A&W Revenue Royalties Income Fund

Q2

Second Quarter Report to Unitholders
for the period ended
June 18, 2017

To our Unitholders

On behalf of the Trustees of the A&W Revenue Royalties Income Fund (the Fund), it is my pleasure to report the results of the second quarter, ended June 18, 2017.

During the second quarter, same store sales grew by 0.7% compared to the same quarter of 2016. This growth was achieved despite a generally weak Canadian food service industry, especially in Alberta and Saskatchewan which have been impacted by the downturn in the oil industry and the introduction of a new 6% provincial sales tax on restaurant meals in Saskatchewan effective April 1, 2017. This same store sales growth combined with an increase in the number of restaurants in the Royalty Pool generated an increase in royalty income of 3.8% in the second quarter. Distributable cash per unit increased by 1.1 cents per unit to 38.2 cents per unit.

A significant component of A&W's strategy to support future growth has been to source "better ingredients". In this, A&W has led the quick service restaurant (QSR) industry since 2013, when Food Services became the first national QSR in Canada to use only beef raised without the use of hormones and steroids, eggs from hens fed a diet without animal by-products, chicken raised without the use of antibiotics, organic and Fair Trade coffee, and bacon from pork raised without antibiotics.

The next step in A&W's journey to source simple, all-natural ingredients that guests can feel good about was taken with the recent announcement of 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.

A&W has also been accelerating growth with the opening of new restaurants. Seventeen new A&W restaurants were opened across the country in the first six months of 2017. We are looking forward to reaching another milestone in the coming weeks when the 900th restaurant is opened.

The strength of the A&W brand, the commitment to strategy and strong execution has led to continued growth and great stability through all market conditions. We are pleased to see that trend continue. We look forward to continued success.

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

A&W Revenue Royalties Income Fund
Management Discussion and Analysis

This Management Discussion and Analysis (MD&A) covers the second quarter period from March 27, 2017 to June 18, 2017 and is dated July 25, 2017. This MD&A should be read in conjunction with the unaudited interim condensed financial statements of A&W Revenue Royalties Income Fund (the Fund) for the quarter ended June 18, 2017 and the audited annual consolidated financial statements of the Fund for the year ended December 31, 2016. Readers are also referred to the unaudited interim condensed consolidated financial statements of A&W Food Services of Canada Inc. (Food Services) for the quarter ended June 18, 2017 and the audited annual consolidated financial statements of Food Services for the 52 week year ended January 1, 2017. Such financial statements and additional information about the Fund and Food Services are available at www.sedar.com or www.awincomefund.ca.

The financial results reported in this MD&A are derived from the unaudited interim condensed consolidated financial statements of the Fund, which are prepared in accordance with International Financial Reporting Standards (IFRS) as applicable to interim financial reports, including International Accounting Standards (IAS) 34, Interim Financial Reporting. The accounting policies applied in the interim condensed consolidated financial statements and this report are consistent with those followed in the preparation of the Fund's annual consolidated financial statements for the year ended December 31, 2016.

The Fund uses a fiscal year ending December 31. Food Services uses a fiscal year comprising a 52 or 53 week period ending on the Sunday nearest December 31. Food Services' fiscal 2016 year was 52 weeks and ended January 1, 2017 (2015 – 53 weeks ended January 3, 2016). To align its financial reporting with that of Food Services, the Fund's second quarter of 2017 ended June 18, 2017 (2016 – June 19, 2016), 24 weeks after Food Services' fiscal year end. Readers should be aware that 2017 year to date results are not directly comparable to 2016 year to date results, as there were 85 days of sales in Q1, 2017 compared to 87 days in Q1, 2016. The second quarter of both years had 84 days. Same store sales growth is based on an equal number of days in each quarter.

HIGHLIGHTS

- Same store sales[(1)] were +0.7% as compared to the same quarter of 2016. Year to date same store sales growth is +0.2%.
- Total sales in the Royalty Pool (as hereinafter defined) and royalty income increased by 3.8% in the quarter and 2.3% year to date.
- Net income increased by 11% in the quarter and 30% year to date.

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

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

(dollars in thousands except per unit amounts)	**Period from Mar 27, 2017 to Jun 18, 2017**	Period from Mar 28, 2016 to Jun 19, 2016	**Period from Jan 1, 2017 to Jun 18, 2017**	Period from Jan 1, 2016 to Jun 19, 2016
Same store sales growth[(1)]	**+0.7%**	+2.7%	**+0.2%**	+5.4%
Number of restaurants in the Royalty Pool	**861**	838	**861**	838
Sales reported by the restaurants in the Royalty Pool	**$274,140**	$264,057	**$519,297**	$507,853
Royalty income	**$8,224**	$7,922	**$15,579**	$15,236
General and administrative expenses	**78**	60	**349**	316
Net third party interest expense	**597**	589	**1,201**	1,200
Current income tax provision	**1,456**	1,519	**2,649**	2,922
Total distributable cash generated for distributions and dividends[(2)]	**$6,094**	$5,754	**$11,381**	$10,798
Distributable cash per equivalent unit (2017 – 15,950,970 units; 2016 – 15,517,988 units)[(2)(3)]	**$0.382**	$0.371	**$0.714**	$0.697
Distributions and dividends declared per equivalent unit	**$0.399**	$0.380	**$0.665**	$0.630
Net income[(4)]	**$6,395**	$5,758	**$11,819**	$9,087
Net income, excluding non-cash items[(4)]	**$6,169**	$5,497	**$11,606**	$9,532

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

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

(3) The number of equivalent units and distributable cash per equivalent unit in 2017 includes the 86,596 LP units (as hereinafter defined) exchangeable for 173,192 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2017 adjustment to the Royalty Pool which is held back until December 2017 when the actual annual sales are reported by the new restaurants. The number of equivalent units and distributable cash per equivalent unit in 2016 includes the 157,774 LP units exchanged for 315,548 common shares of Trade Marks representing the final consideration paid in December 2016 for the January 5, 2016 adjustment to the Royalty Pool.

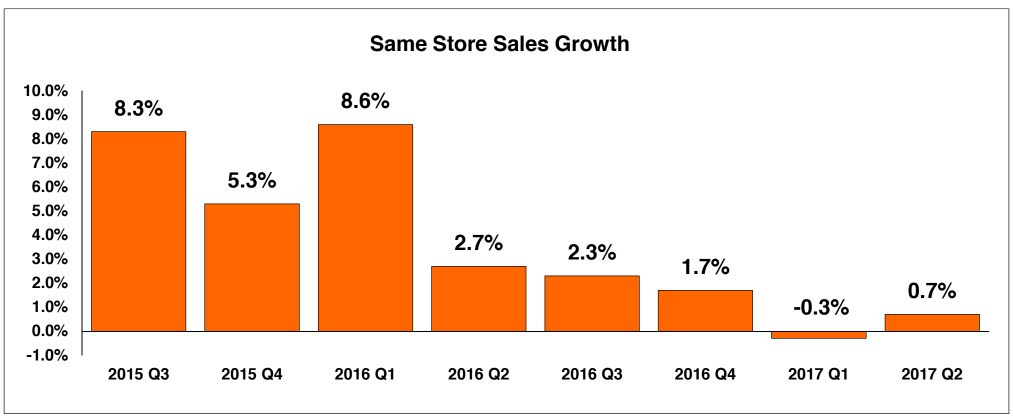
(4) Net income in 2017 and 2016 includes non-cash gains and losses on interest rate swaps, amortization of deferred financing fees and deferred income taxes. These non-cash items have no impact on the Fund’s ability to pay distributions to unitholders. The Fund’s net income excluding these non-cash items is presented for information purposes only. Net income excluding non-cash items does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

SALES PERFORMANCE

Same store sales growth by A&W restaurants for which the royalty is payable (the Royalty Pool) by Food Services to A&W Trade Marks Limited Partnership (the Partnership) is a key performance indicator for the Fund. Same store sales growth is the change in sales of A&W restaurants in the Royalty Pool that operated during the entire 26 4-week periods ending June 18, 2017.

Same store sales for the second quarter of 2017 increased by 0.7% as compared to the same quarter of 2016. Year to date same store sales growth was +0.2% compared to 2016 year to date. Same store sales growth improved during the second quarter, despite a generally weak Canadian food service industry, especially in Alberta and Saskatchewan as a result of the downturn in the oil industry and the introduction of a new 6% provincial sales tax on restaurant meals in Saskatchewan effective April 1, 2017. A&W is continuing to focus on its strategy of using better ingredients, including beef raised without the use of hormones or steroids, eggs from hens fed a diet without animal by-products, chicken raised without the use of antibiotics, organic and Fair Trade coffee and bacon from pork raised without the use of antibiotics. On July 17th, A&W introduced A&W Root Beer made with only natural flavours and 100% cane sugar, across the system.

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



Total sales reported by A&W restaurants in the Royalty Pool for the second quarter of 2017 were $274,140,000, an increase of 3.8% from sales of $264,057,000 for the second quarter of 2016. Year to date sales were $519,297,000, an increase of 2.3% from sales of $507,853,000 for 2016 year to date. The increase in sales was due to the increase in the number of A&W restaurants in the Royalty Pool and same store sales growth partially offset by the decrease in the number of days of sales in the year to date period.

OVERVIEW

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

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

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

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

Another important aspect of the Fund is that Food Services owns the equivalent of 21.2% (2016 – 21.8%) of the units of the Fund through its ownership of common shares of Trade Marks. As a result, interests of Food Services are closely aligned with the interests of unitholders.

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

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

ADJUSTMENT TO THE ROYALTY POOL

The 2017 adjustment to the Royalty Pool took place on January 5, 2017. The number of A&W restaurants in the Royalty Pool was increased by 30 new restaurants less seven restaurants that permanently closed during 2016. The addition of these 23 net new restaurants brings the total number of A&W restaurants in the Royalty Pool to 861. The estimated annual sales of the 30 new A&W restaurants are $33,355,000 and annual sales for the seven permanently closed restaurants were $4,251,000. The initial consideration for the estimated additional royalty stream was $15,046,000, 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 31, 2016. The yield was adjusted to reflect income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or $12,037,000 by issuance of 346,386 LP units which were subsequently exchanged for 692,772 non-voting common shares of Trade Marks. The remaining 20% of the consideration or $3,009,000 will be paid in December 2017 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 2017 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

COMMON SHARES OF TRADE MARKS

The common shares of Trade Marks are owned by the Fund and Food Services. 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 at a price of $39.25 per unit. The Fund did not receive any proceeds of the sale of the units. Following the sale of the units, Food Services owns approximately 21.2% of the units of the Fund on a fully diluted basis. 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, 2015	24,262,671	114,680	81.6	5,477,987	49,093	18.4	29,740,658	163,773
January 5, 2016 adjustment to the Royalty Pool	-	-	(3.4)	1,295,242	17,006	3.4	1,295,242	17,006
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)	-	-	(1.7)	692,772	12,037	1.7	692,772	12,037
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 June 18, 2017	25,009,271	122,494	78.8	6,719,401	70,322	21.2	31,728,672	192,816

(1) The number of common shares does not include the 86,596 LP units exchangeable for 173,192 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2017 adjustment to the Royalty Pool which is held back until December 2017 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:

	June 18, 2017		December 31, 2016	
	Number of units	**%**	**Number of units**	**%**
Fund units held by public unitholders	12,504,673	78.8	12,131,373	78.2
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services[1]	3,359,701	21.2	3,386,615	21.8
Total equivalent units	15,864,374	100.0	15,517,988	100.0

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

The chart below shows the ownership of the Fund, on a fully-diluted basis, when the remaining 20% of the consideration for the January 5, 2017 adjustment to the Royalty Pool is expected to be paid in December 2017, by issuance of 86,596 LP units exchangeable for 173,192 common shares of Trade Marks. The actual amount of the consideration paid in December 2017 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	78.4
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services	3,446,297	21.6
Total equivalent units	15,950,970	100.0

FINANCIAL RESULTS

INCOME

Royalty income for the second quarter of 2017 was $8,224,000 based on sales of $274,140,000. This was an increase of 3.8% from royalty income of $7,922,000 and sales of $264,057,000 for the second quarter of 2016. Year to date royalty income was $15,579,000 based on sales of $519,297,000, an increase of 2.3% from royalty income of $15,236,000 and sales of $507,853,000 for 2016 year to date. There were 169 days of sales in the first half of 2017 as compared to 171 days in the same period of 2016. The increase in sales and royalty income was due to the additional net 23 new A&W restaurants in the Royalty Pool and the 0.2% increase in same store sales, less the impact of the two fewer days in the year to date period.

EXPENSES

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

(dollars in thousands)	**Period from Mar 27, 2017 to Jun 18, 2017**	Period from Mar 28, 2016 to Jun 19, 2016	**Period from Jan 1, 2017 to Jun 18, 2017**	Period from Jan 1, 2016 to Jun 19, 2016
General and administrative	**$78**	$60	**$349**	$316
Net interest on term loan and other	**$597**	$589	**$1,201**	$1,200

General and administrative expenses for the second quarter of 2017 increased by $18,000 to $78,000 compared to $60,000 for the second quarter of 2016. Year to date general and administrative expenses were $349,000, and increase of $33,000 compared to $316,000 for the same period in 2016. The increase was primarily due to higher TSX filing fees and professional fees.

Interest on the term loan increased by $8,000 to $597,000 for the second quarter of 2017 compared to $589,000 for the second quarter of 2016, and by $1,000 to $1,201,000 for 2017 year to date compared to $1,200,000 for 2016 year to date. An interest rate swap agreement is used to manage risks from fluctuations in interest rates and facilitate uniform monthly distributions (see "Liquidity and Capital Resources").

GAIN/LOSS ON INTEREST RATE SWAP

The Fund's net income included non-cash gains and losses on the interest rate swap equal to the change in the fair value of the interest rate swap. These non-cash items had no impact on the Fund's cash available to pay distributions.

(dollars in thousands)	**Period from Mar 27, 2017 to Jun 18, 2017**	Period from Mar 28, 2016 to Jun 19, 2016	**Period from Jan 1, 2017 to Jun 18, 2017**	Period from Jan 1, 2016 to Jun 19, 2016
(Gain) loss on interest rate swap	**($260)**	($161)	**($298)**	$923

See "Liquidity and Capital Resources".

INCOME TAXES

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

(dollars in thousands)	**Period from Mar 27, 2017 to Jun 18, 2017**	Period from Mar 28, 2016 to Jun 19, 2016	**Period from Jan 1, 2017 to Jun 18, 2017**	Period from Jan 1, 2016 to Jun 19, 2016
Current				
Current income tax provision	**$1,456**	$1,519	**$2,649**	$2,922
Refundable income tax	**(76)**	257	**(226)**	1,266
Deferred	**27**	(108)	**70**	(494)
Total provision for income taxes	**$1,407**	$1,668	**$2,493**	$3,694

The Fund as a legal entity is not currently taxed on its income as dividends received from Trade Marks are not subject to the tax on Specified Investment Flow-Through (SIFT) trusts which applies to income trusts such as the Fund. The provision for income taxes on the Fund's consolidated statement of income is the expected current and deferred tax payable by Trade Marks as a legal entity.

Trade Marks' taxable income is taxed at an effective rate of 19.0% (2016 – 19.0%), plus an additional tax of 30.67% (2016 – 30.67%) on investment income which is refundable at a rate of 38.33% (2016 – 38.33%) of each dollar Trade Marks pays out in taxable dividends to its shareholders. Trade Marks' provision for income taxes for 2017 year to date includes recovery of refundable income tax of $226,000 based on the 2017 year to date share of annual estimated taxable income and dividends in 2017. Under IFRS, refundable income tax is recognized on the income statement when it is paid or payable and subsequently when it is received or receivable. Management expects that the refundable income tax paid in 2016 will be recovered in future years when sufficient dividends are paid by Trade Marks.

The current income tax provision excluding refundable income tax is $273,000 lower than the prior year as 2016 was the last year that transitional Partnership tax was payable.

Deferred income tax is recorded on the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is a non-cash item and has no impact in the current year on the Fund's cash available to pay distributions.

NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income was as follows:

(dollars in thousands)	**Period from Mar 27, 2017 to Jun 18, 2017**	Period from Mar 28, 2016 to Jun 19, 2016	**Period from Jan 1, 2017 to Jun 18, 2017**	Period from Jan 1, 2016 to Jun 19, 2016
Net income and comprehensive income attributable to unitholders of the Fund	**$5,015**	$4,549	**$9,198**	$7,179
Net income and comprehensive income attributable to Food Services' non-controlling interest in Trade Marks	**1,380**	1,209	**2,621**	1,908
Total net income and comprehensive income	**$6,395**	$5,758	**$11,819**	$9,087

DISTRIBUTABLE CASH

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

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

As discussed under "Income Taxes", Trade Marks provision for income taxes includes refundable income tax paid or recoverable. This refundable income tax is not deducted in calculating the amount of distributable cash generated, in order to more accurately reflect the actual amount of cash generated by the business to pay distributions to unitholders and dividends to Food Services. Management expects that the refundable income tax paid in 2016 will be recovered in future years when sufficient dividends are paid by Trade Marks. There was a sufficient surplus of cash on hand to pay the refundable income tax in 2016.

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

(dollars in thousands except per unit amounts)	**Period from Mar 27, 2017 to Jun 18, 2017**	Period from Mar 28, 2016 to Jun 19, 2016	**Period from Jan 1, 2017 to Jun 18, 2017**	Period from Jan 1, 2016 to Jun 19, 2016
Net cash generated from operating activities	**$6,725**	$5,578	**$12,167**	$10,601
Changes in non-cash working capital including interest and tax	**(631)**	176	**(786)**	197
Distributable cash generated[1]	**$6,094**	$5,754	**$11,381**	$10,798
Cumulative surplus – beginning of period	**1,926**	2,662	**2,417**	4,148
Distributable cash for unitholders at current annual distribution rate (2017 - $1.596 per unit, 2016 - $1.558 per unit) [1]	**(4,593)**	(4,403)	**(9,139)**	(8,729)
Distributable cash for Food Services at equivalent annual distribution rate (2017 - $1.596 per equivalent unit, 2016 - $1.558 per equivalent unit)[1]	**(1,266)**	(1,216)	**(2,648)**	(2,411)
Refundable income tax (see "Income Taxes")	**76**	(257)	**226**	(1,266)
Cumulative surplus – end of period	**$2,237**	$2,540	**$2,237**	$2,540
Number of equivalent units[1]	**15,950,970**	15,482,676	**15,950,970**	15,482,676
Distributable cash generated per equivalent unit[1]	**$0.382**	$0.371	**$0.714**	$0.697
Monthly distributions declared per unit[2]	**$0.399**	$0.380	**$0.665**	$0.630
Total distributions declared and accrued per unit	**$0.367**	$0.363	**$0.739**	$0.720
Payout ratio [3]	**96.1%**	97.8%	**103.5%**	103.3%

(1) The number of equivalent units and distributable cash per equivalent unit in 2017 includes the 86,596 LP units (as hereinafter defined) exchangeable for 173,192 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2017 adjustment to the Royalty Pool which is held back until December 2017 when the actual annual sales are reported by the new restaurants. The number of equivalent units and distributable cash per equivalent unit in 2016 includes the 157,774 LP units exchanged for 315,548 common shares of Trade Marks representing the final consideration paid in December 2016 for the January 5, 2016 adjustment to the Royalty Pool.

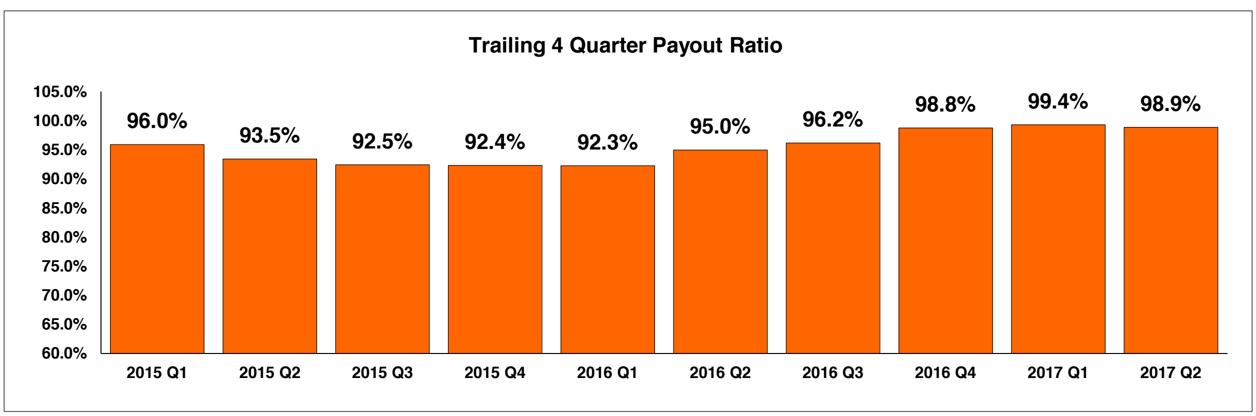
(2) In accordance with the Fund's Declaration of Trust, the Fund declares and records distributions in respect of any particular calendar month at the beginning of the immediate subsequent month, with the exception of the distribution for December of each year, which is declared and recorded in December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

(3) The payout ratio is calculated by dividing the total distributions per unit (which includes distributions declared and distributions accrued to the last day of the quarter or year, as applicable) by distributable cash per unit generated in that period. This information is provided as it identifies the extent to which distributable cash is distributed to unitholders and Food Services.

Distributable cash generated in the second quarter of 2017 to pay distributions to unitholders and dividends to Food Services was $6,094,000 compared to $5,754,000 in the second quarter of 2016. Distributable cash generated in 2017 year to date was $11,381,000 compared to $10,798,000 in 2016 year to date. The $583,000 increase in distributable cash was comprised of the $343,000 increase in royalty income less the $33,000 net increase in general and administrative expenses and interest expense and a $273,000 decrease in the current income tax provision (excluding refundable income tax).

Distributable cash generated per equivalent unit increased by 1.1¢ to 38.2¢ per unit in the second quarter of 2017 from 37.1¢ for the second quarter of 2016. Year to date distributable cash per unit increased by 1.7¢ to 71.4¢ per unit in 2017 from 69.7¢ for 2016 year to date. The year to date increase in distributable cash per equivalent unit was due to the increase in royalty income less increases in cash expenses and taxes.

Three monthly distributions totalling 39.9¢ per unit were declared in the second quarter of 2017 compared to 38.0¢ per unit in the same quarter of 2016. 2017 year to date distributions were 66.5¢ per unit compared to 63.0¢ per unit in 2016 year to date. The payout ratio for the second quarter of 2017 was 96.1% compared to 97.8% for the same quarter of 2016 and the year to date payout ratio was 103.5% compared to 103.3% for 2016 year to date. The Fund's objective is to maintain an annual payout ratio at or below 100%, however as the Fund strives to provide unitholders with regular monthly distributions, and as a result of seasonality of sales in A&W restaurants, the Fund historically experiences seasonal fluctuations in its payout ratio. The trailing four quarter payout ratio as at the end of the second quarter of 2017 was 98.9% (2016 – 95.0%). The following table shows the trailing four quarter payout ratios for 2015, 2016 and 2017.



The cumulative surplus of distributable cash at the end of the second quarter of 2017 was $2,237,000, compared to a cumulative surplus of $2,417,000 at the beginning of the year, a decrease of $180,000. Surplus distributable cash historically decreases in the first half of the year due to seasonality of sales in A&W restaurants.

The current monthly distribution rate of 13.3¢ per unit translates into an annualized distribution rate of $1.596 per unit. The Fund's policy is to distribute all available cash in order to maximize returns to unitholders over time, after allowing for reasonable reserves. The Fund's trustees review distribution levels on a regular basis and any change in distributions will be implemented with a view to maintain the continuity of uniform monthly distributions.

DISTRIBUTIONS TO UNITHOLDERS

Distributions declared and paid during 2017 year to date were as follows:

(dollars in thousands except per unit amounts) Month	Record date	Amount	Per unit
January	February 15, 2017	$1,613	$0.133
February	March 15, 2017	1,663	0.133
March	April 15, 2017	1,663	0.133
April	May 15, 2017	1,663	0.133
May	June 15, 2017	1,664	0.133
		$8,266	$0.665

The May 2017 distribution was declared on June 5, 2017 and paid on June 30, 2017 and is reported as a current liability as at June 18, 2017. On July 5, 2017 the Fund declared the June 2017 monthly distribution to unitholders of 13.3¢ per unit or $1,663,000, payable on July 31, 2017.

TAX TREATMENT OF DISTRIBUTIONS

All of the distributions declared in 2017 year to date are designated as non-eligible dividends.

DIVIDENDS ON TRADE MARKS' COMMON SHARES

During 2017 year to date, Trade Marks declared and paid dividends on its voting and non-voting common shares as follows:

(dollars in thousands except per share amounts) Month declared/paid	Per share	Aggregate amount paid to the Fund	Aggregate amount paid to Food Services
January	$0.0665	$1,613	$496
February	0.0665	1,663	447
March	0.0665	1,663	447
April	0.0665	1,663	447
May	0.0665	1,664	447
	$0.3325	$8,266	$2,284

The May dividend was paid on June 30, 2017 and Food Services' share of $447,000 is reported as a current liability as at June 18, 2017. On July 5, 2017, Trade Marks declared an aggregate dividend on its voting and non-voting common shares of $2,110,000 payable to Food Services and the Fund on July 31, 2017.

SEASONALITY

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

SUMMARY OF QUARTERLY RESULTS

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

(dollars in thousands except per unit amounts)	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Number of restaurants in the Royalty Pool	861	861	838	838
Royalty income	$8,224	$7,355	$10,545	$8,354
General and administrative expenses	78	271	214	56
Term loan and other interest expense	597	604	781	593
Amortization of deferred financing fees	7	8	10	7
Non cash gain on interest rate swaps	(260)	(38)	(1,986)	(26)
Current income tax expense	1,456	1,193	1,982	1,596
Refundable income tax (recovery) expenses	(76)	(150)	363	400
Deferred income tax (recovery) expense	27	43	208	(128)
Net income	$6,395	$5,424	$8,973	$5,856
Distributable cash(1)	$6,094	$5,287	$7,568	$6,109
Number of equivalent units(2)	15,950,970	15,950,970	15,517,988	15,517,988
Distributable cash per equivalent unit(1)(2)	$0.382	$0.331	$0.488	$0.393
Monthly distributions declared per unit(3)	$0.399	$0.266	$0.532	$0.396
Number of days in the quarter	84	85	111	84
(dollars in thousands except per unit amounts)	**Q2 2016**	**Q1 2016**	**Q4 2015**	**Q3 2015**
Number of restaurants in the Royalty Pool	838	838	814	814
Royalty income	$7,922	$7,314	$10,444	$7,835
General and administrative expenses	60	256	117	100
Term loan and other interest expense	589	611	773	557
Amortization of deferred financing fees	8	8	10	8
Non cash loss (gain) on interest rate swaps	(161)	1,084	30	1,755
Current income tax expense	1,519	1,009	1,792	1,411
Refundable income tax	257	1,403	-	-
Deferred income tax (recovery) expense	(108)	(386)	16	(382)
Net income	$5,758	$3,329	$7,706	$4,386
Distributable cash(1)	$5,754	$5,044	$7,762	$5,767
Number of equivalent units(2)	15,517,988	15,517,988	14,870,367	14,870,367
Distributable cash per equivalent unit(1)(2)	$0.371	$0.325	$0.522	$0.387
Monthly distributions declared per unit(3)	$0.380	$0.250	$0.496	$0.359
Number of days in the quarter	84	87	116	84

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

(2) The number of equivalent units and distributable cash per equivalent unit in 2017 includes the 86,596 LP units (as hereinafter defined) exchangeable for 173,192 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2017 adjustment to the Royalty Pool which is held back until December 2017 when the actual annual sales are reported by the new restaurants. The number of equivalent units and distributable cash per equivalent unit in 2016 includes the 157,774 LP units exchanged for 315,548 common shares of Trade Marks representing the final consideration paid in December 2016 for the January 5, 2016 adjustment to the Royalty Pool.

(3) The distribution for December of each year, which is paid on January 31 of the following year, is declared and recorded in the year in which it is earned. Therefore, four monthly distributions are declared in the fourth quarter of each year, and two monthly distributions are declared in the first quarter of each year.

LIQUIDITY AND CAPITAL RESOURCES

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

Trade Marks has a $2,000,000 demand operating loan facility with a Canadian chartered bank (the Bank) to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at bank prime rate plus 0.5% and are repayable on demand. As at July 25, 2017 and June 18, 2017, the amount of the facility available was $2,000,000 (December 31, 2016 - $1,510,000).

Trade Marks has a $60,000,000 term loan with the Bank. The term loan is repayable on December 22, 2017; however, management intends to enter into a new loan agreement with the Bank with a maturity date that coincides with the maturity date of the interest rate swap agreement. The term loan contains a number of covenants including the requirement to meet certain earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) levels and debt to EBITDA ratios during each trailing four quarter period. Interest only is payable monthly, providing that Trade Marks' EBITDA tested quarterly on a trailing four quarters basis is not less than specified amounts. In the event that EBITDA is less than these specified amounts, the term loan will be fully amortized over the greater of three years and the remaining term and repayment will be by way of blended monthly instalments of principal and interest. Trade Marks is generally prohibited from paying dividends on its common shares if those dividends would result in a breach of the term loan. Trade Marks was in compliance with all of its financial covenants as at July 25, 2017, June 18, 2017 and December 31, 2016.

Trade Marks uses an interest rate swap agreement to manage risks from fluctuations in interest rates and facilitate uniform monthly distributions. This instrument is used only for risk management purposes. Under the interest rate swap, the term loan bears interest at 4.3% per annum, comprised of 2.8% per annum which is fixed under the swap agreement until December 22, 2022 (five years beyond the December 22, 2017 maturity date of the term loan), plus a 1.5% per annum credit charge which is subject to review by the Bank on December 22, 2017. The fair value of this interest rate swap as at June 18, 2017 was $3,875,000 unfavourable (December 31, 2016 - $4,173,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income as a gain on the interest rate swap.

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

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS AND BALANCES

During the year to date period, royalty income of $15,579,000 (2016 - $15,236,000) was earned from Food Services of which $2,779,000 (December 31, 2016 - $2,467,000) is receivable at June 18, 2017. Royalty income earned during the quarter was $8,224,000 (2016 - $7,922,000).

During the year to date period, Trade Marks declared dividends to Food Services of $2,284,000 (2016 - $2,034,000). Dividends declared payable to Food Services during the quarter were $1,341,000 (2016 - $1,226,000). The $447,000 dividend declared on June 5, 2017 and paid on June 30, 2017 is reported as a current liability as at June 18, 2017 (December 31, 2016 - $nil).

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

The fair value of the interest rate swap as at June 18, 2017 was $3,875,000 unfavourable (December 31, 2016 - $4,173,000 unfavourable) and the change in fair value is recorded in the consolidated statements of income as a gain on interest rate swaps.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

RISKS AND UNCERTAINTIES

The Restaurant Industry

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

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

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

The Saskatchewan government announcement of a 6% provincial sales tax on food served at restaurants effective April 1, 2017 effectively added a new 6% tax on restaurant meals in this province and has impacted sales at A&W restaurants. Any introduction of new sales taxes or an increase in sales taxes on sales by restaurants could adversely affect sales at A&W restaurants.

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

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

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

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

Food Services depends on the uninterrupted operation of its information systems, networks and services including point-of-sale processing at restaurants, to operate its business. Food Services' operations depend on its ability to protect its computer equipment and systems against damage from physical theft, fire, power loss, computer and telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses and other disruptive events. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new systems or platforms or a breach in security of these systems could result in transaction errors, processing inefficiencies, the loss of or failure to attract new customers, the loss of sales, the loss of or unauthorized access to confidential and personal information, the loss of or damage to intellectual property or trade secrets, damage to Food Services' reputation, litigation, regulatory enforcement actions, violation of privacy, security or other laws and regulations and remediation costs. Furthermore, adverse publicity resulting from allegations of security breaches resulting in the theft of credit and debit card information or personal information of guests may materially affect the sales of A&W restaurants.

Sales at A&W restaurants can be materially and adversely affected by publicity, including social media, alleging food-related illnesses, injuries suffered on the premises, poor food quality or safety, animal welfare practices of suppliers or any other health or operational concerns relating to one or more A&W restaurants. Adverse publicity resulting from such allegations, any related litigation or from public health inspection reports may materially affect guest traffic at one or more restaurants, reducing sales in A&W restaurants, regardless of whether such allegations are true or whether Food Services or an A&W franchisee is ultimately held liable. Food Services has a number of procedures in place for managing food safety and quality, however the risk of food borne illness or contamination cannot be completely eliminated. Any outbreak of such illness or contamination at an A&W restaurant or within the foodservice industry more generally (even if it does not affect any A&W restaurants), or the perception of such an outbreak, could have a material adverse effect on sales in A&W restaurants.

Income Tax Matters

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

OUTLOOK

Food Services remains committed to its mission "to delight time-crunched Canadian burger lovers with the joy of great tasting natural food, made by people they trust". Strategic initiatives are focussed on growing market share in the quick service restaurants (QSR) burger market and include repositioning and differentiating the A&W brand through the use of "better ingredients"; accelerating new restaurant growth, and delivering an industry leading guest experience.

A&W has led the QSR industry in sourcing "better ingredients" since 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. The following year, Food Services began to serve only chicken raised without the use of antibiotics and fed a grain-based, vegetarian diet without animal by-products. All of the chicken menu items on Food Services' menu are made with seasoned 100% chicken breast, without fillers. Also in 2014, Food Services enhanced its breakfast menu by moving to eggs from hens fed a fully vegetarian diet without animal by-products. Breakfast was further supported by the launch in January 2015 of organic and Fair Trade coffee, another first for a 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. Also in 2016, Food Services announced that A&W restaurants switched to French's ketchup and mustard, made with 100% Canadian tomatoes and 100% Canadian mustard seeds.

A&W's menu innovations have continued in 2017. Building on an already strong breakfast daypart, all-day breakfast was launched in February. This has been well received. Limited time offers so far in 2017 have included the Peppered Bacon Burger, Sriracha Teen Burgers and Eggers, and Smoky BBQ Teen and Double Cheese Double Bacon Burgers. These menu items have been well received by Food Services' guests.

The next step in A&W's journey to source simple, all-natural ingredients that guests can feel good about was taken with the recent announcement of 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.

Food Services' second strategic initiative is accelerating the pace of growth of new A&W restaurants, particularly in the key Ontario and Quebec markets. Seventeen new A&W restaurants were opened across the country in 2017 year to date. One of these new restaurants is the first restaurant under the Urban Franchise Associate program. The Urban Franchise Associate program was launched in 2016 and is aimed at attracting millennials to become owner-operators of urban concept restaurants. As this younger demographic may not have the capital and experience necessary to invest in a traditional franchise, under this new program Food Services contributes to the cost of building the physical location and provides extensive training. As of June 18, 2017, an additional twenty-nine new restaurants are under construction or in varying stages of permitting and are expected to open in the coming months.

A third strategic initiative of Food Services is to deliver an industry leading guest experience. 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 85% of A&W's restaurants now have the new design. New "Good Food Makes Good Food" interior elements are also 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.

FORWARD LOOKING INFORMATION

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

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

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the general risks that affect the restaurant industry will not arise including that there are no changes in availability of experienced management and hourly employees and no material changes in government regulations concerning menu labelling and disclosure and drive-thru restrictions; no publicity from any food borne illness; no changes in competition; no changes in the quick service restaurant burger market including as a result of changes in consumer taste or health concerns or changes in economic conditions or unemployment or a disease outbreak; no impact on sales from closures of "anchor" stores in shopping centres; no increases in food and labour costs; the continued availability of quality raw materials; continued additional franchise sales and maintenance of franchise operations; Food Services is able to grow same store sales; Food Services is able to maintain and grow the current system of franchises; Food Services is able to locate new retail sites in prime locations; Food Services is able to obtain qualified operators to become A&W franchisees; no closures of A&W restaurants that materially affect the amount of the Royalty; no material changes in traffic patterns at shopping centres; no supply disruptions; franchisees duly pay franchise fees and other amounts; no impact from new or increased sales taxes upon gross sales; continued availability of key personnel; continued ability to preserve intellectual property; no material litigation from guests alleging food-related illness, injuries suffered on the premises or other food quality, health or operations concerns; Food Services continues to pay the Royalty; Trade Marks continues to pay dividends on the common shares and the Partnership continues to make distributions on its units; Trade Marks can continue to comply with its obligations under its credit arrangements; 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 that could cause actual results to differ materially from the results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: general risks that affect the restaurant industry including changes in the availability of experienced management and hourly employees and changes in government regulations concerning menu labelling and disclosure and drive-thru restrictions; publicity from any food-borne illness; competition; changes in the quick service restaurant burger market including as a result of changes in consumer taste and health concerns and changes in economic conditions and unemployment and a disease outbreak; adverse impact on sales from closures of "anchor" stores in shopping centres; increases in food and labour costs; dependence on the availability and quality of raw materials; dependence on additional franchise sales and franchise operations; Food Services' ability to grow same store sales; Food Services' ability to maintain and grow the current system of franchises; Food Services' ability to locate new retail sites in prime locations; Food Services' ability to obtain qualified operators to become A&W franchisees; the closure of A&W restaurants may affect the amount of the Royalty; changes in traffic patterns at shopping centres; dependence on certain suppliers; dependence on A&W franchisees' ability to pay franchise fees and other amounts; the impact of new or increased sales taxes upon gross sales; dependence on key personnel; dependence on intellectual property; potential litigation from guests alleging food-related illness, injuries suffered on the premises or other food quality, health or operations concerns; dependence of the Fund on Trade Marks, the Partnership and Food Services; dependence of the Partnership on Food Services; risks related to leverage and restrictive covenants; the risk that cash distributions are not guaranteed and will fluctuate with the Partnership's performance; risks relating to the nature of units; risks relating to the distribution of securities on redemption or termination of the Fund; the Fund may issue additional units diluting existing unitholders' interests; and, income tax matters, all as more particularly described in this MD&A under the heading "Risks and Uncertainties" and in the Fund's Annual Information Form under the heading "Risk Factors".

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

A&W Revenue Royalties Income Fund

Interim Condensed Consolidated Balance Sheets
Unaudited

(in thousands of dollars)

	Note		June 18 2017		December 31 2016
Assets					
Current assets					
Cash and cash equivalents		$	3,375	$	1,751
Accounts receivable	9		2,779		2,467
Prepaid interest			-		306
Income taxes recoverable			-		182
			6,154		4,706
Non-current assets					
Intangible assets	3		247,706		232,660
Total assets		$	253,860	$	237,366
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$	484	$	213
Dividends payable to A&W Food Services of Canada Inc.	9		447		-
Distributions payable to Unitholders	7		1,664		1,613
Income taxes payable			113		-
Demand operating loan facility			-		490
Term loan	4		59,982		59,967
			62,690		62,283
Non-current liabilities					
Fair value of interest rate swaps	4		3,875		4,173
Deferred income tax liabilities			11,585		11,515
Other liabilities	3		3,009		-
			81,159		77,971
Unitholders' Equity					
Fund Units	5		263,452		248,800
Accumulated deficit			(157,600)		(151,694)
			105,852		97,106
Non-controlling interest			66,849		62,289
Total equity			172,701		159,395
Total liabilities and equity		$	253,860	$	237,366
Subsequent events	10				

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

A&W Revenue Royalties Income Fund

Interim Condensed Consolidated Statement of Income and Comprehensive Income
Unaudited

(in thousands of dollars except per Unit amounts)

	Note		**Period from Mar 27, 2017 to Jun 18, 2017**		Period from Mar 28, 2016 to Jun 19, 2016		**Period from Jan 1, 2017 to Jun 18, 2017**		Period from Jan 1, 2016 to Jun 19, 2016
Gross sales reported by A&W restaurants in the Royalty Pool		**$**	**274,140**	$	264,057	**$**	**519,297**	$	507,853
Royalty income		**$**	**8,224**	$	7,922	**$**	**15,579**	$	15,236
Expenses									
General and administrative			**78**		60		**349**		316
Interest expense									
Term loan and other			**597**		589		**1,201**		1,200
Amortization of financing fees			**7**		8		**15**		16
			682		657		**1,565**		1,532
Operating income			**7,542**		7,265		**14,014**		13,704
(Gain) loss on interest rate swaps	4		**(260)**		(161)		**(298)**		923
Net income before income taxes			**7,802**		7,426		**14,312**		12,781
Provision for (recovery of) income taxes	6								
Current									
Current income tax provision			**1,456**		1,519		**2,649**		2,922
Refundable income tax			**(76)**		257		**(226)**		1,266
Deferred			**27**		(108)		**70**		(494)
			1,407		1,668		**2,493**		3,694
Net income and comprehensive income for the period		**$**	**6,395**	$	5,758	**$**	**11,819**	$	9,087
Net income and comprehensive income attributable to:									
Unitholders of A&W Revenue Royalties Income Fund		**$**	**5,015**	$	4,549	**$**	**9,198**	$	7,179
A&W Food Services of Canada Inc.'s non-controlling interest in A&W Trade Marks Inc.			**1,380**		1,209		**2,621**		1,908
		$	**6,395**	$	5,758	**$**	**11,819**	$	9,087
Basic and diluted income per weighted average Unit outstanding		**$**	**0.401**	$	0.375	**$**	**0.744**	$	0.592
Weighted average number of Units outstanding			**12,504,673**		12,131,373		**12,367,723**		12,131,373

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

A&W Revenue Royalties Income Fund

Interim Condensed Consolidated Statement of Unitholders' Equity
Unaudited

(in thousands of dollars)

	Note	Fund Units	Accumulated deficit	Total	Non-controlling interest	Total equity
Balance - December 31, 2015		$ 248,800	$ (151,495)	$ 97,305	$ 45,345	$ 142,650
Net income for the period		-	7,179	7,179	1,908	9,087
Distributions on Units		-	(7,643)	(7,643)	-	(7,643)
Dividends on common shares		-	-	-	(2,034)	(2,034)
Issue of common shares		-	-	-	12,863	12,863
Balance - June 19, 2016		$ 248,800	$ (151,959)	$ 96,841	$ 58,082	$ 154,923
Net income for the period		-	11,523	11,523	3,306	14,829
Distributions on Units		-	(11,258)	(11,258)	-	(11,258)
Dividends on common shares		-	-	-	(3,242)	(3,242)
Issue of common shares		-	-	-	4,143	4,143
Balance - December 31, 2016		$ 248,800	$ (151,694)	$ 97,106	$ 62,289	$ 159,395
Net income for the period		-	9,198	9,198	2,621	11,819
Distributions on Units	**7**	-	(8,266)	(8,266)	-	(8,266)
Dividends on common shares	**9**	-	-	-	(2,284)	(2,284)
Issue of common shares	**3**	-	-	-	12,037	12,037
Common shares exchanged for units	**5**	14,652	(6,838)	7,814	(7,814)	-
Balance - June 18, 2017		$ 263,452	$ (157,600)	$ 105,852	$ 66,849	$ 172,701

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

A&W Revenue Royalties Income Fund

Interim Condensed Consolidated Statement of Cash Flows

Unaudited

(in thousands of dollars)

	Note	**Period from Mar 27, 2017 to Jun 18, 2017**	Period from Mar 28, 2016 to Jun 19, 2016	**Period from Jan 1, 2017 to Jun 18, 2017**	Period from Jan 1, 2016 to Jun 19, 2016
Operating activities					
Net income for the period		**$ 6,395**	$ 5,758	**$ 11,819**	$ 9,087
Adjustments for:					
Non-cash (gain) loss on interest rate swaps	**4**	**(260)**	(161)	**(298)**	923
Amortization of financing fees		**7**	8	**15**	16
Deferred income taxes		**27**	(108)	**70**	(494)
Refundable income tax		**(76)**	257	**(226)**	1,266
Interest expense		**597**	589	**1,201**	1,200
Current income tax provision		**1,456**	1,519	**2,649**	2,922
Net changes in items of non-cash working capital		**(253)**	(236)	**(290)**	147
Interest paid		**-**	3	**(646)**	(635)
Income tax paid		**(1,168)**	(2,051)	**(2,128)**	(3,831)
Net cash generated from operating activities		**6,725**	5,578	**12,166**	10,601
Financing activities					
Repayment of demand operating loan facility	**4**	**-**	-	**(490)**	-
Dividends paid to non-controlling interest		**(1,341)**	(1,210)	**(1,837)**	(1,614)
Distributions paid to Unitholders		**(4,990)**	(4,550)	**(8,215)**	(7,582)
Net cash used in financing activities		**(6,331)**	(5,760)	**(10,542)**	(9,196)
(Decrease) increase in cash and cash equivalents		**394**	(182)	**1,624**	1,405
Cash and cash equivalents - beginning of period		**2,981**	4,191	**1,751**	2,604
Cash and cash equivalents - end of period		**$ 3,375**	$ 4,009	**$ 3,375**	$ 4,009

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

(in thousands of dollars)

1. General information

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

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as applicable to interim financial reports including International Accounting Standards (IAS) 34, Interim Financial Reporting. The interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the Fund's audited annual consolidated financial statements as at December 31, 2016.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Fund's annual consolidated financial statements for the year ended December 31, 2016.

These interim condensed consolidated financial statements were authorized for issue by the Board of Trustees of the Fund on July 25, 2017.

3. Intangible assets

	Royalty Pool	Amount $
Balance as at December 31, 2016	838	232,660
Annual adjustment January 5, 2017	23	15,046
Balance as at June 18, 2017	861	247,706

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

(in thousands of dollars)

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

The 2017 annual adjustment to the Royalty Pool took place on January 5, 2017. The number of A&W restaurants in the Royalty Pool was increased by 30 new restaurants less seven restaurants that permanently closed during 2016. The estimated annual sales of the 30 new A&W restaurants are $33,355,000 and annual sales for the seven permanently closed restaurants were $4,251,000. The initial consideration for the estimated additional royalty stream was $15,046,000, 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 31, 2016. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or $12,037,000, by issuance of 346,386 LP units which were subsequently exchanged for 692,772 non-voting common shares of Trade Marks. The remaining 20% of the consideration or $3,009,000 will be paid in December 2017 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 2017 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

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

Trade Marks has a $2,000,000 demand operating loan facility with HSBC Bank Canada (the Bank) to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the bank prime rate plus 0.5% and are repayable on demand. As at June 18, 2017, the amount of the facility available was $2,000,000 (December 31, 2016 - $1,510,000).

Trade Marks has a $60,000,000 term loan with the Bank. The term loan is repayable on December 22, 2017; however, management intends to enter into a new loan agreement with a maturity date that coincides with the maturity date of the interest rate swap agreement. The term loan contains a number of covenants including the requirement to meet certain earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) levels and debt to EBITDA ratios during each trailing four quarter period. Interest only is payable monthly, providing that Trade Marks' EBITDA, tested quarterly on a trailing four

(in thousands of dollars)

quarters basis, is not less than specified amounts. In the event that EBITDA is less than these specified amounts, the term loan will be fully amortized over the greater of three years and the remaining term and repayment will be by way of blended monthly instalments of principal and interest. Trade Marks was in compliance with all of its financial covenants as at June 18, 2017 and December 31, 2016.

Trade Marks uses an interest rate swap agreement to manage risks from fluctuations in interest rates. Under the interest rate swap, the term loan bears interest at 4.3% per annum, comprised of 2.8% per annum which is fixed under the swap agreement until December 22, 2022 (five years beyond the December 22, 2017 maturity date of the loan), plus a credit charge of 1.5% per annum which is subject to review by the Bank on December 22, 2017. The fair value of the interest rate swap as at June 18, 2017 was $3,875,000 unfavourable (December 31, 2016 - $4,173,000 unfavourable) and the change in fair value is recorded in net income as a gain on the interest rate swap.

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

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

The term loan comprises:

	June 18, 2017 $	**December 31, 2016 $**
Term loan	60,000	60,000
Financing fees	(18)	(33)
	59,982	59,967

(in thousands of dollars)

5. Fund Units

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 at a price of $39.25 per Unit. The Fund did not receive any proceeds of the sale of the Units. Following the sale of these Units, Food Services owns approximately 21.2% of the Units of the Fund on a fully-diluted basis.

	Number of Units	**Equity $**
Balance - December 31, 2016	12,131,373	248,800
Units issued in exchange for common shares of A&W Trade Marks Inc.	373,300	14,652
	12,504,673	263,452

6 Income taxes

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

	Period from Mar 27, 2017 to Jun 18, 2017 $	Period from Mar 28, 2016 to Jun 19, 2016 $	**Period from Jan 1, 2017 to Jun 18, 2017 $**	Period from Jan 1, 2016 to Jun 19, 2016 $
Statutory combined federal and provincial income tax rates on investment income	19.0%	19.0%	19.0%	19.0%
Provision for current income tax provision	1,456	1,519	2,649	2,922
Provision for deferred income taxes	27	(108)	70	(494)
Provision for income taxes based on statutory income tax rates	1,483	1,411	2,719	2,428
Refundable income tax	(76)	257	(226)	1,266
Provision for income taxes	1,407	1,668	2,493	3,694

(in thousands of dollars)

Trade Marks' taxable income is taxed at an effective rate of 19.0% (2016 – 19.0%), plus an additional tax of 30.67% on investment income that has not been distributed to its shareholders as dividends. This additional tax is refundable in a future year when Trade Marks pays sufficient dividends. Under IFRS, refundable income tax is required to be expensed on the income statement when paid or payable. Subsequently, these amounts are recognized on the income statement as income taxes recoverable when received or receivable.

7. Distributions

During the period ended June 18, 2017, the Fund declared distributions to its Unitholders of $8,266,000 or $0.665 per Unit. The record dates and amounts of these distributions are as follows:

Month	Record date	Amount	Per unit
		$	$
January 2017	February 15, 2017	1,613	0.133
February 2017	March 15, 2017	1,663	0.133
March 2017	April 15, 2017	1,663	0.133
April 2017	May 15, 2017	1,663	0.133
May 2017	June 15, 2017	1,664	0.133
		8,266	0.665

The May 2017 was declared on June 5, 2017 and paid on June 30, 2017, and is reported as a current liability as at June 18, 2017.

8. Compensation to key management

Key management personnel are the Trustees of the Fund. During the year to date period, the Trustees earned $53,000 (2016 - $48,000). During the quarter, the Trustees earned $28,000 (2016 - $25,000).

9. Related party transactions and balances

During the year to date period, royalty income of $15,579,000 (2016- $15,236,000) was earned from Food Services of which $2,779,000 (December 31, 2016 - $2,467,000) is receivable at June 18, 2017. Royalty income earned during the quarter was $8,224,000 (2016 - $7,922,000).

During the year to date period, Trade Marks declared common share dividends payable to Food Services of $2,284,000 (2016 - $2,034,000). Dividends declared payable to Food Services during the quarter were $1,341,000 (2016 - $1,226,000). The $447,000 dividend declared on June 5, 2017 and paid to Food Services on June 30, 2017 is reported as a current liability as at June 18, 2017 (December 31, 2016 - $nil).

(in thousands of dollars)

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

10. Subsequent events

On July 5, 2017, the Fund declared a distribution to Unitholders of $0.133 per unit or $1,663,000, payable on July 31, 2017 to Unitholders of record as at July 15, 2017.

On July 5, 2017, Trade Marks declared common share dividends of $447,000 payable to Food Services and the Fund on July 31, 2017.

Unitholder Information

Corporate Head Office

A&W Trade Marks Inc.
c/o 26th Floor
Toronto-Dominion Bank Tower
700 West Georgia Street
Vancouver, BC, V7Y 1B3

Mailing Address

A&W Revenue Royalties Income Fund
300 – 171 West Esplanade
North Vancouver, BC, V7M 3K9

Market Information

Units Listed: Toronto Stock Exchange
Symbol: AW.UN

Registrar and Transfer Agent

Computershare Investor Services Inc.

Investor Enquiries

Don Leslie
Chief Financial Officer

Tel: 604-988-2141
Fax: 604-988-5531

E-mail: investorrelations@aw.ca
Website: www.awincomefund.ca