A&W Food Services of Canada Inc.
Report to Unitholders of A&W Revenue Royalties Income Fund
January 1, 2018 to December 30, 2018

This report and the audited annual consolidated financial statements of A&W Food Services of Canada Inc. (A&W or Food Services) for the 52 weeks ended December 30, 2018 are provided as a supplement to the audited annual consolidated financial statements and Management Discussion and Analysis of the A&W Revenue Royalties Income Fund (the Fund) for the year ended December 31, 2018. This report is dated February 12, 2019 and should be read in conjunction with the audited annual consolidated financial statements of Food Services for the 52 weeks ended December 30, 2018 and the audited annual consolidated financial statements of Food Services for the 52 weeks ended December 31, 2017. Such financial statements and additional information about the Fund and Food Services are available at www.sedar.com or www.awincomefund.ca.

Glossary

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

To align its financial reporting with the business cycle of its operations, Food Services uses a fiscal year comprising a 52 or 53 week period ending on the Sunday nearest December 31. The fiscal 2018 year was 52 weeks and ended December 30, 2018 (2017 – 52 weeks ended December 31, 2017). System sales, system sales growth and same store sales growth for the 16 weeks and 52 weeks ended December 30, 2018 are compared to the 16 weeks and 52 weeks ended December 31, 2017 so that the two years are comparable.

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

Financial Highlights

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

(dollars in thousands)	**52 week period ended Dec 30, 2018**	(Restated)[2] 52 week period ended Dec 31, 2017
System sales[(1)]	**$1,419,741**	$1,239,442
System sales growth[(1)]	**+14.5%**	+6.6%
Same store sales growth[(1)]	**+9.8%**	+2.0%
New restaurants opened	**42**	45
Restaurants closed	**8**	6
Number of restaurants	**952**	918
Franchising & corporate restaurant revenue	**$206,005**	$185,725
Operating costs and general and administrative expenses	**(154,607)**	(138,895)
Depreciation of plant and equipment	**2,271**	2,073
Earnings before royalty expense, gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	**$53,669**	$48,903
Royalty expense	**(40,890)**	(35,616)
Net income	**$16,394**	$21,581

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

(2) See " New standards and interpretations adopted."

Same Store Sales

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

Same store sales for the fourth quarter of 2018 increased by 12.3% as compared to the same quarter of 2017. Annual same store sales growth was +9.8% compared to 2017. Same store sales growth was achieved in all provinces and concepts, including Saskatchewan, with Ontario and Quebec and the Urban concept restaurants leading the way.

System Sales

System sales grew 17.1% for the fourth quarter and 14.5% for the full year as compared to 2017. Total system sales for all A&W restaurants in Canada for the 16 weeks ended December 30, 2018 were $463,570,000, an increase of $67,779,000 from the 16 weeks ended December 31, 2017. Annual system sales were $1,419,741,000, an increase of $180,299,000 from 2017. The increase in system sales was due to the same store sales growth plus the increase in the number of restaurants from 918 at the end of 2017 to 952 at the end of 2018.

New Restaurant Openings and Restaurant Closures

Food Services opened 42 new A&W restaurants during 2018, compared to 45 new restaurants in 2017. Eight restaurants were closed in 2018 compared to six in 2017. As at December 31, 2018, there were 952 A&W restaurants in Canada, of which 943 were operated by franchisees and nine were corporately owned and operated.

Overview

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

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

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

Annual Adjustment to the Royalty Pool

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

The 2018 adjustment to the Royalty Pool took place on January 5, 2018. The number of A&W restaurants in the Royalty Pool was increased by 42 new restaurants less seven restaurants that permanently closed during 2017. The addition of these 35 net new restaurants brought the total number of A&W restaurants in the Royalty Pool to 896. The estimated annual sales of the 42 new A&W restaurants was $55,642,000 and annual sales for the seven permanently closed restaurants was $3,210,000. The initial consideration for the estimated additional royalty stream was $25,989,000, 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 30, 2017. The yield was adjusted to reflect income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or $20,791,000 by issuance of 596,251 LP units which were subsequently exchanged for 1,192,502 non-voting common shares of Trade Marks. The final adjustment of the number of LP units issued was made on December 7, 2018 based on the actual annual sales reported by the new A&W restaurants of $63,783,000 compared to the original estimate of $55,642,000. As a result $5,198,000 representing the remaining 20% of the initial consideration and additional consideration of $3,989,000 were paid to Food Services by issuance of 263,472 additional LP units, which were subsequently exchanged for 526,944 non-voting common shares of Trade Marks.

Subsequent to December 31, 2018, the 2019 adjustment to the Royalty Pool took place on January 5, 2019. The number of A&W restaurants in the Royalty Pool was increased by 46 new restaurants less eight restaurants that permanently closed during 2018. The addition of these 38 net new restaurants brings the total number of A&W restaurants in the Royalty Pool to 934. The estimated annual sales of the 46 new A&W restaurants are $62,283,000 and annual sales for the eight permanently closed restaurants were $4,795,000. The initial consideration for the estimated additional royalty stream was $27,305,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on units of the Fund for the 20 trading day ending October 29, 2018. The yield was adjusted to reflect income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or $21,844,000 by issuance of 627,514 LP units which were subsequently exchanged for 1,255,028 non-voting common shares of Trade Marks. The remaining 20% of the consideration or $5,461,000 will be paid in December 2019 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks. The actual amount of the consideration paid in December 2019 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

After the initial consideration was paid for the January 5, 2019 adjustment to the Royalty Pool, Food Services' indirect interest in the Fund increased to 28.6% on a fully diluted basis (25.9% as of December 30, 2018).

Common Shares of A&W Trade Marks Inc.

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

(dollars in thousands)	Fund			Food Services			Total	
	Number of shares	Trade Marks' book value $	%	Number of shares	Trade Marks' book value $	%	Number of shares	Trade Marks' book value $
Balance as at December 31, 2016	24,262,671	114,680	78.2	6,773,229	66,099	21.8	31,035,900	180,779
January 5, 2017 adjustment to the Royalty Pool[1]	-	-	(2.4)	994,102	17,273	2.4	994,102	17,273
March 3, 2017 exchange of common shares for units of the Fund	746,600	7,814	2.3	(746,600)	(7,814)	(2.3)	-	-
Balance as at December 31, 2017	25,009,271	122,494	78.1	7,020,731	75,558	21.9	32,030,002	198,052
January 5, 2018 adjustment to the Royalty Pool[2]	-	-	(4.0)	1,719,446	29,978	4.0	1,719,446	29,978
Balance as at December 30, 2018	25,009,271	122,494	74.1	8,740,177	105,536	25.9	33,749,448	228,030

(1) The number of common shares includes the 150,665 LP units exchanged for 301,300 common shares of Trade Marks representing the final consideration paid in December 2017 for the January 5, 2017 adjustment to the Royalty Pool.

(2) The number of common shares includes the 263,472 LP units exchanged for 526,944 common shares of Trade Marks representing the final consideration paid in December 2018 for the for the January 5, 2018 adjustment to the Royalty Pool.

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

Ownership of the Fund

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

	December 30, 2018		December 31, 2017	
	Number of units	**%**	**Number of units**	**%**
Fund units held by public unitholders	12,504,673	74.1	12,504,673	78.1
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services(1)	4,370,089	25.9	3,510,365	21.9
Total equivalent units	16,874,762	100.0	16,015,038	100.0

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

The following chart shows the ownership of the Fund, on a fully-diluted basis, after the initial consideration for the January 5, 2019 adjustment to the Royalty Pool.

	Number of units	**%**
Fund units held by public unitholders	12,504,673	71.4
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services	4,997,603	28.6
Total equivalent units	17,502,276	100.0

The chart below shows the ownership of the Fund, on a fully-diluted basis, when the remaining 20% of the initial consideration for the January 5, 2019 adjustment to the Royalty Pool is expected to be paid in December 2019, by issuance of 156,878 LP units exchangeable for 313,756 common shares of Trade Marks. The actual amount of the consideration paid in December 2019 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

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

2018 Operating Results

Revenue

Food Services' franchising and corporate revenue for 2018 was $206,005,000 compared to $185,725,000 for 2017. 2018 Franchising revenue was $190,120,000 compared to $171,527,000, an increase of $18,593,000. Revenue related to sales from the distribution of food and supplies and services fees and Advertising fund contributions for 2018 increased by $11,073,000 and $5,998,000, respectively, due to higher system sales. Equipment and turnkey revenue decreased to $47,810,000 from $49,273,000, due primarily to a decrease in the number of new restaurants constructed by Food Services and then sold to franchisees in 2018 versus the prior year, partially offset by an increase in revenues from reimage, renovation and other miscellaneous equipment. Other franchise revenue increased $3,073,000 compared to the last year.

Corporate restaurant sales were $15,885,000 in 2018 compared to $14,198,000 in 2017. The $1,687,000 increase is due to the same store sales growth and a new restaurant opened late in 2018.

Operating costs and general and administrative expenses

Operating costs for 2018 were $110,119,000 compared to $102,827,000 in 2017, an increase of $7,292,000. Advertising expenses of the National Advertising Fund and costs of food and packaging were higher than in the prior year. Turnkey construction costs and costs of sales of equipment decreased in line with the decrease in revenue noted above.

General and administrative expenses represent costs of providing services to franchised restaurants and establishing new restaurants, and were $44,488,000 in 2018 compared to $36,068,000 for 2017, an increase of $8,420,000. The increase was due to investments in strategic initiatives, the growth in the number of restaurants and system sales and inflationary increases.

Operating earnings

(dollars in thousands)	**52 week period ended Dec 30, 2018**	(Restated) 52 week period ended Dec 31, 2017
Franchising & corporate restaurant revenue	**$206,005**	$185,725
Operating costs and general and administrative expenses	**(154,607)**	(138,895)
Depreciation of plant and equipment	**2,271**	2,073
Earnings before royalty expense, gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	**$53,669**	$48,903

Operating earnings (earnings before royalty expense, gain on sale of Fund units, Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) increased by $4,766,000 to $53,669,000 for 2018 as compared to $48,903,000 for 2017. The operating margin for 2018 was 26.1% compared to 26.3% for 2017. The decrease in operating margin is primarily due to the impact of the increase in the advertising fund contributions and expenses of the National Advertising Fund as no margin is earned on those revenues.

Royalty expense

Royalty expense for 2018 increased by $5,274,000 to $40,890,000 compared to $35,616,000 for 2017. The increase in royalty expense resulted from the additional net 35 restaurants in the Royalty Pool and the same store sales growth of restaurants in the Royalty Pool.

Earnings after royalty expense

(dollars in thousands)	**52 week period ended Dec 30, 2018**	(Restated) 52 week period ended Dec 31, 2017
Earnings before royalty expense, gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	**$53,669**	$48,903
Royalty expense	**(40,890)**	(35,616)
Earnings after royalty expense (before gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	**$12,779**	$13,287

Earnings after royalty expense (but before the gain on sale of Fund units, Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) decreased by $508,000 to $12,779,000 for 2018 compared to $13,287,000 for 2017. The decrease was comprised of the $5,274,000 increase in royalty expense related to the same store sales growth of restaurants in the Royalty Pool and the additional net 35 restaurants in the Royalty Pool partially offset by the $4,766,000 increase in operating earnings.

Finance expense - net

(dollars in thousands)	**52 week period ended Dec 30, 2018**	(Restated) 52 week period ended Dec 31, 2017
Interest income	**($130)**	($45)
Interest on term loan	**24**	181
Interest cost on supplementary retirement benefit plan	**490**	533
Finance leases	**144**	155
	$528	$824

Interest expense decreased by $296,000 to $528,000 for 2018 compared to $824,000 for 2017. The decrease is primarily due to interest expense on Food Services' term loan which was repaid in April 2018 and an increase in interest income. See "Liquidity and Capital Resources".

Food Services' share of Trade Marks' income

Food Services' share of Trade Marks' income for 2018 increased by $1,921,000 to $8,178,000 compared to $6,257,000 for 2017. Trade Marks' net income was higher than the prior year due primarily to higher royalty income and a decrease in income tax expense, partially offset by a decrease in the non-cash gain on the interest rate swap in 2018 compared to 2017.

Net income

(dollars in thousands)	**52 week period ended Dec 30, 2018**	(Restated) 52 week period ended Dec 31, 2017
Earnings after royalty expense (before gain on sale of Units of the Fund, share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	**$12,779**	$13,287
Finance expense	**(528)**	(824)
Depreciation of plant and equipment	**(2,271)**	(2,073)
Amortization of deferred gain	**2,181**	1,821
Amortization of deferred finance fees	**(59)**	(17)
Gain on sale of Units of A&W Revenue Royalties Income Fund	**-**	6,314
Share of income from A&W Trade Marks Inc.	**8,178**	6,257
Earnings before income taxes	**20,280**	24,765
Provision for income taxes	**3,886**	3,184
Net income	**$16,394**	$21,581

The decrease in year to date earnings before income taxes, income taxes and net income is due primarily to the gain on the exchange of common shares of Trade Marks for Units of the Fund and subsequent sale of the Units of the Fund in the first quarter of 2017 (see "Common Shares of A&W Trade Marks Inc."), and the decrease in earnings previously noted, partially offset by the increase in Food Services' share of Trade Marks' income.

Net income attributable to non-controlling interests

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

Other comprehensive income

Other comprehensive income consists of actuarial gains and losses, net of tax, on the supplementary retirement benefit plan. Actuarial gains result from an increase in the discount rate used to determine the accrued benefit obligation and actuarial losses result from a decrease in the discount rate. The actuarial gain, net of tax, for 2018 was $609,000 compared to a loss of $28,000 for 2017.

Liquidity and Capital Resources

Food Services is primarily a franchise business with 943 of its 952 restaurants franchised. Food Services' capital requirements are related to its corporate restaurants and head office and investments in technology and information. Future restaurant growth will continue to be funded by franchisees although from time to time, Food Services expects to incur capital expenditures to open new corporate restaurants in the Ottawa market. Food Services also expects to incur capital expenditures for the Urban Franchise Associate program aimed at attracting millennials to become owner-operators of urban concept restaurants where Food Services will contribute to the cost of building the physical location. Food Services expects to have sufficient capital resources to fund these capital requirements and has sufficient cash on hand to meet its obligations. On March 3, 2017, Food Services increased its $5,000,000 demand operating loan facility with a Canadian chartered bank (the Bank) to $8,000,000 to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the bank prime rate plus 0.5% and are repayable on demand. As at December 30, 2018, letters of credit totalling $329,000 (December 31, 2017 - $329,000) have been issued by the Bank to landlords and cities for development of new restaurants, leaving $7,671,000 of the facility available (December 31, 2017 - $7,671,000).

In April 2018, Food Services repaid the $7,000,000 term loan that had been entered into with the Bank on March 3, 2017. While the term loan was outstanding, interest only was payable monthly at the bank prime rate plus 0.5%.

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

Off-Balance Sheet Arrangements

Food Services has no off-balance sheet arrangements.

Cash Flows

Cash flows from operating activities decreased by $1,520,000 in 2018 as compared to 2017. The decrease was primarily driven by an increase in inventories and accounts receivable, an increase in income taxes paid and a decrease in the earnings after royalty expense, partially offset by an increase in deposits on franchise and equipment sales and turnkey construction projects for restaurants expected to open in the coming months and an increase in accounts payable.

Related Party Transactions and Balances

Royalty expense for the year was $40,890,000 (December 31, 2017 – $35,616,000), of which $3,262,000 (December 31, 2017 – $2,742,000) is payable to the Partnership by Food Services at December 30, 2018.

During the year, dividends of $7,316,000 (December 31, 2017 –$5,684,000) were received from Trade Marks.

During the year, Food Services contracted with a private company controlled by a shareholder and director of Food Services for rental of a private plane and crew for business travel. The cost of the services provided under the contract during the year totalled $69,000 (December 31, 2017 – $80,000). At December 30, 2018, $nil (December 31, 2017 –$nil) is payable to the private company by Food Services.

During the year, Food Services paid $125,000 (December 31, 2017 – $125,000) to a professional baseball club, of which a shareholder and director of Food Services is a part owner, in exchange for advertising the A&W brand at the ballpark. At December 30, 2018, $nil (December 31, 2017 – $nil) is payable to the baseball club by Food Services.

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

Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. It is reasonably possible that circumstances may arise that would cause actual results to differ from management estimates; however, management does not believe it is likely that such differences will materially affect Food Services' financial position. Significant areas requiring the use of management estimates are investment in Trade Marks, supplementary retirement benefit plan and deferred income taxes. However, such estimates are not "critical accounting estimates" as (i) they do not require Food Services to make assumptions about matters that are highly uncertain at the time the estimate is made, and (ii) different estimates that could have been used, or changes in the accounting estimates that are reasonably likely to occur from period to period, would not have had a material impact on Food Services' financial condition, changes in financial condition or financial performance.

New standards and interpretations not yet adopted

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

New standards and interpretations adopted

Food Services has applied the following new standards for the first time for its annual reporting period commencing January 1, 2018:

IFRS 15, *Revenue from Contracts with Customers,* has been adopted effective January 1, 2018, using the full retrospective method without the use of practical expedients.

The adoption of this standard has changed the timing of recognition of initial franchise fees and renewal fees. These fees were previously recognized upfront upon either opening of the respective restaurant or when a renewal agreement becomes effective. Under the new guidance, the Company has identified one distinct performance obligation, being the provision of franchising services. The Company recognizes revenues on this performance obligation over time because franchisees consume services as they are provided. As a result, the Company defers the entire initial and renewal franchise fee and recognizes revenues over the term of the related franchise agreement.

The adoption of this standard has also changed the reporting of advertising fund contributions received from franchisees and the related advertising expenditures. These advertising fund contributions and expenditures were previously reported on a net basis in the consolidated statements of income. Under the new standard, advertising fund contributions from franchisees and advertising fund expenditures are reported on a gross basis, as the Company controls the advertising services prior to delivery of those services to the franchisees. The related advertising fund revenues and expenses may be reported in different periods in the consolidated statement of comprehensive income.

The timing of the recognition of revenue related to the other revenue streams has not changed as a result of adopting the new guidance.

The cumulative effect of the changes made to the Consolidated Balance Sheet as at January 1, 2017 related to the adoption of IFRS 15 was as follows:

	As Previously Reported $	**Adjustment $**	**Restated $**
Assets			
Accounts receivable	15,403	3,864	19,267
Deferred income taxes	12,087	6,055	18,142
Liabilities			
Accounts payable and accrued liabilities	27,469	2,148	29,617
Income taxes payable	232	573	805
Deferred revenue	-	23,146	23,146
Shareholders' Deficiency			
Accumulated deficit	(77,463)	(15,948)	(93,411)

The cumulative effect of the changes made to the Consolidated Balance Sheet as at December 31, 2017 related to the adoption of IFRS 15 was as follows:

	As Previously Reported $	**Adjustment $**	**Restated $**
Assets			
Accounts receivable	16,589	4,912	21,501
Deferred income taxes	12,995	6,692	19,687
Liabilities			
Accounts payable and accrued liabilities	29,848	2,447	32,295
Income taxes payable	1,830	646	2,476
Deferred revenue	-	25,581	25,581
Shareholders' Deficiency			
Accumulated deficit	(92,030)	(17,070)	(109,100)

The cumulative effect of the changes made to the Consolidated Statement of Income for the 52-week period ended December 31, 2017 related to the adoption of IFRS 15 was as follows:

	As Previously Reported $	Adjustment $	Restated $
Revenue			
Franchising	135,015	36,512	171,527
Expenses			
Operating costs	64,629	38,198	102,827
Provision for income taxes	3,748	(564)	3,184
Net income for the period	22,703	(1,122)	21,581

IFRS 9, *Financial Instruments,* has been adopted effective January 1, 2018, retrospectively without restatement of comparatives. The new standard replaces IAS 39 Financial Instruments: Recognition and Measurement. Under IFRS 9, Food Services assesses on a forward looking basis the expected credit losses associated with financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, Food Services applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The adoption of this standard had no impact on the consolidated financial statements and no adjustments to opening retained earnings as at January 1, 2018 were necessary.

Risks and Uncertainties

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

Outlook

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

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

launched the new Root Beer Guarantee. A&W Root Beer served in the restaurants is now made from natural cane sugar and all-natural flavours - another first for the QSR industry

In Q3 2018, A&W further strengthened its positioning as a leader in food and innovation with the introduction of the Beyond Meat Burger. Food Services is very excited to be the first national burger chain in Canada to offer burger lovers across Canada this burger patty made using 100% plant-based protein including peas, rice, mung beans, coconut oil, pomegranates, potatoes, apples and beets. The Beyond Meat Burger is great for anyone who wants more plant-based options in their diet. The demand for this new burger exceeded expectations, leading to a supply gap which lasted several weeks before the Beyond Meat Burger was relaunched on October 1, 2018.

In Q4 2018, A&W took the next big step in its ingredient journey with a move to using real cheese on all burgers and breakfast sandwiches. A&W's real cheeses include cheddar, mozzarella, jalapeno jack, and cheddar cheese curds, all made in Canada. All processed cheese has been removed from our menu.

Menu innovations are important to A&W's success. In February 2017, all-day breakfast was launched. In 2018, breakfast promotions have featured the new breakfast sandwich recipes along with promotions on the Classic Breakfast and Bacon & Egger. Burger innovation was on the menu as well. In addition to the introduction of the Beyond Meat Burgers as a permanent menu item, limited time offers included the Mushroom Mozzarella Burgers, Cheddar and Roasted Garlic Burgers, Bourbon Steakhouse Burgers, Wild Caught Cod Burgers, Spicy Guacamole Burgers and Topped Fries, Cheddar Jalapeno Burgers and the new '56 Burgers. These menu items have been very well received by Food Services' guests.

Food Services' continues to rapidly grow new A&W restaurants, particularly in the key Ontario and Quebec markets. Forty-two new A&W restaurants were opened across the country in 2018. As of December 31, 2018, an additional sixty-six are under construction or in varying stages of permitting.

A&W expanded upon its strategy to reach more consumers by joining forces with Uber Eats to make ordering and enjoying A&W's menu options more convenient and accessible in more parts of the country. For those who are looking for the convenience of delivery and don't have the chance to visit a restaurant, it's a new way to enjoy their A&W favourites from the comfort of home or wherever they might be.

A further important strategic initiative of Food Services is to deliver an industry leading guest experience. To ensure each guest at an A&W restaurant has a positive experience, Food Services has introduced changes in its satisfaction measurement and feedback systems, system level processes, staffing, CLIMATE, and restaurant equipment. This initiative also includes the ongoing re-imaging and modernizing of our existing restaurants, and innovation in technology. Including the new restaurants opened in the new design since the beginning of the re-image program, approximately 98% of A&W's restaurants now have the new design. A new "Good Food Makes Good Food" design is now being introduced in restaurants to communicate Food Services' ingredients guarantee to its guests. Costs of re-imaging A&W restaurants are borne by the franchisees and there is no cost to the Fund.

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

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

FORWARD LOOKING INFORMATION

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

The forward-looking information in this report includes, but is not limited to: expected future consideration payable on adjustments to the Royalty Pool; the expected impact on Food Services' financial position, results of operations and cash flows from the adoption of IFRS 16 and IFRS 15; Food Services' plans to reposition and differentiate A&W in the QSR industry through its use of "better ingredients", new restaurant growth, and delivering an industry leading guest experience; the number of new A&W restaurants under construction and the expected timing for their opening; Food Services' strategic initiatives, including ongoing reimaging and modernizing of existing A&W restaurants, innovation in technology and minimizing its environmental footprint; Food Services' expectation that it will incur capital expenditures to open new corporate restaurants in the Ottawa market, that it will incur capital expenditures for the Urban Franchise Associate program where Food Services will contribute to the cost of building the physical location, and that it will have sufficient capital resources to fund these capital requirements; Food Services' continued efforts to consistently deliver great food and a better guest experience, in combination with reimage progress, contributing to winning guest visits and building loyalty and enhancing performance over the long term.

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

- the general risks that affect the restaurant industry will not arise;
- there are no changes in availability of experienced management and hourly employees;
- there are no material changes in government regulations concerning menu labelling and disclosure and drive-thru restrictions;
- no publicity from any food borne illness;
- no material changes in competition;

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

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

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

- changes in the ability to enforce or maintain intellectual property;
- risks related to technological breakdowns and cybersecurity breaches;
- risks related to the amplificatory effects of media and social media; and,
- increases in catastrophic events.

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

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

These risks, uncertainties and other factors are more particularly described in the Fund's most recent Annual Information Form under the heading "Risk Factors".
All forward-looking information in this report is qualified in its entirety by this cautionary statement and, except as required by law, the Food Services undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.