2020. The calculations were based on the Fund's and Food Services' internal forecasts and represent management's best estimates at a specific point in time, and as a result are subject to estimation uncertainty. In arriving at its estimated future cash flows, the Fund and Food Services considered past experience, economic trends and forecasted industry trends. A significant assumption is when dining rooms will be permitted to reopen and at what capacity. The Fund projected revenue, gross profit and cash flows for a period of five years and extrapolated cash flows beyond that using an estimated growth rate of 2%. The Fund assumed a pre-tax discount rate of 10.2% in order to calculate the present value of its projected cash flows. As a result of this test, it was concluded that no impairment was required.

The Fund performed a sensitivity analysis on the most sensitive assumptions which were revenue growth rates (2%) and the discount rate. A 1% increase in the discount rate would have decreased the amount by which the recoverable amount exceeded the carrying amount by approximately \$53,000,000, and would not have resulted in impairment. A 1% decrease in the estimated revenue growth rate would have decreased the amount by which the recoverable amount exceeded the carrying amount by approximately \$50,000,000, and would not have resulted in impairment.

Annual Adjustment to 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

A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 22, 2020

(figures in tables are expressed in thousands of dollars)

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 2020 annual adjustment to the Royalty Pool took place on January 5, 2020. The number of A&W restaurants in the Royalty Pool was increased by 44 new restaurants less seven restaurants that permanently closed during 2019. The estimated annual sales of the 44 new A&W restaurants are \$65,953,000 at the time they were added to the Royalty Pool, and annual sales for the seven permanently closed restaurants were \$4,078,000 based on their sales during the first year such restaurants were included in the Royalty Pool. The initial consideration for the estimated additional royalty stream was \$29,079,000, 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 28, 2019. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$23,263,000, by issuance of 611,858 LP units which were subsequently exchanged for 1,223,716 non-voting common shares of Trade Marks. The remaining consideration payable to Food Services for the January 5, 2020 adjustment to the Royalty Pool, if any, is to be paid by issuance of additional LP units, which issuance is held back until the number of LP units is determined in December 2020 based on the actual annual sales reported by the new restaurants. Due to the impact of COVID-19 on restaurant sales, it is currently unlikely that any further consideration will be payable to Food Services in December 2020 in respect of the January 5, 2020 adjustment to the Royalty Pool; therefore, only the initial consideration of \$23,263,000 is recorded in the interim condensed consolidated financial statements of the Fund as at March 22, 2020.

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's prime rate plus 0.4% and are repayable on demand. As at March 22, 2020, the amount of the facility available was \$2,000,000 (December 31, 2019 - \$2,000,000).

Trade Marks has a \$60,000,000 term loan with the Bank in the form of a banker's acceptance. The term loan 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 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 22, 2020 and December 31, 2019.

(figures in tables are expressed in thousands of dollars)

Trade Marks uses interest rate swap agreements to manage risks from fluctuations in interest rates. To manage the interest rate risk associated with the \$60,000,000 term loan Trade Marks has entered into an interest rate swap, with an effective date of December 22, 2015 and a maturity date of December 22, 2022. Under this interest rate swap, as at March 22, 2020, the term loan's effective interest rate was 3.95% per annum (December 31, 2019 – 3.95%), comprising 2.80% per annum which is fixed under the swap agreement until December 22, 2022 plus a 1.15% per annum stamping fee. The stamping fee ranges from 0.90% and 1.40%, depending on Trade Mark's debt to EBITDA ratio. The fair value of this interest rate swap as at March 22, 2020 was \$3,146,000 unfavourable (December 31, 2019 - \$1,309,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income and comprehensive income as a loss 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 22, 2020	December 31, 2019
	\$	\$
Term loan	60,000	60,000
Financing fees	(91)	(99)
	<u>59,909</u>	<u>59,901</u>

5. Fund Units

	Number of Units	Equity \$
Balance - December 31, 2019	<u>14,064,673</u>	<u>332,950</u>
Balance – March 22, 2020	<u>14,064,673</u>	<u>14,064,673</u>

(figures in tables are expressed 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, 2020 to Mar 22, 2020	Period from Jan 1, 2019 to Mar 24, 2019
	\$	\$
Statutory combined federal and provincial income tax rates on investment income	<u>20.0%</u>	<u>20.0%</u>
Provision for current income taxes	1,030	1,705
Provision for deferred income taxes	312	(186)
Provision for income taxes based on statutory income tax rates	1,342	1,519
Refundable income tax	(177)	410
Provision for income taxes	<u>1,165</u>	<u>1,929</u>

Trade Marks' taxable income is taxed at an effective rate of 20.0% (2019 – 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.

(figures in tables are expressed in thousands of dollars)

7. Distributions

During the period ended March 22, 2020, the Fund declared distributions to its Unitholders of \$4,473,000 or \$0.318 per Unit. The record dates and amounts of these distributions are as follows:

Month	Record date	Amount	Per unit
		\$	\$
January 2020	February 15, 2020	2,236	0.159
February 2020	March 15, 2020	2,237	0.159
		4,473	0.318

The February 2020 distribution was declared on March 3, 2020 and paid on March 31, 2020, and is reported as a current liability as at March 22, 2020.

8. Compensation to key management

Key management personnel are the Trustees of the Fund. During the quarter, the Trustees earned \$32,000 (2019 - \$31,000).

9. Related party transactions and balances

During the quarter, royalty income of \$9,260,000 (2019 - \$9,265,000) was earned from Food Services of which \$2,890,000 is receivable at March 22, 2020 (December 31, 2019 - \$3,326,000). Food Services has delayed the royalty payment of \$2,890,000 payable to the Fund on April 17, 2020 in respect of the gross sales reported by restaurants in the Royalty Pool for the period February 24, 2020 to March 22, 2020 (Note 10).

During the quarter, Trade Marks declared common share dividends payable to Food Services of \$1,380,000 (2019 - \$1,449,000). The \$690,000 dividend declared on March 3, 2020 and paid to Food Services on March 31, 2020 is reported as a current liability as at March 22, 2020 (December 31, 2019 - \$nil).

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

A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 22, 2020

(figures in tables are expressed in thousands of dollars)

10. Subsequent events

Modifications to the operations of A&W restaurants in response to COVID-19 as well as temporary restaurant closures have resulted in material declines to sales at A&W restaurants in the Royalty Pool, and subsequently to the amounts of royalties payable to the Fund, and, correspondingly, funds available to distribute to unitholders of the Fund. The Trustees therefore announced on March 31, 2020 that distributions on the units of the Fund would be temporarily suspended commencing with the distribution that would ordinarily have been declared in April 2020 and been payable on or about April 30, 2020 to unitholders of record on or about April 15, 2020.

Food Services has delayed the royalty payment of \$2,890,000 payable to the Fund on April 17, 2020 in respect of gross sales reported by restaurants in the Royalty Pool for the period February 24, 2020 to March 22, 2020 and has informed the Fund that it expects to defer payment of royalty payments for the second quarter of 2020. As contemplated in Amended and Restated Licence and Royalty Agreement, late payments of royalties accrue interest at the rate of 2% per annum over the prime rate. Food Services has not requested a waiver from its obligation to make royalty and interest payments, nor has the Fund provided any waiver of these obligations. The Fund has reserved all rights under its agreements with Food Services.

Unitholder Information

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A&W Revenue Royalties Income Fund Board of Trustees

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

A&W Trade Marks Inc. Board of Directors

John R. McLernon ⁽²⁾
Chairman
Richard N. McKerracher ⁽²⁾
Hugh R. Smythe ⁽²⁾
Paul F.B. Hollands
David A. Mindell

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

Market Information

Units Listed: Toronto Stock Exchange
Symbol: AW.UN

Registrar and Transfer Agent

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