

A&W Food Services of Canada Inc.

Q1/2019

Consolidated Financial Statements

For the first quarter ended
March 24, 2019

Provided as a supplement to the financial
statements of A&W Revenue Royalties Income
Fund



**A&W Food Services of Canada Inc.
Report to Unitholders of A&W Revenue Royalties Income Fund
December 31, 2018 to March 24, 2019**

This report and the interim condensed consolidated financial statements of A&W Food Services of Canada Inc. (A&W or Food Services) for the 12 weeks ended March 24, 2019 are provided as a supplement to the interim condensed consolidated financial statements and Management Discussion and Analysis of the A&W Revenue Royalties Income Fund (the Fund) for the quarter ended March 24, 2019. This report is dated May 2, 2019 and should be read in conjunction with the interim condensed consolidated financial statements of Food Services for the 12 weeks ended March 24, 2019 and the audited annual consolidated financial statements of Food Services for the 52 weeks ended December 30, 2018. Such financial statements and additional information about the Fund and Food Services are available at www.sedar.com or www.awincomefund.ca.

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). Food Services' first quarter ends 12 weeks after its fiscal year end.

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 Food Services' annual consolidated financial statements for the year ended December 30, 2018.

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)	12 week period ended Mar 24, 2019	12 week period ended Mar 25, 2018
System sales ⁽¹⁾	\$316,978	\$275,426
System sales growth ⁽¹⁾	+15.1%	+10.0%
Same store sales growth ⁽¹⁾	+10.0%	+5.3%
New restaurants opened	9	7
Restaurants closed	0	1
Number of restaurants	961	924
Franchising & corporate restaurant revenue	\$48,454	\$37,810
Operating costs and general and administrative expenses	(38,195)	(32,128)
Depreciation of plant and equipment	585	498
Earnings before royalty expense, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	\$10,844	\$6,180
Royalty expense	(9,265)	(8,031)
Net income (loss)	\$3,265	(\$344)

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

Same Store Sales

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

Same store sales for the first quarter of 2019 increased by 10.0% as compared to the same quarter of 2018. Same store sales growth was achieved in all provinces and concepts.

System Sales

System sales grew 15.1% for the first quarter compared to 2018. Total system sales for all A&W restaurants in Canada for the 12 weeks ended March 24, 2019 were \$316,978,000, an increase of \$41,552,000 from the 12 weeks ended March 25, 2018. The increase in system sales was due to the same store sales growth plus the increase in the number of restaurants from 952 at the end of 2018 to 961 at the end of the first quarter.

New Restaurant Openings and Restaurant Closures

Food Services opened 9 new A&W restaurants during the first quarter, compared to 7 new restaurants in the first quarter of 2018. No restaurants were closed during the quarter compared to one in the first quarter of 2018. As at March 24, 2019, there were 961 A&W restaurants in

Canada, of which 952 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 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, 2017	25,009,271	122,494	78.1	7,020,731	75,558	21.9	32,030,002	198,052
January 5, 2018 adjustment to the Royalty Pool ⁽¹⁾	-	-	(4.0)	1,719,446	29,978	4.0	1,719,446	29,978
Balance as at December 30, 2018	25,009,271	122,494	74.1	8,740,177	105,536	25.9	33,749,448	228,030
January 5, 2019 adjustment to the Royalty Pool ⁽²⁾	-	-	(2.7)	1,255,028	21,844	2.7	1,255,028	21,844
Balance as at March 24, 2019	25,009,271	122,494	71.4	9,995,205	127,380	28.6	35,004,476	249,874

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

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

Ownership of the Fund

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

	March 24, 2019		December 31, 2018	
	Number of units	%	Number of units	%
Fund units held by public unitholders	12,504,673	71.4	12,504,673	74.1
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services ⁽¹⁾	4,997,603	28.6	4,370,089	25.9
Total equivalent units	17,502,276	100.0	16,874,762	100.0

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

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

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

2019 Operating Results

Revenue

Food Services' franchising and corporate revenue for the first quarter of 2019 was \$48,454,000 compared to \$37,810,000 for the first quarter of 2018. Franchising revenue was \$44,337,000 compared to \$34,642,000, an increase of \$9,695,000. Revenue related to sales from the distribution of food and supplies and services fees and Advertising fund contributions for 2019 increased due to higher system sales. Equipment and turnkey revenue increased to \$12,343,000 from \$6,409,000, due primarily to an increase in the number of new restaurants constructed by Food Services and then sold to franchisees in the first quarter of 2019 versus the prior year, and increases in revenues from reimage, renovation and other miscellaneous equipment. Other franchise revenue increased \$157,000 compared to the prior year.

Corporate restaurant sales were \$4,117,000 in the first quarter of 2019 compared to \$3,168,000 in the first quarter of 2018. The \$949,000 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 the first quarter of 2019 were \$27,126,000 compared to \$22,114,000 in the first quarter of 2018, an increase of \$5,012,000. 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 also increased in line with the increase in revenue noted above.

General and administrative expenses represent costs of providing services to franchised restaurants and establishing new restaurants, and were \$11,069,000 for the first quarter of 2019 compared to \$10,014,000 for the first quarter of 2018, an increase of \$1,055,000. 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)	12 week period ended Mar 24, 2019	12 week period ended Mar 25, 2018
Franchising & corporate restaurant revenue	\$48,454	\$37,810
Operating costs and general and administrative expenses	(38,195)	(32,128)
Depreciation of plant and equipment	585	498
Earnings before royalty expense, gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	\$10,844	\$6,180

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 \$4,664,000 to \$10,844,000 for the first quarter of 2019 as compared to \$6,180,000 for the first quarter of 2018. The operating margin for Q1 2019 was 22.4% compared to 16.3% for Q1 2018. The largest reason for this is that the 2018 margin had been impacted by a timing difference in the National Advertising Fund contributions and expenses which did not repeat in 2019.

Royalty expense

Royalty expense for the first quarter of 2019 increased by \$1,234,000 to \$9,265,000 compared to \$8,031,000 for the first quarter of 2018. The increase in royalty expense resulted from the additional net 38 restaurants in the Royalty Pool and the same store sales growth of restaurants in the Royalty Pool.

Earnings (loss) after royalty expense

(dollars in thousands)	12 week period ended Mar 24, 2019	12 week period ended Mar 25, 2018
Earnings before royalty expense, gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	\$10,844	\$6,180
Royalty expense	(9,265)	(8,031)
Earnings after royalty expense (before gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	\$1,579	(\$1,851)

Earnings after royalty expense (but before the gain on sale of Fund units, Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) increased by \$3,430,000 to \$1,579,000 for the first quarter of 2019 compared to a loss of \$1,851,000 for the first quarter of 2018. The increase was comprised of the \$1,234,000 increase in royalty expense related to the same store sales growth of restaurants in the Royalty Pool and the additional net 38 restaurants in the Royalty Pool, offset by the \$4,664,000 increase in operating earnings.

Finance expense - net

(dollars in thousands)	12 week period ended Mar 24, 2019	12 week period ended Mar 25, 2018
Interest income	(\$33)	(\$8)
Interest on term loan	-	50
Interest cost on supplementary retirement benefit plan	113	129
Finance leases	33	37
	\$113	\$208

Interest expense decreased by \$95,000 to \$113,000 for the first quarter of 2019 compared to \$208,000 for the first quarter of 2018. 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 the first quarter of 2019 increased by \$297,000 to \$1,678,000 compared to \$1,381,000 for the first quarter of 2018. Food Services' indirect interest in the Fund was 28.6% on a fully diluted basis compared to 24.7% during the first quarter of 2018.

Net income

(dollars in thousands)	12 week period ended Mar 24, 2019	12 week period ended Mar 25, 2018
Earnings after royalty expense (before gain on sale of Units of the Fund, share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	\$1,579	(\$1,851)
Finance expense	(113)	(208)
Depreciation of plant and equipment	(585)	(498)
Amortization of deferred gain	504	421
Amortization of deferred finance fees	-	(5)
Share of income from A&W Trade Marks Inc.	1,678	1,381
Earnings before income taxes	3,063	(760)
Recovery of income taxes	202	416
Net income	\$3,265	(\$344)

The increase in earnings before income taxes and net income is due primarily to the increase in earnings previously noted.

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 loss, net of tax, for the first quarter of 2019 was \$720,000 compared to a gain of \$141,000 for the first quarter of 2018.

Liquidity and Capital Resources

Food Services is primarily a franchise business with 952 of its 961 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. Food Services has a demand operating loan facility with a Canadian chartered bank (the Bank) of \$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 March 24, 2019, letters of credit totalling \$329,000 (December 30, 2018 - \$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 30, 2018 - \$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 increased by \$3,664,000 in the first quarter of 2019 as compared to the first quarter of 2018. The increase was primarily driven by the increase in operating earnings discussed previously.

Related Party Transactions and Balances

Royalty expense for the period was \$9,265,000 (2018 - \$8,031,000), of which \$3,197,000 (December 30, 2018 – \$3,262,000) is payable to the Partnership by Food Services at March 24, 2019.

During the period, dividends of \$1,449,000 (2018 - \$1,118,000) were declared payable by Trade Marks to Food Services, of which \$735,000 (December 30, 2018 - \$nil) is receivable at March 24, 2019.

During the year, Food Services paid \$125,000 (2018 – \$nil) 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 March 24, 2019, \$nil (December 30, 2018 – \$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.

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

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

A&W also moved to using real cheese on all burgers and breakfast sandwiches. A&W's real cheeses include cheddar, mozzarella, jalapeno jack, and cheddar cheese curds, all made in Canada. All processed cheese was removed from A&W's menu.

Food Services' continues to rapidly grow new A&W restaurants, particularly in the key Ontario and Quebec markets. Nine new A&W restaurants have opened across the country in the first three months of 2019. As of March 24, 2019, an additional seventy-three are under construction or in varying stages of permitting.

A further important strategic initiative of Food Services is to deliver an industry leading guest experience. To ensure each guest at an A&W restaurant has a positive experience, Food Services has introduced changes in its satisfaction measurement and feedback systems, system level processes, staffing, CLIMATE, and restaurant equipment. This initiative also includes the ongoing re-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, almost all of A&W's restaurants now have the new design. A new "Good Food Makes Good Food" design is now being introduced in restaurants to communicate Food Services' ingredients guarantee to its guests. Costs of re-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 reimagining 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, 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.

A&W Food Services of Canada Inc.
Interim Condensed Consolidated Balance Sheet
Unaudited

(in thousands of dollars)

	Note	March 24 2019	December 30 2018
Assets			
Current assets			
Cash and cash equivalents		\$ 9,050	\$ 11,137
Accounts receivable		25,473	28,969
Dividends receivable	11	735	-
Inventories		5,486	11,275
Prepaid expenses		457	1,332
		41,201	52,713
Non-current assets			
Investment in A&W Trade Marks Inc.	4	125,234	103,161
Deferred income taxes		20,504	19,671
Plant and equipment		12,470	11,950
Other non-current assets	4	5,461	-
Total assets		\$ 204,870	\$ 187,495
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 32,107	\$ 44,350
Royalties payable	11	3,197	3,262
Deposits on franchise and equipment sales		13,764	12,626
Deferred revenue		2,247	2,247
Income taxes payable		136	1,446
		51,451	63,931
Non-current liabilities			
Deferred gain	4	205,949	179,148
Deferred revenue		25,476	25,184
Supplementary retirement benefit plan		13,846	12,942
Other long-term liabilities		39	44
Obligations under finance leases		898	865
		297,659	282,114
Shareholders' Deficiency			
Share capital		10,500	10,500
Accumulated deficit		(103,628)	(105,290)
		(93,128)	(94,790)
Non-controlling interest			
		339	171
Total deficiency		(92,789)	(94,619)
Total liabilities and deficiency		\$ 204,870	\$ 187,495

These interim condensed consolidated financial statements have been prepared by and are the responsibility of management. As A&W Food Services of Canada Inc. is a private entity, the company's auditor has not performed a review of these financial statements.

A&W Food Services of Canada Inc.
Interim Condensed Consolidated Statement of Income (Loss)

Unaudited

(in thousands of dollars)

	Note	12 week period ended Mar 24, 2019	12 week period ended Mar 25, 2018
Revenue			
Franchising	7	\$ 44,337	\$ 34,642
Corporate restaurants		4,117	3,168
		48,454	37,810
Expenses (income)			
Operating costs	8	27,126	22,114
General and administrative expenses		11,069	10,014
Royalty expense	11	9,265	8,031
Finance expense - net	9	113	208
Amortization of deferred gain	4	(504)	(421)
Amortization of deferred finance fees		-	5
Share of income from A&W Trade Marks Inc.	4	(1,678)	(1,381)
		45,391	38,570
Income (loss) before income taxes		3,063	(760)
Provision for (recovery of) income taxes			
Current		368	165
Deferred		(570)	(581)
		(202)	(416)
Net income (loss) for the period		\$ 3,265	\$ (344)
Net income (loss) attributable to:			
Shareholders of A&W Food Services of Canada Inc.		\$ 3,097	\$ (506)
Non-controlling interest		168	162
		\$ 3,265	\$ (344)

A&W Food Services of Canada Inc.
Interim Condensed Consolidated Statement of Comprehensive Income (Loss)

Unaudited

(in thousands of dollars)

	12 week period ended Mar 24, 2019	12 week period ended Mar 25, 2018
Net income (loss) for the period	\$ 3,265	\$ (344)
Other comprehensive income (loss)		
Items that will not be reclassified to net income		
Actuarial gain (loss) on supplementary retirement benefit plan - net of tax	(720)	141
Comprehensive loss	\$ 2,545	\$ (203)
Comprehensive income (loss) attributable to:		
Shareholders of A&W Food Services of Canada Inc.	\$ 2,377	\$ (365)
Non-controlling interest	168	162
	\$ 2,545	\$ (203)

A&W Food Services of Canada Inc.

Interim Condensed Consolidated Statement of Changes in Shareholders' Deficiency

Unaudited

(in thousands of dollars)

	Share capital	Accumulated deficit	Total	Non- controlling interest	Total deficiency
Balance - December 31, 2017	10,500	(109,100)	(98,600)	174	(98,426)
Net income (loss) for the period	-	(506)	(506)	162	(344)
Dividends on common shares	-	(5,000)	(5,000)	-	(5,000)
Actuarial gain on supplementary retirement benefit plan - net of tax	-	141	141	-	141
Balance - March 25, 2018	10,500	(114,465)	(103,965)	336	(103,629)
Net income for the period	-	16,023	16,023	715	16,738
Dividends on common shares	-	(7,316)	(7,316)	(880)	(8,196)
Actuarial gain on supplementary retirement benefit plan - net of tax	-	468	468	-	468
Balance - December 31, 2018	10,500	(105,290)	(94,790)	171	(94,619)
Net income for the period	-	3,097	3,097	168	3,265
Dividends on common shares	11	(715)	(715)	-	(715)
Actuarial loss on supplementary retirement benefit plan - net of tax	-	(720)	(720)	-	(720)
Balance - March 24, 2019	\$ 10,500	\$ (103,628)	\$ (93,128)	\$ 339	\$ (92,789)

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

A&W Food Services of Canada Inc.
Interim Condensed Consolidated Statement of Cash Flows

Unaudited

(in thousands of dollars)

	Note	12 week period ended Mar 24, 2019	12 week period ended Mar 25, 2018
Cash flows used in operating activities			
Net income (loss) for the period		\$ 3,265	\$ (344)
Adjustments for			
Depreciation of plant and equipment		585	498
Deferred income taxes		(570)	(581)
Gain on disposal of plant and equipment		(32)	(17)
Supplementary retirement benefit plan		(192)	(92)
Increase in deferred revenue		292	338
Decrease in other long-term liabilities		(5)	(6)
Amortization of deferred finance fees		-	5
Amortization of deferred gain	4	(504)	(421)
Share of income of A&W Trade Marks Inc.	4	(1,678)	(1,381)
Current income tax expense		368	165
Income tax paid		(1,678)	(2,915)
Finance expense - net		113	208
Finance expense paid		-	(78)
Changes in items of non-cash working capital	10	(933)	(12)
Net cash used in operating activities		(969)	(4,633)
Cash flows (used in) generated from investing activities			
Purchase of plant and equipment		(914)	(249)
Dividends from A&W Trade Marks Inc.		714	559
Net cash (used in) generated from investing activities		(200)	310
Cash flows used in financing activities			
Decrease in obligations under finance leases		(203)	(201)
Dividends paid to shareholder		(715)	(5,000)
Net cash used in financing activities		(918)	(5,201)
Decrease in cash and cash equivalents		(2,087)	(9,524)
Cash and cash equivalents - beginning of period		11,137	17,551
Cash and cash equivalents - end of period		\$ 9,050	\$ 8,027
Non-cash investing activities			
Non-cash acquisition of automobiles through finance leases		\$ 301	\$ 152

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

A&W Food Services of Canada Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 24, 2019

(figures in tables are expressed in thousands of dollars)

1 General information

A&W Food Services of Canada Inc. (the Company or Food Services) is in the business of developing and franchising quick-service restaurants in Canada. During the period ended March 24, 2019, the Company opened 9 locations, bringing the total number of A&W restaurants to 961, of which 952 are franchised and nine are owned and operated corporately. Food Services' registered offices are located at Suite 300 - 171 West Esplanade, North Vancouver, British Columbia, 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 Food Services' audited annual consolidated financial statements as at December 30, 2018.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of Food Services' annual consolidated financial statements for the year ended December 30, 2018.

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

3 Significant accounting policies

Consolidation

The financial statements include the accounts of Food Services and its 60% interest in A&W Root Beer Beverages of Canada Inc. (Beverages). The non-controlling interest represents an equity interest in Beverages owned by outside parties, and is presented as a component of equity.

Fiscal year

To align its financial reporting with the business cycle of its operations, the Company uses a fiscal year comprising a 52- or 53-week period ending the Sunday nearest December 31. The fiscal 2018 year was 52 weeks and ended December 30, 2018 (2017 - 52 weeks ended December 31, 2017). Beverages uses a fiscal year ending December 31. The first quarter ends 12 weeks after the fiscal year end.

A&W Food Services of Canada Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 24, 2019

(figures in tables are expressed in thousands of dollars)

4 Investment in A&W Trade Marks Inc. and deferred gain

In 2002, Food Services sold the A&W trade-marks used in the A&W quick service restaurant business in Canada to A&W Trade Marks Inc. (Trade Marks), which subsequently transferred them to the A&W Trade Marks Limited Partnership (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 to Food Services by specific A&W restaurants in Canada (the Royalty Pool). The gain realized on the sale of the A&W trade-marks was deferred and is being amortized over the term of the Amended and Restated Licence and Royalty Agreement. Prior to October 2003, the amortization was based upon the present value of the expected royalty payments made under the Amended and Restated Licence and Royalty Agreement. Amortization of the gain is recognized on the consolidated statement of income.

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 restaurants and the current yield on the Units of the A&W Revenue Royalties Income Fund (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. These additions to the deferred gain are amortized over the remaining term of the Amended and Restated Licence and Royalty Agreement from the date of addition.

The 2019 annual adjustment to the Royalty Pool took place on January 5, 2019. The number of A&W restaurants in the Royalty Pool was increased by 46 new restaurants less eight restaurants that permanently closed during 2018. The 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 the units of the Fund for the 20 trading days ending October 29, 2018. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$21,844,000, by issuance of 627,514 LP units which were subsequently exchanged for 1,255,028 non-voting common shares of Trade Marks. The remaining 20% of the consideration or \$5,461,000 will be paid in December 2019 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks, and is recorded in other assets. 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.

A&W Food Services of Canada Inc.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 24, 2019

(figures in tables are expressed in thousands of dollars)

Food Services' 28.6% (December 30, 2018 – 25.9%) investment in Trade Marks is recorded using the equity method.

	Common shares \$	Cumulative equity in earnings \$	Cumulative dividend \$	Total \$
Balance – December 31, 2017	75,559	29,781	(33,018)	72,321
January 5, 2018 adjustment to Royalty Pool	29,978	-	-	29,978
Equity in earnings	-	8,178	-	8,178
Dividends	-	-	(7,316)	(7,316)
Balance – December 30, 2018	105,536	37,959	(40,334)	103,161
January 5, 2019 adjustment to Royalty Pool	21,844	-	-	21,844
Equity in earnings	-	1,678	-	1,678
Dividends	-	-	(1,449)	(1,449)
Balance – March 24, 2019	127,380	39,637	(41,783)	125,234

The deferred gain as at March 24, 2019 is as follows:

	Number of restaurants in Royalty Pool	Deferred gain \$	Accumulated amortization \$	Net deferred gain \$
Balance – December 31, 2017	861	169,550	(18,199)	151,351
January 5, 2018 adjustment to Royalty Pool	35	29,978	-	29,978
Amortization of deferred gain	-	-	(2,181)	(2,181)
Balance – December 30, 2018	896	199,528	(20,380)	179,148
January 5, 2019 adjustment to Royalty Pool	38	27,305	-	27,305
Amortization of deferred gain	-	-	(504)	(504)
Balance – March 24, 2019	934	226,833	(20,884)	205,949

(figures in tables are expressed in thousands of dollars)

5 Operating loan facility and term loan

Food Services has a demand operating loan facility with a Canadian chartered bank (the Bank) of \$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 March 24, 2019, letters of credit totalling \$329,000 (December 30, 2018 - \$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 30, 2018 - \$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%.

6 New restaurant openings

Food Services opened nine new franchised restaurants during the quarter (2018 – seven). There was an increase in turnkey revenues and construction costs in the quarter as compared to the prior year related to an increase in the number of new restaurants opened that were turnkey projects.

7 Franchising revenue

Franchising revenues disaggregated by revenue source are outlined below. The table also shows the basis on which franchising revenues are recognized.

	12 week period ended Mar 24, 2019	12 week period ended Mar 25, 2018
	\$	\$
At a point in time		
Advertising fund contributions	10,528	9,198
Distribution revenue and service fees	18,896	17,108
Equipment and turnkey revenue	12,343	6,409
Other revenue	1,783	1,626
Over time		
Initial franchise fees and renewal fees	787	301
	<u>44,337</u>	<u>34,642</u>

(figures in tables are expressed in thousands of dollars)

8 Expenses by nature

Included in operating costs and general and administrative expenses are the following expenses by nature:

	12 week period ended Mar 24, 2019	12 week period ended Mar 25, 2018
	\$	\$
Depreciation of plant and equipment	585	498
Employee benefit costs		
Wages and salaries and other termination benefits	6,273	5,722
Pension costs - defined contribution plan	256	213
Total employee benefit costs	6,529	5,935

9 Finance (income) expense

	12 week period ended Mar 24, 2019	12 week period ended Mar 25, 2018
	\$	\$
Interest income	(33)	(8)
Interest on term loan	-	50
Interest cost on supplementary retirement benefit plan	113	129
Finance leases	33	37
	113	208

10 Working capital

Net changes in items of non-cash working capital are as follows:

	12 week period ended Mar 24, 2019	12 week period ended Mar 25, 2018
	\$	\$
Accounts receivable	3,496	929
Inventories	5,789	978
Prepaid expenses	875	(1,609)
Accounts payable and accrued liabilities	(12,166)	(3,434)
Royalties payable	(65)	20
Deposits on franchise and equipment sales	1,138	3,104
	(933)	(12)

(figures in tables are expressed in thousands of dollars)

11 Related party transactions and balances

Royalty expense for the period was \$9,265,000 (2018 - \$8,031,000), of which \$3,197,000 (December 30, 2018 - \$3,262,000) is payable to the Partnership at March 24, 2019.

During the period, Trade Marks declared dividends on common shares held by Food Services of \$1,449,000 (2018 - \$1,118,000), of which \$735,000 (December 30, 2018 - \$nil) is receivable at March 24, 2019.

During the period, Food Service paid \$125,000 (2018- \$nil) 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 March 24, 2019, \$nil (December 30, 2018 - \$nil) is payable to the baseball club by Food Services.

Key management compensation

Key management includes the Company's executive team. The compensation awarded to key management includes:

	12 week period ended Mar 24, 2019	12 week period ended Mar 25, 2018
	\$	\$
Salaries, bonuses and other short-term employee benefits	671	848
Pension costs - defined contribution plan	77	69
Pension costs - supplementary retirement benefit plan	113	130
Total	<u>861</u>	<u>1,047</u>

Dividends

During the year to date period of 2019, Food Services paid dividends of \$715,000 (2018 - \$5,000,000) from working capital to its parent.

Other related party transactions are disclosed elsewhere within these consolidated financial statements.



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