

A&W Revenue Royalties Income Fund

Q3

Third Quarter Report to Unitholders
for the period ended
September 11, 2016

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To our Unitholders

On behalf of the Trustees of the A&W Revenue Royalties Income Fund (the Fund), I am pleased to report the results of the third quarter, ended September 11, 2016.

Same store sales growth is the most important driver of growth in the Fund. Same store sales growth was +2.3% for the quarter, as compared to the same quarter of 2015. Total royalty income for the quarter increased by 6.6%. Year to date same store sales growth is +4.3% and year to date royalty income increased by 10.3%. Year to date distributable cash increased by 9.6% and year to date distributable cash per unit increased from \$1.037 per unit to \$1.092 per unit.

The Fund, through its investment in A&W Trade Marks Inc. (Trade Marks), owns the A&W trade-marks and licenses them to A&W Food Services of Canada Inc. (A&W Food Services), in exchange for a royalty of 3% of sales reported by the 838 restaurants in the Royalty Pool. The number of A&W restaurants in the Royalty Pool was increased on January 5, 2016, from 814 to 838 to include new restaurants which had opened during the past year.

A&W's continued positive sales performance is a result of its strategy to reposition and differentiate A&W as a "better burger" quick service restaurant with better ingredients like its beef raised without the use of hormones or steroids, eggs from hens fed a fully vegetarian diet, chicken raised without the use of antibiotics, organic and Fair Trade coffee, and bacon from pork raised without the use of antibiotics.

A&W's strategy also includes accelerating the pace of growth of new A&W restaurants. Eleven new A&W restaurants have been opened across the country so far in 2016. A&W Food Services has a strong pipeline of new restaurants that will open over the coming 12 to 24 months.

A&W's re-image program, featuring a bold new restaurant design, continues to build momentum. Over 75% of the restaurants in the A&W chain now have the new design, and many more restaurants are in the process of completing their re-image to the new design. This program is particularly impactful in building guest visits and sales in freestanding restaurants. The cost of these re-images is borne by the franchise operator, with no cost to the Fund.

A highlight in the third quarter was Food Services' 8th annual "Burgers to Beat MS Day" (previously "Cruisin to End MS Day") which raised \$1.75 million for the Multiple Sclerosis Society of Canada. These funds go directly to fund research and to improve the lives of MS patients and their families.

We are pleased with the impact that A&W's strategy is having. Increased sales are resulting in strong increases in royalty income and as a result, we have been able to increase monthly distributions four times in just over a year. On behalf of the Trustees, my thanks to all of our investors who have placed their trust with the A&W Revenue Royalties Income Fund.



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

A&W Revenue Royalties Income Fund Management Discussion and Analysis

This Management Discussion and Analysis (MD&A) covers the year to date period from January 1, 2016 to September 11, 2016 and is dated October 17, 2016. This MD&A should be read in conjunction with the unaudited interim condensed financial statements of A&W Revenue Royalties Income Fund (the Fund) for the quarter ended September 11, 2016 and the audited annual consolidated financial statements of the Fund for the year ended December 31, 2015. 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 September 11, 2016 and the audited annual consolidated financial statements of Food Services for the year ended January 3, 2016. 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 in accordance with International Financial Reporting Standards (IFRS) as applicable to interim financial reports including International Accounting Standards (IAS) 34, Interim Financial Reporting. The accounting policies applied in the interim condensed consolidated financial statements and this report are consistent with those followed in the preparation of the Fund's annual consolidated financial statements for the year ended December 31, 2015.

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 2015 year was 53 weeks and ended January 3, 2016 (2014 – 52 weeks ended December 28, 2014). To align its financial reporting with that of Food Services, the Fund's third quarter of 2016 ended September 11, 2016 (2015 – September 6, 2015), 36 weeks after Food Services' fiscal year end. Readers should be aware that 2016 year to date results are not directly comparable to 2015 year to date results, as there were 87 days of sales in Q1, 2016 compared to 81 days in Q1, 2015. The second and third quarters of both years each had 84 days. Same store sales growth is based on an equal number of days in each quarter.

HIGHLIGHTS

- Same store sales⁽¹⁾ for the third quarter of 2016 grew by 2.3% as compared to the same quarter of 2015. Year to date same store sales growth⁽¹⁾ is +4.3%.
- Total sales in the Royalty Pool (as hereinafter defined) and royalty income increased by 6.6% in the quarter and 10.3% year to date.
- Year to date distributable cash⁽²⁾ increased by 9.6%.
- Year to date net income increased by 9.8%.

The following table sets out selected information from the unaudited interim condensed consolidated financial statements of the Fund prepared in accordance with IAS 34, except as otherwise noted.

(dollars in thousands except per unit amounts)	Period from Jun 20, 2016 to Sep 11, 2016	Period from Jun 15, 2015 to Sep 6, 2015	Period from Jan 1, 2016 to Sep 11, 2016	Period from Jan 1, 2015 to Sep 6, 2015
Same store sales growth ⁽¹⁾	+2.3%	+8.3%	+4.3%	+8.8%
Number of restaurants in the Royalty Pool	838	814	838	814
Sales reported by the restaurants in the Royalty Pool	\$278,473	\$261,177	\$786,326	\$712,735
Royalty income	\$8,354	\$7,835	\$23,590	\$21,382
General and administrative expenses	56	100	372	441
Net third party interest expense	593	557	1,793	1,646
Current income tax provision	1,596	1,411	4,518	3,868
Total distributable cash generated for distributions and dividends ⁽²⁾	\$6,109	\$5,767	\$16,907	\$15,427
Distributable cash per equivalent unit (2016 – 15,482,676 units; 2015 – 14,870,367 units) ⁽²⁾⁽³⁾	\$0.395	\$0.387	\$1.092	\$1.037
Distributions and dividends declared per equivalent unit	\$0.396	\$0.359	\$1.026	\$0.944
Net income ⁽⁴⁾	\$5,856	\$4,386	\$14,943	\$13,613
Net income, excluding non-cash items ⁽⁴⁾	\$5,709	\$5,767	\$15,241	\$15,427

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

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

⁽³⁾ The number of equivalent units and distributable cash per equivalent unit in 2016 includes the 122,462 LP units exchangeable for 244,924 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2016 adjustment to the Royalty Pool which is held back until December 2016 when the actual annual sales are reported by the new restaurants. The number of equivalent units and distributable cash per equivalent unit in 2015 includes the 181,101 LP units exchanged for 362,202 common shares of Trade Marks representing the final consideration paid in December 2015 for the January 5, 2015 adjustment to the Royalty Pool.

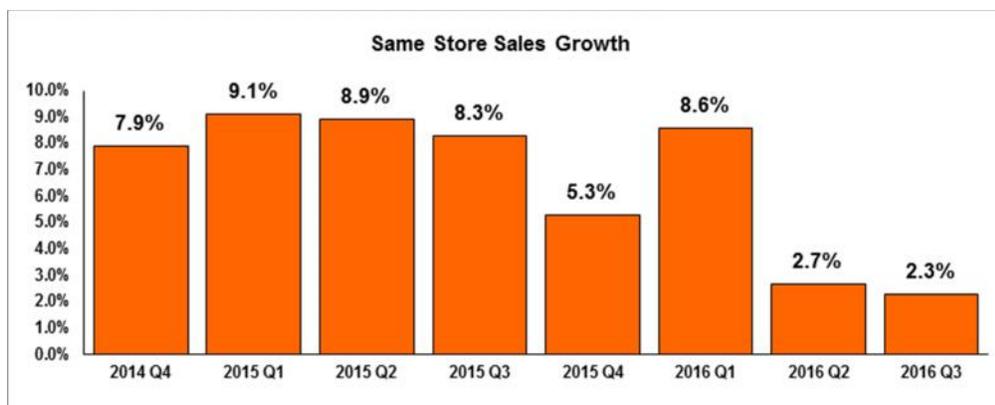
⁽⁴⁾ Net income in 2016 and 2015 includes non-cash gains and losses on interest rate swaps, amortization of deferred financing fees and deferred income taxes. These non-cash items have no impact on the Fund's ability to pay distributions to unitholders. The Fund's net income excluding these non-cash items is presented for information purposes only. Net income excluding non-cash items does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

SALES PERFORMANCE

Same store sales growth by A&W restaurants for which the royalty is payable (the Royalty Pool) by Food Services to A&W Trade Marks Limited Partnership (the Partnership) is a key performance indicator for the Fund. Same store sales growth is the change in sales of A&W restaurants in the Royalty Pool that operated during the entire 26 4-week periods ending September 11, 2016.

Same store sales for the third quarter of 2016 grew by 2.3% as compared to the same quarter of 2015. Year to date same store sales are up 4.3% compared to 2015 year to date. The 2015 and 2016 two year stacked year to date same store sales growth was +13.1%. These continued strong sales results reflect the continued positive guest response to A&W's ingredients guarantee of beef raised without the use of hormones or steroids, eggs from hens fed a diet without animal by-products, chicken raised without the use of antibiotics, organic and Fair Trade coffee and bacon from pork raised without the use of antibiotics.

Same store sales growth has been positive for 14 consecutive quarters. The chart below shows the percentage change in same store sales by A&W restaurants for the eight most recently completed quarters.



Total sales reported by A&W restaurants in the Royalty Pool for the third quarter of 2016 were \$278,473,000, an increase of 6.6% from sales of \$261,177,000 for the third quarter of 2015. Year to date sales were \$786,326,000, an increase of 10.3% from sales of \$712,735,000 for 2015 year to date. The increase in sales was due to the same store sales growth and the increase in the number of restaurants in the Royalty Pool.

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

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

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

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

Another important aspect of the Fund is that Food Services owns the equivalent of 21.0% (2015 – 18.4%) of the units of the Fund through its ownership of common shares of Trade Marks. As a result, interests of Food Services are closely aligned with the interests of unitholders.

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

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

ADJUSTMENT TO THE ROYALTY POOL

The 2016 adjustment to the Royalty Pool took place on January 5, 2016. The number of A&W restaurants in the Royalty Pool was increased by 32 new restaurants less eight restaurants that permanently closed during 2015. The addition of these 24 net new restaurants brings the total number of A&W restaurants in the Royalty Pool to 838. The estimated annual sales of the 32 new A&W restaurants are \$41,502,000 and annual sales for the eight permanently closed restaurants were \$3,905,000. The initial consideration for the estimated additional royalty stream was \$16,079,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on units of the Fund for the 20 trading days ending October 26, 2015. The yield was adjusted to reflect income tax payable by Trade Marks. The Partnership

paid Food Services 80% of the initial consideration or \$12,863,000 by issuance of 489,847 LP units which were subsequently exchanged for 979,694 non-voting common shares of Trade Marks. The remaining 20% of the consideration or \$3,216,000 will be paid in December 2016 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks. The actual amount of the consideration paid in December 2016 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

After the initial consideration was paid for the January 5, 2016 adjustment to the Royalty Pool, Food Services' indirect interest in the Fund increased to 21.0%.

COMMON SHARES OF TRADE MARKS

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

(dollars in thousands)	Fund			Food Services			Total
	Number of shares	Trade Marks' book value \$	%	Number of shares	Trade Marks' book value \$	%	Trade Marks' book value \$
Balance as at December 31, 2014	24,262,671	114,680	84.7	4,376,669	35,498	15.3	28,639,340
January 5, 2015 adjustment to the Royalty Pool	-	-	(3.1)	1,101,318	13,595	3.1	1,101,318
Balance as at December 31, 2015	24,262,671	114,680	81.6	5,477,987	49,093	18.4	29,740,658
January 5, 2016 adjustment to the Royalty Pool ⁽¹⁾	-	-	(2.6)	979,694	12,863	2.6	979,694
Balance as at September 11, 2016	24,262,671	114,680	79.0	6,457,681	61,956	21.0	30,720,352

⁽¹⁾ The number of common shares and consideration for the January 5, 2016 adjustment to the Royalty Pool does not include the 122,462 LP units exchangeable for 244,924 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2016 adjustment to the Royalty Pool which is held back until December 2016 when the actual annual sales are reported by the new restaurants.

OWNERSHIP OF THE FUND

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

	September 11, 2016		December 31, 2015	
	Number of units	%	Number of units	%
Fund units held by public unitholders	12,131,373	79.0	12,131,373	81.6
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services ⁽¹⁾	3,228,841	21.0	2,738,994	18.4
Total equivalent units	15,360,214	100.0	14,870,367	100.0

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

The chart below shows the ownership of the Fund, on a fully-diluted basis, when the remaining 20% of the consideration for the January 5, 2016 adjustment to the Royalty Pool is expected to be paid in December 2016, by issuance of 122,462 LP units exchangeable for 244,924 common shares of Trade Marks. The actual amount of the consideration paid in December 2016 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

	Number of units	%
Fund units held by public unitholders	12,131,373	78.4
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services	3,351,303	21.6
Total equivalent units	15,482,676	100.0

RESULTS OF OPERATIONS

INCOME

Royalty income for the third quarter of 2016 was \$8,354,000 based on sales of \$278,473,000. This was an increase of 6.6% from royalty income of \$7,835,000 and sales of \$261,177,000 for the third quarter of 2015. Year to date royalty income was \$23,590,000 based on sales of \$786,326,000, an increase of 10.3% from royalty income of \$21,382,000 and sales of \$712,735,000 for 2015 year to date. The increase in sales and royalty income was due to the combined impact of the additional net 24 new restaurants in the Royalty Pool and the same store sales growth of 2.3% for the quarter and 4.3% year to date as compared to 2015.

EXPENSES

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

(dollars in thousands)	Period from Jun 20, 2016 to Sep 11, 2016	Period from Jun 15, 2015 to Sep 6, 2015	Period from Jan 1, 2016 to Sep 11, 2016	Period from Jan 1, 2015 to Sep 6, 2015
General and administrative	\$56	\$100	\$372	\$441
Net interest on term loan and other	\$593	\$557	\$1,793	\$1,646

General and administrative expenses in 2016 year to date are lower than 2015 year to date as the 2015 expenses included the estimated additional compensation payable to Food Services relating to the final consideration for the January 5, 2015 adjustment to the Royalty Pool. This estimate was reversed in the fourth quarter of 2015 and the additional compensation was paid as a special dividend. Any additional compensation payable to Food Services in 2016 relating to the final consideration for the January 5, 2016 adjustment to the Royalty Pool will also be paid as a special dividend.

Interest on the term loan increased by \$36,000 to \$593,000 for the third quarter of 2016 compared to \$557,000 for the third quarter of 2015, and by \$147,000 to \$1,793,000 for 2016 year to date compared to \$1,646,000 for 2015 year to date. Interest expense increased due to the new interest rate swap agreement which became effective on December 22, 2015 (see “Liquidity and Capital Resources”).

GAIN/LOSS ON INTEREST RATE SWAP

The Fund’s net income included non-cash gains and 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 Jun 20, 2016 to Sep 11, 2016	Period from Jun 15, 2015 to Sep 6, 2015	Period from Jan 1, 2016 to Sep 11, 2016	Period from Jan 1, 2015 to Sep 6, 2015
(Gain) loss on interest rate swap	(\$26)	\$1,755	\$897	\$2,466

See “Liquidity and Capital Resources”.

INCOME TAXES

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

(dollars in thousands)	Period from Jun 20, 2016 to Sep 11, 2016	Period from Jun 15, 2015 to Sep 6, 2015	Period from Jan 1, 2016 to Sep 11, 2016	Period from Jan 1, 2015 to Sep 6, 2015
Current				
Current income tax provision	\$1,596	\$1,411	\$4,518	\$3,868
Refundable income tax	400	-	1,666	-
Deferred	(128)	(382)	(622)	(675)
Total provision for income taxes	\$1,868	\$1,029	\$5,562	\$3,193

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 19.0% (2015 – 19.0%), plus an additional tax of 26.67% on investment income which is refundable at a rate of \$1 for every \$3 Trade Marks pays out in taxable dividends to its shareholders. In 2015, Trade Marks’ tax on its taxable investment income was \$7,944,000 and its dividend refund was \$7,138,000, resulting in refundable tax payable of \$806,000. Trade Marks’ provision for income taxes for 2016 year to date includes this \$806,000 relating to 2015 as well as \$860,000 of refundable income tax based on the 2016 year to date share of taxable income and dividends in 2016. Under IFRS, refundable income tax is required to be expensed on the income statement when it is paid or payable. Subsequently, refundable income tax will be recognized on the income statement as refundable income tax recovered when it is received or receivable. Management expects that the refundable income tax expensed on the income statement in 2016 will be recovered in future years when

sufficient dividends are paid by Trade Marks.

The increase in the year to date current income tax provision as compared to the prior year resulted from the increase in earnings before income taxes and also includes transitional Partnership tax of \$633,000 (2015 - \$496,000). Tax rules for partnerships with misaligned year ends were announced in 2011 and require Trade Marks to recognize income tax on the Partnership's income during the period between January 25 and December 31, 2011 over a five year period ending in 2016 on a formula basis, being 15% or \$517,000 in 2012, 20% or \$718,000 in 2013, 20% or \$727,000 in each of 2014 and 2015, and 25% or \$909,000 in 2016.

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 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 Jun 20, 2016 to Sep 11, 2016	Period from Jun 15, 2015 to Sep 6, 2015	Period from Jan 1, 2016 to Sep 11, 2016	Period from Jan 1, 2015 to Sep 6, 2015
Net income and comprehensive income attributable to unitholders of the Fund	\$4,626	\$3,622	\$11,805	\$11,244
Net income and comprehensive income attributable to Food Services' non-controlling interest in Trade Marks	1,230	764	3,138	2,369
Total net income and comprehensive income	\$5,856	\$4,386	\$14,943	\$13,613

DISTRIBUTABLE CASH

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

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

As discussed under "Income Taxes", Trade Marks provision for income taxes includes refundable income tax of \$400,000 in the third quarter of 2016 and \$1,666,000 for 2016 year to date. 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 the refundable income tax expensed in 2016 will be recovered in future years when sufficient dividends are paid by Trade Marks. There is a sufficient surplus of cash on hand to pay the refundable income tax.

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

(dollars in thousands except per unit amounts)	Period from Jun 20, 2016 to Sep 11, 2016	Period from Jun 15, 2015 to Sep 6, 2015	Period from Jan 1, 2016 to Sep 11, 2016	Period from Jan 1, 2015 to Sep 6, 2015
Net cash generated from operating activities	\$5,671	\$5,821	\$16,272	\$16,223
Changes in non-cash working capital including interest and tax	438	(54)	635	(796)
Distributable cash generated ⁽¹⁾	\$6,109	5,767	\$16,907	15,427
Cumulative surplus – beginning of period	2,540	2,704	4,148	2,372
Distributable cash for unitholders at current annual distribution rate (2016 - \$1.558 per unit, 2015 - \$1.428 per unit) ⁽¹⁾	(4,440)	(4,118)	(13,169)	(11,818)
Distributable cash for Food Services at equivalent annual distribution rate (2016 - \$1.558 per equivalent unit, 2015 - \$1.428 per equivalent unit) ⁽¹⁾	(1,227)	(867)	(3,638)	(2,495)
Refundable income tax (see “Income Taxes”)	(400)	-	(1,666)	-
Cumulative surplus – end of period	\$2,582	\$3,486	\$2,582	\$3,486
Number of equivalent units ⁽¹⁾	15,482,676	14,870,367	15,482,676	14,870,367
Distributable cash generated per equivalent unit ⁽¹⁾	\$0.395	\$0.387	\$1.092	\$1.037
Monthly distributions declared per unit ⁽²⁾	\$0.396	\$0.359	\$1.026	\$0.944
Total distributions declared and accrued per unit	\$0.365	\$0.339	\$1.085	\$0.974
Payout ratio ⁽³⁾	92.4%	87.6%	99.4%	93.9%

⁽¹⁾ Distributable cash and distributable cash per equivalent unit do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. This information is provided as it identifies the amount of actual cash available to pay distributions to unitholders and dividends to Food Services. The number of equivalent units and distributable cash per equivalent unit in 2016 includes the 122,462 LP units exchangeable for 244,924 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2016 adjustment to the Royalty Pool which is held back until December 2016 when the actual annual sales are reported by the new restaurants. The number of equivalent units and distributable cash per equivalent unit in 2015 includes the 181,101 LP units exchanged for 362,202 common shares of Trade Marks representing the final consideration paid in December 2015 for the January 5, 2015 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 third quarter of each year are in respect of the calendar months of June, July and August, and the distributions declared in the year to date period are for the calendar months January to August.

⁽³⁾ The payout ratio does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. This information is provided as it identifies the extent to which distributable cash is distributed to unitholders and Food Services. The payout ratio is calculated by dividing the total distributions per unit (which

includes distributions declared and distributions accrued to the last day of the quarter or year, as applicable) by distributable cash per unit generated in that period.

Distributable cash generated in the third quarter of 2016 to pay distributions to unitholders and dividends to Food Services was \$6,109,000 compared to \$5,767,000 in the third quarter of 2015. Distributable cash generated in 2016 year to date was \$16,907,000 compared to \$15,427,000 in 2015 year to date. The \$1,480,000 year to date increase in distributable cash was comprised of the \$2,208,000 increase in royalty income and \$69,000 decrease in general and administrative expenses, less a \$147,000 increase in interest expenses and a \$650,000 increase in the current income tax provision.

Distributable cash generated per equivalent unit increased by 0.8¢ to 39.5¢ per unit in the third quarter of 2016 from 38.7¢ for the third quarter of 2015. Year to date distributable cash per unit increased by 5.5¢ to \$1.092 per unit for 2016 from \$1.037 for 2015 year to date. The year to date increase in distributable cash per equivalent unit was due to the increase in royalty income less increases in cash expenses and taxes.

Three monthly distributions totalling 39.6¢ per unit were declared in the third quarter of 2016 compared to 35.9¢ per unit in the same quarter of 2015. 2016 year to date distributions were \$1.026 per unit compared to 94.4¢ per unit in 2015 year to date. The payout ratio for the third quarter of 2016 was 92.4% compared to 87.6% for the third quarter of 2015. The year to date payout ratio was 99.4% compared to 93.9% for 2015 year to date. 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 Fund's objective is to maintain an annual payout ratio at or below 100%. The trailing four quarter payout ratio as at the end of the third quarter of 2016 was 96.1% (2015 – 92.5%). The following table shows the trailing four quarter payout ratios for 2014, 2015 and 2016.



The cumulative surplus of distributable cash at the end of the third quarter of 2016 was \$2,582,000, compared to a cumulative surplus of \$4,148,000 at the beginning of the year, a decrease of \$1,566,000. The refundable income tax of \$1,666,000 was the primary reason for the decrease in surplus distributable cash.

The current distribution rate is 13.3¢ per unit which translates into an annualized distribution rate of \$1.596 per unit. The Fund's policy is to distribute all available cash in order to maximize returns to unitholders over time, after allowing for reasonable reserves. The Fund's trustees

review distribution levels on a regular basis and any change in distributions will be implemented with a view to maintain the continuity of uniform monthly distributions.

DISTRIBUTIONS TO UNITHOLDERS

Distributions declared and paid during 2016 year to date were as follows:

(dollars in thousands except per unit amounts)			
Month	Record date	Amount	Per unit
January	February 15, 2016	\$1,516	\$0.125
February	March 15, 2016	1,516	0.125
March	April 15, 2016	1,517	0.125
April	May 15, 2016	1,517	0.125
May	June 15, 2016	1,577	0.130
June	July 15, 2016	1,577	0.130
July	August 15, 2016	1,614	0.133
August	September 15, 2016	1,614	0.133
		\$12,448	\$1.026

The August 2016 distribution was declared on September 6, 2016 and paid on September 30, 2016 and is reported as a current liability as at September 11, 2016. On October 4, 2016 the Fund declared the September 2016 monthly distribution to unitholders of 13.3¢ per unit or \$1,614,000, payable on October 31, 2016.

TAX TREATMENT OF DISTRIBUTIONS

Of the \$1.026 per unit in distributions declared in 2016 year to date, 100% is designated as non-eligible dividends.

DIVIDENDS ON TRADE MARKS' COMMON SHARES

During 2016 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	\$0.0625	\$1,516	\$404
February	0.0625	1,516	404
March	0.0625	1,517	403
April	0.0625	1,517	403
May	0.0650	1,577	420
June	0.0650	1,577	420
July	0.0665	1,614	429
August	0.0665	1,614	429
	\$0.5130	\$12,448	\$3,312

The August dividend was paid on September 30, 2016 and Food Services' share of \$429,000 is reported as a current liability as at September 11, 2016. On October 4, 2016, Trade Marks declared an aggregate dividend on its voting and non-voting common shares of \$2,043,000 payable to Food Services and the Fund on October 31, 2016.

SUMMARY OF QUARTERLY RESULTS

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

(dollars in thousands except per unit amounts)	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Number of restaurants in the Royalty Pool	838	838	838	814
Royalty income	\$8,354	\$7,922	\$7,314	\$10,444
General and administrative expenses	56	60	256	117
Term loan and other interest expense	593	589	611	773
Amortization of deferred financing fees	7	8	8	10
Non cash loss (gain) on interest rate swaps	(26)	(161)	1,084	30
Current income tax expense	1,596	1,519	1,403	1,792
Refundable income tax	400	257	1,009	-
Deferred income tax (recovery) expense	(128)	(108)	(386)	16
Net income	\$5,856	\$5,758	\$3,329	\$7,706
Distributable cash ⁽¹⁾	\$6,109	\$5,754	\$5,044	\$7,762
Number of equivalent units ⁽²⁾	15,482,676	15,482,676	15,482,676	14,870,367
Distributable cash per equivalent unit ⁽¹⁾⁽²⁾	\$0.395	\$0.371	\$0.326	\$0.522
Monthly distributions declared per unit ⁽³⁾	\$0.396	\$0.380	\$0.250	\$0.496
Number of days in the quarter	84	84	87	116
(dollars in thousands except per unit amounts)	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Number of restaurants in the Royalty Pool	814	814	814	790
Royalty income	\$7,835	\$7,474	\$6,073	\$9,551
General and administrative expenses	100	82	259	337
Term loan and other interest expense	557	554	535	760
Amortization of deferred financing fees	8	8	7	10
Non cash loss (gain) on interest rate swaps	1,755	(2,055)	2,766	1,229
Current income tax expense	1,411	1,261	1,196	1,387
Deferred income tax (recovery) expense	(382)	427	(720)	(16)
Net income	\$4,386	\$7,197	\$2,030	\$5,844
Distributable cash ⁽¹⁾	\$5,767	\$5,577	\$4,083	\$7,067
Number of equivalent units ⁽²⁾	14,870,367	14,870,367	14,870,367	14,319,708
Distributable cash per equivalent unit ⁽¹⁾⁽²⁾	\$0.387	\$0.375	\$0.275	\$0.494
Monthly distributions declared per unit ⁽³⁾	\$0.359	\$0.351	\$0.234	\$0.468
Number of days in the quarter	84	84	81	115

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

- (2) The number of equivalent units and distributable cash per equivalent unit in 2016 includes the 122,462 LP units exchangeable for 244,924 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2016 adjustment to the Royalty Pool which is held back until December 2016 when the actual annual sales are reported by the new restaurants. The number of equivalent units and distributable cash per equivalent unit in 2015 includes the 181,101 LP units exchanged for 362,202 common shares of Trade Marks representing the final consideration paid in December 2015 for the January 5, 2015 adjustment to the Royalty Pool. The number of equivalent units and distributable cash per equivalent unit in 2014 includes the 210,490 LP units exchanged for 420,980 common shares of Trade Marks representing the final consideration paid in December 2014 for the January 5, 2014 adjustment to the Royalty Pool.
- (3) The distribution for December of each year, which is paid on January 31 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.

SEASONALITY

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

LIQUIDITY AND CAPITAL RESOURCES

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

Trade Marks has a \$2,000,000 demand operating loan facility with a Canadian chartered bank (the Bank) to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at bank prime rate plus 0.5% and are repayable on demand. As at October 17, 2016, September 11, 2016 and December 31, 2015, the full amount of the facility was available.

Trade Marks has a \$60,000,000 term loan with the Bank. The term loan is repayable on December 22, 2017 and contains a number of covenants including the requirement to meet certain earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) levels and debt to EBITDA ratios during each trailing four quarter period. Interest only is payable monthly, providing that Trade Marks' EBITDA tested quarterly on a trailing four quarters basis is not less than specified amounts. In the event that EBITDA is less than these specified amounts, the term loan will be fully amortized over the greater of three years and the remaining term and repayment will be by way of blended monthly instalments of principal and interest. Trade Marks is generally prohibited from paying dividends on its common shares if those dividends would result in a breach of the term loan. Trade Marks was in compliance with all of its financial covenants as at October 17, 2016, September 11, 2016 and December 31, 2015.

Trade Marks uses an interest rate swap agreement to manage risks from fluctuations in interest rates and facilitate uniform monthly distributions. This instrument is used only for risk management purposes. Under the interest rate swap, the term loan bears interest at 4.3% per annum, comprised of 2.8% per annum which is fixed under the swap agreement until December 22, 2022 (five years beyond the December 22, 2017 maturity date of the term loan), plus a 1.5% per annum credit charge which is subject to review by the Bank on December 22, 2017. The fair value of this interest rate swap as at September 11, 2016 was \$6,159,000 unfavourable

(December 31, 2015 - \$5,262,000 unfavourable) and the change in fair value is recorded in net income as a loss on the interest rate swap.

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

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS AND BALANCES

During the year to date period, royalty income of \$23,590,000 (2015 - \$21,382,000) was earned from Food Services of which \$2,755,000 (December 31, 2015 - \$2,872,000) is receivable at September 11, 2016. Royalty income earned during the quarter was \$8,354,000 (2015 - \$7,835,000).

During the year to date period, Trade Marks declared common share dividends payable to Food Services of \$3,312,000 (2015 - \$2,415,000). Dividends declared payable to Food Services during the quarter were \$1,278,000 (2015 - \$919,000). The \$429,000 dividend declared on September 6, 2016 and paid to Food Services on September 30, 2016 is reported as a current liability as at September 11, 2016 (December 31, 2015 - \$nil).

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Significant areas requiring the use of estimates are current, refundable and deferred income taxes and the fair value of the interest rate swap. However, such estimates are not “critical accounting estimates” as (i) they do not require the Fund to make assumptions about matters that are highly uncertain at the time the estimate is made, and (ii) different estimates that could have been used, or changes in the accounting estimates that are reasonably likely to occur from period to period, would not have had a material impact on the Fund’s financial condition, changes in financial condition or financial performance.

The current income tax provision is the expected tax payable on Trade Marks’ taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and

any adjustment to tax payable in respect of previous years. Refundable income tax is additional tax on investment income that is payable on Trade Marks' taxable investment income that has not been distributed to its shareholders as dividends. Refundable income tax is recoverable in a future year when Trade Marks pays sufficient dividends. Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

The total fair value of the interest rate swap as at September 11, 2016 was \$6,159,000 unfavourable (December 31, 2015 - \$5,262,000 unfavourable) and the change in fair value is recorded in net income.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer 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

The Restaurant Industry

The net earnings and distributable cash generated by the Fund are directly dependent upon the royalty the Partnership receives from Food Services, the Fund's general and administrative expenses, debt service obligations and income tax obligations. The growth of the royalty is dependent upon the ability of Food Services to (i) grow same store sales, (ii) maintain and grow the current system of franchises, (iii) locate new retail sites in prime locations and (iv) obtain qualified operators to become A&W franchisees.

Sales are subject to a number of factors that affect the restaurant industry generally and the quick service segment of this industry in particular, including the highly competitive nature of the industry, traffic patterns, demographic considerations and the type, number and proximity of competing quick service restaurants. Any significant event that adversely affects consumption of quick service food and beverages, such as, increased food and labour costs, changing tastes or health concerns, inflation, publicity from any food borne illness, government regulations concerning menu labelling or disclosure and drive-thru restrictions, could adversely impact the sales of A&W restaurants and consequently, the amount of the royalty payable to the Partnership.

Economic conditions, unemployment, changes in disposable consumer income, and a disease outbreak, could adversely impact consumer visits to restaurants and consequently, sales in A&W restaurants and royalty income for the Partnership. Any significant event that adversely impacts traffic to shopping centres, including closures of “anchor” stores, could adversely impact the sales of A&W restaurants in those shopping centres and consequently, the amount of the royalty payable to the Partnership.

The introduction of sales taxes upon sales by restaurants could negatively impact sales at A&W restaurants. In addition, an increase in sales taxes on sales by restaurants could adversely affect sales at A&W restaurants.

Food Services competes with other companies, including other well-capitalized franchisors with extensive financial, technological, marketing and personnel resources and high brand name recognition and awareness. There can be no assurance that Food Services or its franchisees will be able to respond to various competitive factors affecting the franchise operations of Food Services in the quick service restaurant industry.

Sales by A&W franchisees are dependent upon the availability and quality of raw materials used in the products sold by such A&W franchisees. The availability and price of these commodities are subject to fluctuation and may be affected by a variety of factors affecting the supply and demand of the products used in these products. A significant reduction in the availability or quality of raw materials purchased by A&W franchisees resulting from any of the above factors could have a material adverse effect on sales of A&W restaurants.

Certain of the products that Food Services provides to A&W franchisees are sourced from a single or a limited number of suppliers. An interruption in the supply of such products could materially adversely affect sales in A&W restaurants.

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

Food Services depends on the uninterrupted operation of its information systems, networks and services including point-of-sale processing at restaurants, to operate its business. Food Services’ operations depend on its ability to protect its computer equipment and systems against damage from physical theft, fire, power loss, computer and telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses and other disruptive events. The failure of these systems to operate effectively, maintenance problems,

upgrading or transitioning to new systems or platforms or a breach in security of these systems could result in transaction errors, processing inefficiencies, the loss of or failure to attract new customers, the loss of sales, the loss of or unauthorized access to confidential and personal information, the loss of or damage to intellectual property or trade secrets, damage to Food Services' reputation, litigation, regulatory enforcement actions, violation of privacy, security or other laws and regulations and remediation costs. Furthermore, adverse publicity resulting from allegations of security breaches resulting in the theft of credit and debit card information or personal information of guests may materially affect the sales of A&W restaurants.

Food Services and A&W franchisees may be the subject of complaints or litigation from guests alleging food-related illnesses, injuries suffered on the premises or other food quality, health or operational concerns. Adverse publicity resulting from such allegations or from public health inspection reports may materially affect the sales of A&W restaurants, regardless of whether such allegations are true or whether Food Services or an A&W franchisee is ultimately held liable.

Income Tax Matters

There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts, SIFTs and partnerships will not be further changed in a manner which adversely affects the Fund and its unitholders.

OUTLOOK

A&W is a strategy driven company with initiatives in place aimed at growing market share in the quick service restaurant (QSR) burger market. These initiatives include repositioning and differentiating A&W in the QSR industry through its use of "better ingredients", accelerating new restaurant growth, and delivering an industry leading guest experience. A&W's mission is "to delight time-crunched Canadian burger lovers with the joy of great tasting natural food, made by people they trust."

A&W began its journey to source simple, great tasting ingredients in 2013, when Food Services became the first and only national burger restaurant in Canada to use only beef raised without the use of hormones and steroids, free of additives, fillers or preservatives. The whole Burger Family — from Baby to Uncle to Grandpa — contains 100% pure beef. The following year, Food Services began to serve only chicken raised without the use of antibiotics and fed a grain-based, vegetarian diet without animal by-products. All of the chicken menu items on Food Services' menu are made with seasoned 100% chicken breast, without fillers. Also in 2014, Food Services enhanced its breakfast menu by moving to eggs from hens fed a fully vegetarian diet without animal by-products. Breakfast was further supported by the launch in January 2015 of organic and Fair Trade coffee, another first for a major chain. In 2016, Food Services became the first North American chain to use bacon from pork that's raised without the use of antibiotics. It's naturally smoked and farmed locally in Canada. Also in 2016, Food Services announced that A&W restaurants switched to French's ketchup and mustard, made with 100% Canadian tomatoes and 100% Canadian mustard seeds.

Menu innovation has continued in 2016 with the launch of a new Chicken Menu featuring the Chicken Buddy Burger and the Spicy Habanero Chicken Burger. The new chicken menu also features a new all-natural 7-grain bun made without preservatives and additives. Limited time offers in 2016 have included the Peppered Bacon Burger and Smoky BBQ Teen Burger. Guest response to these menu items has been positive.

Food Services' second strategic initiative is accelerating the pace of growth of new A&W restaurants, particularly in the key Ontario and Quebec markets. Eleven new A&W restaurants were opened across the country in 2016 year to date. Many additional new restaurants are under construction or in varying stages of permitting and are expected to open in the coming months.

A third strategic initiative of Food Services is to deliver an industry leading guest experience. This initiative includes the ongoing re-imagining and modernizing of our existing restaurants, and innovation in equipment, operating systems and technology. Including the new restaurants opened in the new design since the beginning of the re-image program, over 75% of A&W's restaurants now have the new design. Costs of re-imagining A&W restaurants are borne by the franchisees and there is no cost to the Fund. New "Good Food Makes Good Food" interior elements are also being introduced in restaurants to communicate Food Services' ingredients guarantee to its guests.

Food Services is proud to report that its 8th annual "Burgers to Beat MS Day" (previously "Cruisin to End MS Day") raised \$1.75 million for the Multiple Sclerosis Society of Canada. These funds go directly to fund research and to improve the lives of MS patients and their families.

FORWARD LOOKING INFORMATION

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

The forward-looking information in this MD&A includes, but is not limited to: expected future consideration payable on adjustments to the Royalty Pool; Trade Marks' anticipates that its refundable dividend tax on hand will be recovered in future years; the Fund's objective to maintain an annual payout ratio at or below 100%; Food Services' plans to reposition and differentiate A&W in the QSR industry through its use of natural ingredients, accelerating new restaurant growth, and delivering an industry leading guest experience; the Fund's policy to distribute all available cash in order to maximize returns to unitholders over time, after allowing for reasonable reserves; any change in the Fund's distributions will be implemented with a view to maintain the continuity of uniform monthly distributions; the Fund expects that future distributions will continue to be funded entirely by cash flow from operations and the cash reserve; the operating and administrative expenses of the Fund, Trade Marks and the Partnership are expected to be stable and reasonably predictable; and, the Fund, through dividends from Trade Marks, is expected to have sufficient financial resources to pay future distributions.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the general risks that affect the restaurant industry will not arise including that there are no changes in availability of experienced management and hourly employees and no material changes in government regulations concerning menu labelling and disclosure and drive-thru restrictions; no publicity from any food borne illness; no changes in competition; no changes in the quick service restaurant burger market including as a result of changes in consumer taste or health concerns or changes in economic conditions or unemployment or a disease outbreak; no 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 grow same store sales; Food Services is able to maintain and grow the current system of franchises; Food Services is able to locate new retail sites in

prime locations; Food Services is able to obtain qualified operators to become A&W franchisees; no closures of A&W restaurants that materially affect the amount of the Royalty; no material changes in traffic patterns at shopping centres; no supply disruptions; franchisees duly pay franchise fees and other amounts; no 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 alleging food-related illness, injuries suffered on the premises or other food quality, health or operations concerns; Food Services continues to pay the Royalty; Trade Marks continues to pay dividends on the common shares and the Partnership continues to make distributions on its units; Trade Marks can continue to comply with its obligations under its credit arrangements; Trade Marks' performance does not fluctuate such that cash distributions are affected.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: general risks that affect the restaurant industry including changes in the availability of experienced management and hourly employees and changes in government regulations concerning menu labelling and disclosure and drive-thru restrictions; publicity from any food-borne illness; competition; changes in the quick service restaurant burger market including as a result of changes in consumer taste and health concerns and changes in economic conditions and unemployment and a disease outbreak; increases in food and labour costs; dependence on the availability and quality of raw materials; dependence on additional franchise sales and franchise operations; Food Services' ability to grow same store sales; Food Services' ability to maintain and grow the current system of franchises; Food Services' ability to locate new retail sites in prime locations; Food Services' ability to obtain qualified operators to become A&W franchisees; the closure of A&W restaurants may affect the amount of the Royalty; changes in traffic patterns at shopping centres; dependence on certain suppliers; dependence on A&W franchisees' ability to pay franchise fees and other amounts; the impact of new or increased sales taxes upon gross sales; dependence on key personnel; dependence on intellectual property; potential litigation from guests alleging food-related illness, injuries suffered on the premises or other food quality, health or operations concerns; dependence of the Fund on Trade Marks, the Partnership and Food Services; dependence of the Partnership on Food Services; risks related to leverage and restrictive covenants; the risk that cash distributions are not guaranteed and will fluctuate with the Partnership's performance; risks relating to the nature of units; risks relating to the distribution of securities on redemption or termination of the Fund; the Fund may issue additional units diluting existing unitholders' interests; income tax matters, all as more particularly described in this MD&A under the heading "Risks and Uncertainties" and in the Fund's 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	September 11 2016	December 31 2015
Assets			
Current assets			
Cash and cash equivalents		\$ 3,643	\$ 2,604
Accounts receivable	8	2,755	2,872
Prepaid interest		-	296
Income taxes recoverable		-	100
		6,398	5,872
Non-current assets			
Intangible assets	3	231,733	215,654
Total assets		\$ 238,131	\$ 221,526
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 376	\$ 235
Dividends payable to A&W Food Services of Canada Inc.	8	429	-
Distributions payable to Unitholders	6	1,614	1,516
Income taxes payable		377	-
		2,796	1,751
Non-current liabilities			
Term loan	4	59,957	59,934
Fair value of interest rate swap	4	6,159	5,262
Deferred income tax liabilities		11,307	11,929
Other liabilities	3	3,216	-
		83,435	78,876
Unitholders' Equity			
Fund Units		248,800	248,800
Accumulated deficit		(152,138)	(151,495)
		96,662	97,305
Non-controlling interest			
		58,034	45,345
Total equity		154,696	142,650
Total liabilities and equity		\$ 238,131	\$ 221,526

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 Jun 20, 2016 to Sep 11, 2016	Period from Jun 15, 2015 to Sep 6, 2015	Period from Jan 1, 2016 to Sep 11, 2016	Period from Jan 1, 2015 to Sep 6, 2015
Gross sales reported by A&W restaurants in the Royalty Pool		\$ 278,473	\$ 261,177	\$ 786,326	\$ 712,735
Royalty income		\$ 8,354	\$ 7,835	\$ 23,590	\$ 21,382
Expenses					
General and administrative		56	100	372	441
Interest expense					
Term loan and other		593	557	1,793	1,646
Amortization of financing fees		7	8	23	23
		656	665	2,188	2,110
Operating income		7,698	7,170	21,402	19,272
(Gain) loss on interest rate swap	4	(26)	1,755	897	2,466
Net income before income taxes		7,724	5,415	20,505	16,806
Provision for (recovery of) income taxes	5				
Current					
Current income tax provision		1,596	1,411	4,518	3,868
Refundable income tax		400	-	1,666	-
Deferred		(128)	(382)	(622)	(675)
		1,868	1,029	5,562	3,193
Net income and comprehensive income for the period		\$ 5,856	\$ 4,386	\$ 14,943	\$ 13,613
Net income and comprehensive income attributable to:					
Unitholders of A&W Revenue Royalties Income Fund		\$ 4,626	\$ 3,622	\$ 11,805	\$ 11,244
A&W Food Services of Canada Inc.'s non-controlling interest in A&W Trade Marks Inc.		1,230	764	3,138	2,369
		\$ 5,856	\$ 4,386	\$ 14,943	\$ 13,613
Basic and diluted income per weighted average Unit outstanding		\$ 0.381	\$ 0.299	\$ 0.973	\$ 0.927
Weighted average number of Units outstanding		12,131,373	12,131,373	12,131,373	12,131,373

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, 2014		\$ 248,800	\$ (151,422)	\$ 97,378	\$ 31,771	\$ 129,149
Net income for the period		-	11,244	11,244	2,369	13,613
Distributions on Units		-	(11,452)	(11,452)	-	(11,452)
Dividends on common shares		-	-	-	(2,415)	(2,415)
Issue of common shares		-	-	-	9,124	9,124
Balance - September 6, 2015		\$ 248,800	\$ (151,630)	\$ 97,170	\$ 40,849	\$ 138,019
Net income for the period		-	6,152	6,152	1,554	7,706
Distributions on Units		-	(6,017)	(6,017)	-	(6,017)
Dividends on common shares		-	-	-	(1,529)	(1,529)
Issue of common shares		-	-	-	4,471	4,471
Balance - December 31, 2015		\$ 248,800	\$ (151,495)	\$ 97,305	\$ 45,345	\$ 142,650
Net income for the period		-	11,805	11,805	3,138	14,943
Distributions on Units	6	-	(12,448)	(12,448)	-	(12,448)
Dividends on common shares	8	-	-	-	(3,312)	(3,312)
Issue of common shares	3	-	-	-	12,863	12,863
Balance - September 11, 2016		\$ 248,800	\$ (152,138)	\$ 96,662	\$ 58,034	\$ 154,696

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 Jun 20, 2016 to Note Sep 11, 2016	Period from Jun 15, 2015 to Sep 6, 2015	Period from Jan 1, 2016 to Sep 11, 2016	Period from Jan 1, 2015 to Sep 6, 2015
Operating activities				
Net income for the period	\$ 5,856	\$ 4,386	\$ 14,943	\$ 13,613
Adjustments for:				
Non-cash (gain) loss on interest rate swaps	4 (26)	1,755	897	2,466
Amortization of financing fees	7	8	23	23
Deferred income taxes	(128)	(382)	(622)	(675)
Refundable income tax	400	-	1,666	-
Interest expense	593	557	1,793	1,646
Current income tax provision	1,596	1,411	4,518	3,868
Net changes in items of non-cash working capital	(97)	(61)	50	90
Interest paid	(654)	(610)	(1,289)	(1,165)
Income tax paid	(1,876)	(1,243)	(5,707)	(3,643)
Net cash generated from operating activities	5,671	5,821	16,272	16,223
Financing activities				
Repayment of demand operating loan facility	4 -	-	-	(782)
Dividends paid to non-controlling interest	(1,269)	(909)	(2,883)	(2,106)
Distributions paid to Unitholders	(4,768)	(4,306)	(12,350)	(11,403)
Net cash used in financing activities	(6,037)	(5,215)	(15,233)	(14,291)
(Decrease) increase in cash and cash equivalents	(366)	606	1,039	1,932
Cash and cash equivalents - beginning of period	4,009	2,891	2,604	1,565
Cash and cash equivalents - end of period	\$ 3,643	\$ 3,497	\$ 3,643	\$ 3,497

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

(in thousands of dollars)

1. General information

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

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as applicable to interim financial reports including International Accounting Standards (IAS) 34, Interim Financial Reporting. The interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the Fund's audited annual consolidated financial statements as at December 31, 2015.

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, 2015.

These interim condensed consolidated financial statements were authorized for issue by the Board of Trustees of the Fund on October 17, 2016.

3. Intangible assets

	Royalty Pool	Amount \$
Balance as at December 31, 2015	814	215,654
Annual adjustment January 5, 2016	24	16,079
Balance as at September 11, 2016	<u>838</u>	<u>231,733</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 Services pays a royalty of 3% of sales reported to Food Services by specific A&W restaurants (the Royalty Pool).

A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

September 11, 2016

(in thousands of dollars)

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

The 2016 annual adjustment to the Royalty Pool took place on January 5, 2016. The number of A&W restaurants in the Royalty Pool was increased by 32 new restaurants less eight restaurants that permanently closed during 2015. The estimated annual sales of the 32 new A&W restaurants are \$41,502,000 and annual sales for the eight permanently closed restaurants were \$3,905,000. The initial consideration for the estimated additional royalty stream was \$16,079,000, 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 26, 2015. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$12,863,000, by issuance of 489,847 LP units which were subsequently exchanged for 979,694 non-voting common shares of Trade Marks. The remaining 20% of the consideration or \$3,216,000 will be paid in December 2016 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks. The actual amount of the consideration paid in December 2016 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

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

Trade Marks has a \$2,000,000 demand operating loan facility with HSBC Bank Canada (the Bank) to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the bank prime rate plus 0.5% and are repayable on demand. As at September 11, 2016 and December 31, 2015, the full amount of the facility was available.

Trade Marks has a \$60,000,000 term loan with the Bank. The term loan is repayable on December 22, 2017 and contains a number of covenants including the requirement to meet certain earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) levels and debt to EBITDA ratios during each trailing four quarter period. Interest only is payable monthly, providing that Trade Marks' EBITDA, tested quarterly on a trailing four quarters basis, is not less than specified amounts. In the event that EBITDA is less than these specified amounts, the term loan will be fully

A&W Revenue Royalties Income Fund

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

September 11, 2016

(in thousands of dollars)

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 September 11, 2016 and December 31, 2015.

Trade Marks uses an interest rate swap agreement to manage risks from fluctuations in interest rates. Under the interest rate swap, the term loan bears interest at 4.3% per annum, comprised of 2.8% per annum which is fixed under the swap agreement until December 22, 2022 (five years beyond the December 22, 2017 maturity date of the loan), plus a credit charge of 1.5% per annum which is subject to review by the Bank on December 22, 2017. The fair value of the interest rate swap as at September 11, 2016 was \$6,159,000 unfavourable (December 31, 2015 - \$5,262,000 unfavourable) and the year to date change in fair value is recorded in net income as a loss on the interest rate swap.

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:

	September 11, 2016	December 31, 2015
	\$	\$
Term loan	60,000	60,000
Financing fees	(43)	(66)
	<u>59,957</u>	<u>59,934</u>

(in thousands of dollars)

5 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 Jun 20, 2016 to Sep 11, 2016 \$	Period from Jun 15, 2015 to Sep 6, 2015 \$	Period from Jan 1, 2016 to Sep 11, 2016 \$	Period from Jan 1, 2015 to Sep 6, 2015 \$
Statutory combined federal and provincial income tax rates on investment income	19.0%	19.0%	19.0%	19.0%
Provision for current income tax provision	1,596	1,411	4,518	3,868
Provision for deferred income taxes	(128)	(382)	(622)	(675)
Provision for income taxes based on statutory income tax rates	1,468	1,029	3,896	3,193
Refundable income tax	400	-	1,666	-
Provision for income taxes	1,868	1,029	5,562	3,193

Trade Marks' taxable income is taxed at an effective rate of 19.0% (2015 – 19.0%), plus an additional tax of 26.67% 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 will be recognized on the income statement as income taxes recovered when received or receivable.

(in thousands of dollars)

6. Distributions

During the period ended September 11, 2016, the Fund declared distributions to its Unitholders of \$12,448,000 or \$1.026 per Unit. The record dates and amounts of these distributions are as follows:

Month	Record date	Amount \$	Per unit \$
January 2016	February 15, 2016	1,516	0.125
February 2016	March 15, 2016	1,516	0.125
March 2016	April 15, 2016	1,517	0.125
April 2016	May 15, 2016	1,517	0.125
May 2016	June 15, 2016	1,577	0.130
June 2016	July 15, 2016	1,577	0.130
July 2016	August 15, 2016	1,614	0.133
August 2016	September 15, 2016	1,614	0.133
		12,448	1.026

The August 2016 distribution was declared on September 6, 2016 and paid on September 30, 2016, and is reported as a current liability as at September 11, 2016.

7. Compensation to key management

Key management personnel are the Trustees of the Fund. During the year to date period, the Trustees earned \$72,000 (2015 - \$77,000). During the quarter, the Trustees earned \$24,000 (2015 - \$27,000).

8. Related party transactions and balances

During the year to date period, royalty income of \$23,590,000 (2015 - \$21,382,000) was earned from Food Services of which \$2,755,000 (December 31, 2015 - \$2,872,000) is receivable at September 11, 2016. Royalty income earned during the quarter was \$8,354,000 (2015 - \$7,835,000).

During the year to date period, Trade Marks declared common share dividends payable to Food Services of \$3,312,000 (2015 - \$2,415,000). Dividends declared payable to Food Services during the quarter were \$1,278,000 (2015 - \$919,000). The \$429,000 dividend declared on September 6, 2016 and paid to Food Services on September 30, 2016 is reported as a current liability as at September 11, 2016 (December 31, 2015 - \$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)

September 11, 2016

(in thousands of dollars)

9. Subsequent events

On October 4, 2016, the Fund declared a distribution to Unitholders of \$0.133 per unit or \$1,614,000, payable on October 31, 2016 to Unitholders of record as at October 15, 2016.

On October 4, 2016, Trade Marks declared common share dividends of \$2,043,000 payable to Food Services and the Fund on October 31, 2016.

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⁾
Jefferson J. Mooney
David A. Mindell

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

Market Information

Units Listed: Toronto Stock Exchange
Symbol: AW.UN

Registrar and Transfer Agent

Computershare Investor Services Inc.

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