



**A&W Food Services of Canada Inc.**  
**Report to Unitholders of A&W Revenue Royalties Income Fund**  
**December 30, 2019 to January 3, 2021**

This report and the audited annual consolidated financial statements of A&W Food Services of Canada Inc. (A&W or Food Services) for the 53 weeks ended January 3, 2021 are provided as a supplement to the audited annual consolidated financial statements and Management Discussion and Analysis of the A&W Revenue Royalties Income Fund (the Fund) for the year ended December 31, 2020. This report is dated February 16, 2021 and should be read in conjunction with the audited annual consolidated financial statements of Food Services for the 53 weeks ended January 3, 2021. Such financial statements and additional information about the Fund and Food Services are available at [www.sedar.com](http://www.sedar.com) or [www.awincomefund.ca](http://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 or LP	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 2020 year was 53 weeks and ended January 3, 2021 (2019 – 52 weeks ended December 29, 2019). System Sales, System Sales Growth and Same Store Sales Growth (defined below) are reported for the 16 weeks and 52 weeks ended December 27, 2020 in order to be comparable to the prior year.

The financial results reported in this report are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRIC). The accounting policies adopted in the preparation of the audited annual consolidated financial statements have been consistently

applied to all the years presented, except for the adoption of IFRS 16, Leases (IFRS 16). See “Adoption of IFRS 16”.

### Financial Highlights

The following selected information, other than “System Sales”, “System Sales Growth”, “Same Store Sales Growth”, “Gross sales reported by A&W restaurants in the Royalty Pool”, “Royalty Pool Same Store Sales Growth” and information with respect to numbers of restaurants has been derived from financial statements prepared in accordance with IFRS and all dollar amounts are reported in Canadian currency. See “Non-IFRS Measures”.

<b>(dollars in thousands)</b>	<b>53 week period ended Jan 3, 2021</b>	<b>52 week period ended Dec 29, 2019</b>
System Sales <sup>(i)</sup>	<b>\$1,376,716</b>	\$1,543,600
System Sales Growth <sup>(ii)</sup>	<b>-10.8%</b>	+8.7%
Same Store Sales Growth <sup>(iii)</sup>	<b>-14.3%</b>	+4.1%
New restaurants opened	<b>23</b>	50
Restaurants permanently closed	<b>11</b>	8
Number of restaurants	<b>1,006</b>	994
Gross sales reported by A&W restaurants in the Royalty Pool <sup>(iv)</sup>	<b>\$1,347,387</b>	\$1,482,323
Royalty Pool Same Store Sales Growth <sup>(v)</sup>	<b>-14.3%</b>	+4.1%
Number of restaurants in the Royalty Pool	<b>971</b>	934
Franchising & corporate restaurant revenue	<b>\$201,892</b>	\$246,305
Operating costs and general and administrative expenses	<b>(138,510)</b>	(185,636)
Depreciation of plant, equipment and right-of-use assets	<b>4,003</b>	2,540
Earnings before royalty expense, loss on impairment of leases receivable, gain on sale of Fund units, share of Trade Marks’ earnings, interest, taxes, depreciation and amortization	<b>\$67,385</b>	\$63,209
Royalty expense	<b>(40,662)</b>	(44,470)
Net income	<b>\$21,653</b>	\$44,187

## Notes:

- (i) "System Sales" is calculated in respect of all A&W restaurants in Canada as the amount of gross sales reported to Food Services by franchisees of such A&W restaurants without audit, verification or other form of independent assurance and the gross sales of A&W restaurants owned and operated by Food Services, in each case, after deducting amounts for discounts for coupons and other promotional offerings and applicable sales taxes. System Sales are reported for the 52 weeks ended December 27, 2020 in order to be comparable to the prior year. System Sales is a non-IFRS measure – see "Non-IFRS Measures". Food Services believes System Sales is a key performance indicator for Food Services as it provides investors with an indication of the sales figures on which Food Services' franchise revenues are based. See "System Sales".
- (ii) "System Sales Growth" is calculated in respect of all A&W Restaurants in Canada as the percentage change in System Sales for the 52 weeks ended December 27, 2020 compared to the 52 weeks ended December 29, 2019. System Sales Growth is a non-IFRS measure – see "Non-IFRS Measures". This important information is provided as it is a key driver of growth. See "System Sales".
- (iii) "Same Store Sales" and "Same Store Sales Growth" is calculated as the change in System Sales of A&W restaurants that operated, or were temporarily closed at any point due to the COVID-19 pandemic ("COVID-19"), during the entire 26 4-week periods ending December 27, 2020, and is based on an equal number of days in each quarter and year. Same Store Sales Growth is a non-IFRS measure – see "Non-IFRS Measures". This important information is provided as it is a key driver of growth and provides investors with an indication of the change in year-over-year sales of A&W restaurants. See "Same Store Sales".
- (iv) "Gross sales reported by A&W restaurants in the Royalty Pool" is calculated in respect of A&W restaurants in Canada in the Royalty Pool (as defined below), as the amount of gross sales reported to Food Services by franchisees of such A&W restaurants in the Royalty Pool without audit, verification or other form of independent assurance and the gross sales of A&W restaurants owned and operated by Food Services in the Royalty Pool, in each case, after deducting amounts for discounts for coupons and other promotional offerings and applicable sales taxes. Gross sales reported by A&W restaurants in the Royalty Pool is reported for the Fund's year-ended December 31, 2020. "Gross sales reported by A&W restaurants in the Royalty Pool" is a non-IFRS measure – see "Non-IFRS Measures".
- (v) "Royalty Pool Same Store Sales Growth" is calculated as the change in Gross sales reported by A&W restaurants in the Royalty Pool that operated, or were temporarily closed at any point due to COVID-19, during the entire 26 4-week periods ending December 27, 2020, and is based on an equal number of days in each quarter. Royalty Pool Same Store Sales Growth is a non-IFRS measure – see "Non-IFRS Measures".

### Same Store Sales

As noted above, Same Store Sales Growth<sup>(iii)</sup> is the change in gross sales of A&W restaurants that operated, or were temporarily closed at any point due to COVID-19, during the entire 26 4-week periods ended December 27, 2020.

Same Store Sales<sup>(iii)</sup> for the fourth quarter of 2020 decreased by 9.3% as compared to the same quarter of 2019. Annual Same Store Sales<sup>(i)</sup> decreased by 14.3% compared to 2019. Actions required in response to COVID-19 have adversely impacted A&W restaurant operations across Canada, including the temporary closures of a large number of restaurants. See "Impact of COVID-19".

### System Sales

System Sales<sup>(i)</sup> for all A&W restaurants in Canada for the 16 weeks ended December 27, 2020 were \$448,370,000, a decrease of 5.9% or \$28,262,000 from the 16 weeks ended December 29, 2019. Annual System Sales were \$1,376,716,000, a decrease of 10.8% or \$166,884,000 from 2019. The decrease in System Sales was due to the impact of COVID-19. See "Impact of COVID-19". See "Financial Highlights" and "Non-IFRS Measures" for further information.

### New Restaurant Openings and Permanent Restaurant Closures

Food Services opened 23 new A&W restaurants in 2020, compared to 50 new restaurants in 2019. Eleven restaurants were permanently closed in 2020, compared to eight in 2019. As at January 3, 2021, there were 1,006 A&W restaurants in Canada, of which 997 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 service 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 is required to pay a royalty of 3% of the gross sales reported by those A&W restaurants in Canada identified in the Amended and Restated Licence and Royalty Agreement, as amended from time to time (the Royalty Pool).

### **Impact of COVID-19**

The effects of COVID-19 on many businesses, especially restaurants, have been unexpected, sudden and unprecedented. The future effect of COVID-19 on the economy and businesses, in general, remains uncertain. Governments had been easing restrictions on dine-in restaurants since May 2020 and there have been improvements in sales trends at the A&W restaurants in the Royalty Pool, but many jurisdictions have reversed course due to a resurgence of COVID-19 cases in those areas and it is unclear if those trends will continue. Various levels of government have announced a number of important programs which have helped support individual restaurant businesses, including A&W franchisees; however, the duration of those programs remains uncertain. See "Risks and Uncertainties".

Actions required in response to the COVID-19 pandemic have adversely affected A&W restaurant operations in Canada, including the temporary closure of a large number of restaurants. At its peak, since March 13, 2020, a total of 230 A&W restaurants (out of 971 restaurants in the Royalty Pool) were temporarily closed. For most of the second and fourth quarters, A&W restaurants which were operating, were restricted to drive-thru operations, limited take-out, delivery and mobile ordering only. After seeing steady improvements in the third quarter, with a number of A&W restaurants permitted to re-open for limited dine-in sales, some provinces increased restrictions due to the resurgence of COVID-19 cases in the fourth quarter. As at December 31, 2020, 42 A&W restaurants in the Royalty Pool remained temporarily closed due to these increased restrictions. As at February 16, 2021, 30 restaurants remained temporarily closed. These temporarily closed A&W restaurants are expected to reopen when permitted to do so.

Food Services and its franchisees have continued to take and maintain significant measures in their restaurants and broader operations to protect the health of employees and guests in compliance with physical distancing recommendations and mandates of relevant public health authorities.

Customer traffic in 2020 was down significantly as guests remained at home and practiced physical distancing. These sales declines resulted in significant reductions to the amounts of royalties payable to and earned by the Fund, and, correspondingly, funds available to distribute to unitholders of the Fund, in each case, in relation to prior comparable periods.

To enable Food Services to continue to support the A&W system through this challenging period, Food Services took steps to bolster its liquidity, including an equity investment of \$10 million by Food Services' shareholder (as previously announced by Food Services on April 14, 2020), as well as an increase in Food Services' credit facility from \$6 million to \$25 million (as previously announced by Food Services on May 26, 2020). This credit facility is secured solely by Food Services' indirect interest in the Fund, as permitted under the existing agreements between Food Services and the Fund. As at January 3, 2021 this facility was drawn on for \$36,000 leaving \$24,964,000 of the facility available.

Food Services deferred royalty payments totaling \$7,448,000 payable to the Fund for gross sales reported by restaurants in the Royalty Pool for the period of February 24, 2020 to May 17, 2020. In July, Food Services resumed regular royalty payments to the Fund, commencing with the royalty payment in respect of gross sales reported by restaurants in the Royalty Pool for the four-week period beginning May 18, 2020, which was paid in full on July 10, 2020. On December 3, 2020, Food Services paid the deferred royalty payments in full plus accrued interest to the Fund.

Since the start of the sudden impact of the COVID-19 pandemic on the A&W business, the Trustees of the Fund have been in close and regular contact with the management of Food Services and are carefully monitoring the results of operations of the A&W system, including Food Services. The Trustees retained independent financial and legal advisors to assist them in their review and analyses of the financial condition, results of operations, business and prospects of Food Services and the A&W business.

In March, the Fund had temporarily suspended monthly distributions on the units; accordingly, no distributions were declared by the Fund for the months of March, April, and May 2020. The Trustees had determined that temporarily suspending distributions to unitholders was the most prudent course of action at that time until business conditions and sales trends became less uncertain. Regular monthly distributions to unitholders resumed in the third quarter of 2020, commencing with the June distribution of 10 cents per unit that was paid on July 31, 2020. The Trustees determined to recommence monthly distributions to unitholders in the third quarter based on the improvement in the performance of A&W restaurants in the Royalty Pool and the resumption of royalty payments by Food Services. The Trustees considered the amount of the cumulative surplus of the Fund, reviewed financial and other information regarding the performance of Food Services and the A&W restaurants in the Royalty Pool, and financial projections for the Fund and Food Services and obtained advice from their independent financial advisors and legal counsel.

Food Services is the head lessee for the majority of its franchised locations and enters into agreements whereby Food Services licences the premises to the franchisee, for which Food Services receives a premises licence fee from its franchisees. Under the licence agreement, the franchisee is responsible for the obligations under the lease. IFRS 16 requires Food Services, where it acts as the intermediate lessor, to recognize a lease liability and a corresponding lease receivable. Leases receivable are reviewed for impairment based on expected losses at each balance sheet date in accordance with IFRS 9 – Financial instruments. An impairment loss is recorded when the credit risk is assessed to have increased for the leases receivable. As a result of the unprecedented impact of COVID-19, Food Services has developed a risk matrix used to assess the credit risk of all head leases and has included the impacts of COVID-19 response measures in its credit risk assumptions. As at January 3, 2021, Food Services recorded an

expected credit loss provision on leases receivable of \$4,281,000 (2019 - \$nil). See “Adoption of IFRS 16”.

Although there have been improvements in sales trends, restrictions on the operations of A&W restaurants as well as temporary restaurant closures have resulted in material year over year declines to sales at A&W restaurants in the Royalty Pool. These sales declines resulted in significant reductions to the amounts of royalties payable to and earned by the Fund, and, correspondingly, funds available to distribute to unitholders of the Fund, in each case, in relation to prior comparable periods. See “Outlook” and “Risks and Uncertainties”.

### **Annual Adjustment to the Royalty Pool**

The Royalty Pool is adjusted annually to reflect gross sales from new A&W restaurants added to the Royalty Pool, net of the gross sales of any A&W restaurants that have permanently closed. Food Services is paid for the additional royalty stream related to the gross sales of the net new 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 gross sales from the net new A&W restaurants and the current yield on the units of the Fund, adjusted for income taxes payable by Trade Marks. The consideration is paid to Food Services in the form of additional 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 2020 annual adjustment to the Royalty Pool took place on January 5, 2020. The number of A&W restaurants in the Royalty Pool was increased by 44 new restaurants less seven restaurants that permanently closed during 2019. The addition of these 37 net new restaurants brought the total number of A&W restaurants in the Royalty Pool to 971. The estimated annual sales of the 44 new A&W restaurants were \$65,953,000 at the time they were added to the Royalty Pool and annual sales for the seven permanently closed restaurants were \$4,078,000 based on their sales during the first year such restaurants were included in the Royalty Pool. The initial consideration for the estimated additional royalty stream was \$29,079,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the units of the Fund for the 20-trading days ending October 28, 2019. The yield was adjusted to reflect the income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$23,263,000, by issuance of 611,858 LP units which were subsequently exchanged for 1,223,716 non-voting common shares of Trade Marks. The final adjustment to the number of units issued was made on December 11, 2020 based on the actual annual sales reported by the new restaurants of \$65,533,000 compared to the original estimate of \$65,953,000, resulting in total consideration of \$28,881,000 payable to Food Services. The remaining consideration of \$5,618,000 was paid to Food Services by issuance of 147,772 additional LP units, which were exchanged for 295,544 non-voting common shares of Trade Marks.

On January 5, 2021, the number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants less 11 restaurants that permanently closed during 2020. The initial consideration for the estimated royalty revenue from the new 23 restaurants added to the Royalty Pool is \$16,588,000. The Partnership paid Food Services \$13,270,000 by issuance of 465,316

LP units, representing 80% of the initial consideration. The LP units were exchanged for 930,632 non-voting common shares of Trade Marks. The remaining 20% or \$3,318,000 and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be paid in December 2021 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks.

After the initial consideration was paid for the January 5, 2021 adjustment to the Royalty Pool, Food Services' indirect interest in the Fund increased to 26.0% on a fully diluted basis (24.2% as of January 3, 2021).

### Common Shares of A&W Trade Marks Inc.

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

(dollars in thousands)	Fund			Food Services			Total	
	Number of shares	Trade Marks' book value \$	%	Number of shares	Trade Marks' book value \$	%	Number of shares	Trade Marks' book value \$
Balance as at December 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 <sup>(1)</sup>	-	-	(4.0)	1,833,586	31,914	4.0	1,833,586	31,914
June 5, 2019 exchange of common shares for units of the Fund <sup>(2)</sup>	3,120,000	42,111	9.0	(3,120,000)	(42,111)	(9.0)	-	-
Balance as at December 29, 2019	28,129,271	164,605	79.1	7,453,763	95,339	20.9	35,583,034	259,944
January 5, 2020 adjustment to the Royalty Pool <sup>(3)</sup>	-	-	(3.3)	1,519,260	28,881	3.3	1,519,260	28,881
Balance as at January 3, 2021	28,129,271	164,605	75.8	8,973,023	124,220	24.2	37,102,294	288,825

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

<sup>(2)</sup> On June 5, 2019, Food Services exchanged 3,120,000 common shares of Trade Marks for 1,560,000 units of the Fund, which units were then sold by Food Services at a price of \$44.55 per unit pursuant to a short form prospectus of the Fund dated May 29, 2019. Food Services recognized a gain at fair value on the exchange of \$24,307,000, net of transaction costs.

<sup>(3)</sup> The number of common shares includes the 147,772 LP units exchanged for 295,544 common shares of Trade Marks representing the remaining consideration paid in December 2020 for the January 5, 2020 adjustment to the Royalty Pool. See "Annual Adjustment to the Royalty Pool".

## Ownership of the Fund

The ownership of the Fund as of January 3, 2021 and December 29, 2019, on a fully-diluted basis, is as follows:

	January 3, 2021		December 29, 2019	
	Number of units	%	Number of units	%
Fund units held by public unitholders	14,064,673	75.8	14,064,673	79.1
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services <sup>(1)</sup>	4,486,512	24.2	3,726,882	20.9
Total equivalent units	18,551,185	100.0	17,791,555	100.0

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

The chart below shows the ownership of the Fund, on a fully-diluted basis, after the initial consideration for the January 5, 2021 adjustment to the Royalty Pool.

	Number of units	%
Fund units held by public unitholders	14,064,673	74.0
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services	4,951,828	26.0
Total equivalent units	19,016,501	100.0

## 2020 Operating Results

### Revenue

Food Services' franchising and corporate revenue for 2020 was \$201,892,000 compared to \$246,305,000 for 2019. Annual franchising revenue in 2020 was \$185,762,000 compared to \$226,984,000 for 2019, a decrease of \$41,222,000. Revenue related to sales from the distribution of food and supplies, service fees and advertising fund contributions decreased in the year due to lower System Sales. In addition, equipment and turnkey revenue was lower as fewer new restaurants were opened in the year as compared to 2019.

Corporate restaurant System Sales were \$16,130,000 in 2020 compared to \$19,321,000 in 2019. The \$3,191,000 decrease was due to the impact of COVID-19.

### Operating costs and general and administrative expenses

Operating costs for 2020 were \$104,586,000 compared to \$139,543,000 for 2019, a decrease of \$34,957,000. The decrease is in line with the decrease in revenue noted above.

General and administrative expenses represent costs of providing services to franchised restaurants and establishing new restaurants, and were \$33,924,000 for 2020 compared to \$46,093,000 for 2019, a decrease of \$12,169,000. General and administrative expenses in 2020 are net of wage subsidies totaling \$6,388,000 which were received or are receivable under federal government subsidy programs in connection with COVID-19.



### ***Operating earnings***

(dollars in thousands)	<b>53 week period ended Jan 3, 2021</b>	52 week period ended Dec 29, 2019
Franchising & corporate restaurant revenue	<b>\$201,892</b>	\$246,305
Operating costs and general and administrative expenses	<b>(138,510)</b>	(185,636)
Depreciation of plant, equipment and right-of-use assets	<b>4,003</b>	2,540
Earnings before royalty expense, gain on sale of Fund units, loss on impairment of leases receivable, gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	<b>\$67,385</b>	\$63,209

2020 annual operating earnings increased by \$4,176,000 to \$67,385,000 in 2020 as compared to \$63,209,000 in 2019. The operating margin for 2020 was 33.4% compared to 25.7% for 2019.

### ***Royalty expense***

Royalty expense for 2020 was \$40,662,000 based on gross sales reported by restaurants in the Royalty Pool of \$1,355,400,000 for the 53-week period ended January 3, 2021 compared to 2019 royalty expense of \$44,470,000 and gross sales reported by A&W restaurants in the Royalty Pool of \$1,482,323,000 for the 52-week period ended December 29, 2019. The decrease in royalty expense for year is due to the decline in Same Store Sales as a result of the impact of COVID-19. See "Impact of COVID-19".

### ***Earnings after royalty expense***

(dollars in thousands)	<b>53 week period ended Jan 3, 2021</b>	52 week period ended Dec 29, 2019
Earnings before royalty expense, loss on impairment of leases receivable, gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	<b>\$67,385</b>	\$63,209
Royalty expense	<b>(40,662)</b>	(44,470)
Earnings after royalty expense (before loss on impairment of leases receivable, gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	<b>\$26,723</b>	\$18,739

Earnings after royalty expense (but before loss on impairment of leases receivable, gain on sale of Fund units, Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) increased by \$7,984,000 to \$26,723,000 for 2020 compared to \$18,739,000 for 2019. The increase was comprised of the \$4,176,000 increase in operating earnings plus the \$3,808,000 decrease in royalty expense. See "Financial Highlights" and "Non-IFRS Measures" for further information.

**Loss on impairment of leases receivable**

Food Services is the head lessee for the majority of its franchised locations and enters into agreements whereby Food Services licences the premises to the franchisee, for which Food Services receives a premises licence fee. Under the licence agreement, the franchisee is responsible for the obligations under the lease. IFRS 16 requires Food Services, where it acts as the intermediate lessor, to recognize a lease receivable. Leases receivable are reviewed for impairment based on expected losses at each balance sheet date in accordance with IFRS 9 – Financial instruments. An impairment loss is recorded when the credit risk is assessed to have increased for the leases receivable. As a result of the unprecedented impact of COVID-19, Food Services has developed a risk matrix used to assess the credit risk of all head leases. As at January 3, 2021, Food Services has recorded an expected credit loss provision on leases receivable of \$4,281,000. See “Adoption of IFRS 16”.

**Finance expense - net**

(dollars in thousands)	53 week period ended Jan 3, 2021	52 week period ended Dec 29, 2019
Interest income	(50)	(\$221)
Standby fees	38	-
Interest on deferred royalties	184	-
Interest cost on supplementary retirement benefit plan	446	521
Interest income from leases receivable	(21,229)	-
Interest on lease liabilities	21,948	-
Amortization of financing fees	23	-
Finance leases	-	150
Other interest	-	15
	<b>\$1,360</b>	<b>\$465</b>

Net interest expense increased by \$895,000 as compared to 2019 due to interest expense on deferred royalties and the adoption of IFRS 16. See “Adoption of IFRS 16”.

**Food Services’ share of Trade Marks’ income**

Food Services’ share of Trade Marks’ income for 2020 decreased by \$468,000 to \$7,183,000 compared to \$7,651,000 for 2019. The decrease is primarily attributable to lower royalty income due to the impact of COVID-19.

**Net income**

(dollars in thousands)	53 week period ended Jan 3, 2021	52 week period ended Dec 29, 2019
Earnings after royalty expense (before loss on impairment of leases receivable, gain on sale of units of the Fund, share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	\$26,723	\$18,739
Loss on impairment of leases receivable (see "Adoption of IFRS 16")	(4,281)	-
Finance expense	(1,360)	(465)
Depreciation of plant, equipment and right-of-use assets	(4,003)	(2,540)
Amortization of deferred gain	2,927	2,570
Gain on sale of units of A&W Revenue Royalties Income Fund	-	24,307
Share of income from A&W Trade Marks Inc.	7,183	7,651
Income before income taxes	27,189	50,262
Provision for income taxes	5,536	6,075
Net income for the period	\$21,653	\$44,187

The decrease in income before income taxes and decrease in net income is due to the non-cash loss on impairment of leases receivable in 2020, and the 2019 gain on sale of units of the Fund. See "Adoption of IFRS 16".

**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 loss**

Other comprehensive loss 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 2020 was \$892,000 compared to a loss of \$976,000 for 2019.

**Liquidity and Capital Resources**

Food Services is primarily a franchise business with 997 of its 1,006 restaurants franchised. Food Services' capital requirements are related to its corporate restaurants and head office and investments in technology and information. Future restaurant growth is expected to 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 expects to have sufficient capital resources to fund these capital requirements and has sufficient cash on hand to meet its obligations.

In 2020, Food Services increased its demand operating loan facility with a Canadian chartered bank (the Bank) to \$25,000,000 (December 29, 2019 - \$8,000,000) to fund working capital requirements and for general corporate purposes. This credit facility is secured solely by Food Services' indirect interest in the Fund, as permitted under the existing agreements between Food Services and the Fund. Amounts advanced under the facility bear interest at the Bank's prime rate plus 1.0% and are repayable on demand. As at February 16, 2021 and January 3, 2021, letters of credit totaling \$36,000 (December 29, 2019 - \$298,000) have been issued by the Bank to landlords and cities for development of new restaurants, leaving \$24,964,000 of the facility available (December 29, 2019 - \$7,702,000). Food Services was in compliance with all of its financial covenants as at February 16, 2021, January 3, 2021 and December 29, 2019.

In 2020, Food Services' shareholders invested \$10 million of common equity in the company to ensure sufficient liquidity during the period of uncertainty caused by COVID-19.

In the third quarter of 2020, Food Services resumed regular royalty payments to the Fund, commencing with the royalty payment in respect of gross sales reported by restaurants in the Royalty Pool for the four-week period beginning May 18, 2020, which was paid in full on July 10, 2020. Food Services had previously deferred royalty payments totaling \$7,448,000 payable to the Fund for gross sales reported by restaurants in the Royalty Pool for the period February 24, 2020 to May 17, 2020. On December 3, 2020, Food Services paid the previously deferred royalty payments in full to the Partnership plus accrued interest of \$184,000.

### **Off-Balance Sheet Arrangements**

Food Services has no off-balance sheet arrangements.

### **Related Party Transactions and Balances**

Royalty expense for the year was \$40,662,000 (2019 - \$44,470,000), of which \$3,692,000 (December 29, 2019 - \$3,326,000) is payable to the Partnership by Food Services at January 3, 2021. During the year, Food Services deferred royalty payments payable to the Partnership for gross sales reported by restaurants in the Royalty Pool for the period February 24, 2020 to May 17, 2020. As contemplated in the Amended and Restated Licence and Royalty Agreement, late payments of royalties accrue interest at the rate of 2% per annum over the prime rate. On December 3, 2020, Food Services paid the previously deferred royalty payments totaling \$7,448,000 plus accrued interest of \$184,000.

During the year, dividends of \$6,811,000 (December 29, 2019 - \$7,828,000) were received from Trade Marks.

During the year, Food Service paid \$125,000 (2019 - \$125,000) to a professional baseball club, of which a shareholder and director of Food Services is a part owner, in exchange for advertising the A&W brand at the ballpark. At January 3, 2021, \$nil (December 29, 2019 - \$nil) is payable to the baseball club by Food Services.

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

### **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 and judgements are investment in Trade Marks, supplementary retirement benefit plan, deferred income taxes and leases receivable. The supplementary retirement benefit plan and deferred income taxes 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.

### **Adoption of IFRS 16**

Food Services has adopted IFRS 16, with a date of initial application of December 30, 2019, using a modified retrospective approach. Under the modified retrospective approach, the cumulative effect of initial application has been recognized in retained earnings at December 30, 2019, and comparative information has not been restated and continues to be reported under IAS 17, Leases.

The adoption of this standard replaces the dual model for lessee accounting which classified leases as either finance or operating with a single accounting model which requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Under IFRS 16, lessor accounting for operating and finance leases has remained substantially unchanged.

Food Services determines lease existence and classification at the lease inception date. Leases are identified when an agreement conveys the right to control the identified property for a period of time in exchange for consideration.

Food Services recognizes a right-of-use asset and a lease liability at the lease commencement date, which is the possession date of the asset. The right-of-use asset is initially measured based on the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received, and excludes all sales taxes. Right-of-use assets are depreciated to the earlier of the end of the useful life of the asset or the lease term using the straight-line method. The lease term includes periods associated with options to extend or excludes periods associated with options to terminate the lease when it is reasonably certain that management will exercise these options. Additionally, the right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of lease liabilities.

The lease liability is initially measured at the present value of the lease payments over the lease term. The lease payments are discounted using the interest rate implicit in the lease; if that cannot be readily determined, Food Services uses its incremental borrowing rate. The incremental borrowing rate is the rate that the lessee would have to pay to borrow the funds

necessary to obtain an asset of similar value, in a similar economic environment, and with similar terms and conditions. Generally, Food Services uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Food Services' estimate of the amount expected to be payable under a residual value guarantee, or if Food Services changes its assessment of whether it will exercise a purchase, extension or termination option.

Food Services has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. Food Services recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Where Food Services acts as an intermediate lessor, it classifies a sublease as a finance lease by reference to the right-of-use asset arising from the head lease. Food Services derecognizes the right-of-use asset relating to the head lease that it transfers to the sublessee and recognizes a corresponding lease receivable and the lease liability relating to the head lease is retained. Similar to right-of-use assets, leases receivable are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of lease liabilities.

On adoption, the standard had a material impact on Food Services' consolidated balance sheet, but did not have a significant impact on its consolidated statement of income. The impact of the adoption as at December 30, 2019 was as follows:

(dollars in thousands)	Balance – December 29, 2019 \$	Impact of IFRS 16 adoption \$	Balance – December 30, 2019 \$
<b>Assets</b>			
Leases receivable	-	567,334	<b>567,334</b>
Right-of-use asset	-	20,167	<b>20,167</b>
Plant and equipment	13,088	(1,895)	<b>11,193</b>
<b>Liabilities</b>			
Lease liabilities	-	587,501	<b>587,501</b>
Accounts payable and accrued liabilities	42,780	(839)	<b>41,941</b>
Obligations under finance leases	1,214	(1,214)	-
<b>Shareholders' Deficiency</b>	(141,736)	158	<b>(141,578)</b>

On May 28, 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Food Services has elected to account for rent concessions the same way as if they were not lease modifications.

## **Risks and Uncertainties**

### ***COVID-19***

The COVID-19 pandemic has had and is continuing to have negative impacts on the Canadian economy, the QSR industry, the willingness of the general public to dine outside their homes and travel, the level of consumer confidence in the safety of QSR restaurants including A&W restaurants, all of which have and are expected to continue to negatively impact Food Services, its franchisees and the Fund (including Trade Marks and the Partnership), and have or may, as applicable, adversely affect each of their respective investments, results of operations and financial condition, their ability to obtain additional equity or debt financing, or re-finance existing debt, or make interest and principal payments to their respective lenders, make lease payments and otherwise satisfy their respective financial obligations as they become due and may cause each of Food Services, their franchisees and the Fund (including Trade Marks and the Partnership) to be in non-compliance with one or more of the financial covenants under their respective existing credit facilities and cause a default thereunder. Restrictions on the operations of A&W restaurants in response to COVID-19 as well as temporary restaurant closures have resulted in material year over year declines to system sales at A&W restaurants in 2020.

Restrictions on the operations of A&W restaurants and temporary restaurant closures are expected to continue into 2021. These declines to system sales have resulted in and are expected to continue to result in reductions to the service fees payable to Food Services by its franchisees and the amount of royalties payable to the Fund (through the Partnership), and correspondingly, funds available to be paid as dividends by Trade Marks to Food Services and the Fund and available to distribute to unitholders of the Fund. Food Services may become liable for the lease obligations of certain of its franchisees, if such franchisees default on their leases as a result of the impacts of COVID-19 or otherwise, and such obligations may be significant and Food Services may be unsuccessful in seeking recovery from such franchisees, all of which may adversely affect Food Services' investments, results of operations and financial condition. There is no guarantee that future royalty payments by Food Services will not be deferred. Food Services' projections may be inaccurate, and do not represent a financial forecast and actual results may differ materially from those anticipated by the projections. There is no guarantee that the Fund (including Trade Marks and the Partnership) will not take any action to enforce its rights under its agreements with Food Services in relation to any future deferred royalty payments. There is no guarantee that the Fund (including Trade Marks and the Partnership) would be successful in taking action to enforce any of its rights under its agreements with Food Services in respect of any deferred royalty payments, and such actions, if taken, may cause other material adverse effects to the Fund (including Trade Marks and the Partnership) and Food Services to occur. Monthly distributions on units, although recently reinstated, are not guaranteed and may be reduced, suspended or terminated at any time. Sales improvement trends of the restaurants in the Royalty Pool may not continue and may slow or regress. Certain A&W restaurants that are currently temporarily closed may not reopen, and further locations may close temporarily or permanently due to the impacts of COVID-19. Government restrictions related to COVID-19 may have their durations extended, or may be reinstated in the case of those that have recently been lifted, which measures may restrict the ability of A&W restaurants to operate, or result in forced closures, further reduced guest traffic, supply interruptions or staff shortages. Government programs expected to be helpful to A&W franchisees may not be available to some franchisees, and may not be available in amounts expected for those franchisees for which such programs are available and may be terminated at any time.

In addition, it is unknown if and to what extent the COVID-19 pandemic will alter consumer behaviour and demand for QSR services. Health epidemics or pandemics can adversely affect consumer spending and confidence levels and supply availability and costs, as well as the local operations in impacted markets, all of which can adversely affect the financial results, condition and outlook of Food Services and A&W franchisees. Importantly, the global pandemic resulting from COVID-19 has disrupted global health, economic and market conditions, consumer behavior and A&W restaurant operations beginning in early 2020. Local and national governmental mandates or recommendations and public perceptions of the risks associated with the COVID-19 pandemic have caused, and may continue to cause, consumer behavior to change and worsening or volatile economic conditions, which could continue to adversely affect Food Services' and A&W franchisees' business.

The COVID-19 pandemic may also heighten other risks disclosed herein, such as, but not limited to, those related to consumer behavior, consumer perceptions of the A&W brand, supply chain interruptions, commodity costs and labor availability and cost.

Information regarding the other risks and uncertainties applicable to the business operations of Food Services is contained elsewhere in this report, including under the heading "Forward-Looking Information, and in the Fund's most recent Annual Information Form under the heading "Risk Factors". Additional risks and uncertainties not currently known or that are currently not considered to be material may also 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. See "Impact of COVID-19".

## **Outlook**

Food Services believes that the food service industry, and more particularly the quick service restaurant (QSR) segment of the industry, will recover from the impact of COVID-19. However, the timing and strength of the recovery cannot yet be predicted with any degree of certainty. Against this backdrop, the success of the A&W brand and individual franchised A&W restaurants is paramount to the long-term success of the overall A&W system and, in turn, to the Fund. Both Food Services and its franchisees have worked diligently to develop and implement plans and programs to mitigate the effects of the COVID-19 pandemic. Food Services' objective is to ensure that as many as possible of A&W's 1,006 restaurants are able to safely operate (as permitted by health authorities and government regulations mandated from time to time) with the objective of emerging from this period of uncertainty in financial condition that enables them to compete effectively and grow their businesses.

Food Services believes that its mission "To become #1 with millennial burger lovers, chosen and trusted for truly good food and the convenience they crave"" will help it to rebound from the impact of COVID-19. Strategic initiatives, including repositioning and differentiating the A&W brand through the use of natural ingredients; continued new restaurant growth, and delivering an industry leading guest experience, have all contributed to A&W's strong appeal and the trust it has built with Canadian consumers over many years. These strengths will be key to delivering strong results and improved market share as the QSR industry and the QSR burger market resume growth.

A&W is proud to be a Canadian company, 100% Canadian owned and operated, and a leader in sourcing simple, great-tasting ingredients, farmed with care. In 2013, Food Services became the first and only national burger chain in Canada to serve beef raised without artificial hormones or



steroids, and since then Food Services has introduced countless other natural ingredient firsts; including chicken raised without the use of antibiotics, Organic Fairtrade coffee, eggs from hens fed a diet without animal by-products, bacon from pork raised without the use of antibiotics, real cheese on all burgers and breakfast sandwiches, and A&W Root Beer served in restaurants made from natural cane sugar and all-natural flavours.

In 2018, A&W further strengthened its positioning as a leader in food and innovation with the introduction of the BEYOND MEAT<sup>(1)</sup> branded plant-based burger. Food Services was very excited to be the first national burger chain in Canada to offer burger lovers across Canada this burger patty made using 100% plant-based protein with peas, rice, mung beans, coconut oil, pomegranates, potatoes, apples and beets. A&W continues to enhance its position as a leader in great tasting plant-based options with regular introductions of new recipes and products to its plant-based line-up.

<sup>(1)</sup> Trademark of Beyond Meat, Inc., used under license.

In 2020, A&W announced that all of its beef is grass-fed, from cattle that only graze on grass and other forage, like hay. Also, in 2020, A&W launched its Fairtrade and organic coffee to very positive guest feedback.

Limited time offers in 2020 included the '56 Papa and Mama Burgers with real cheddar cheese, lettuce, tomato, red onions and beef raised without hormones or steroids. The '56 Burgers are a throwback to A&W's decades of serving delicious burgers. The wild-caught Cod Burger and Cod Wrap were also back for a limited time at A&W restaurants in 2020, featuring sustainably-sourced, hand-cut strips of cod, coleslaw and tangy tartar sauce. A&W restaurants also served Fish and Chips for a limited time in 2020, made with its hand-cut strips of wild-caught cod served on a bed of Russet, thick-cut fries with tartar sauce.

A&W is also committed to reducing its environmental impact through conscious use of packaging, waste, energy and water, and high-efficiency equipment is being introduced into A&W restaurants to use less energy.

The 12th annual A&W Burgers to Beat MS campaign, in partnership with the Multiple Sclerosis Society of Canada, raised \$1.3 million in 2020 in support of those living with multiple sclerosis. On Thursday, August 20, 2020, Food Services hosted its first ever take-out Burgers to Beat MS Day at A&W restaurants across Canada by donating \$2 from every Teen Burger sold on that day to the MS Society of Canada. In 12 years, the annual Burgers to Beat MS campaign has raised more than \$16 million, making A&W the single largest annual corporate fundraiser for the MS Society of Canada.

Food Services has continued to grow new A&W restaurants, particularly in the key Ontario and Quebec markets. A milestone was reached in 2020 with the opening of A&W's 1,000th restaurant. During 2020, 23 new A&W restaurants were opened across the country.

The health and safety of A&W's customers and restaurant team members remains a top priority. A&W has implemented stringent protocols in its dining rooms to limit contact and ensure physical distancing. Other services that encourage physical distancing such as drive-thru, third party delivery and pickup through A&W's mobile app are available to A&W's guests.

A&W's brand positioning is strong. Growth of new locations, industry leading innovation, a safe and stable supply chain, and continued efforts to consistently deliver great food and a better guest experience are all expected to contribute to building loyalty and enhancing performance over the long term. Food Services remains committed to the long-term health and success of its franchise network and the Fund.

### **Non-IFRS Measures**

Food Services believes that disclosing certain non-IFRS financial measures provides readers of this report with important information regarding Food Services' financial performance and its ability to pay the royalty to the Partnership. By considering these measures in combination with the most closely comparable IFRS measure, if any, Food Services believes that readers are provided with additional and more useful information about Food Services than readers would have if they simply considered IFRS measures alone.

Food Services uses "System Sales", "System Sales Growth", "Same Store Sales Growth", "Gross sales reported by A&W restaurants in the Royalty Pool" and "Royalty Pool Same Store Sales Growth" as non-IFRS measures in this report. These measures do not have a standardized meaning prescribed by IFRS and Food Services' method of calculating these measures may differ from those of other issuers or companies and may not be comparable to similar measures used by other issuers or companies. For further details, including how such measures are calculated by Food Services, see "Financial Highlights" above.

### **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: the expectation that currently closed A&W restaurants will reopen when they are able to do so; the Trustees, in consultation with their independent financial and legal advisors, will continue to closely monitor the sales results of, and projections for, the A&W restaurants in the Royalty Pool going forward with a view of continuing the payment of regular monthly distributions at a sustainable level; expectations with respect to timing for the payment of the remaining \$3,318,000 by the Partnership to Food Services and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants; the impact of COVID-19, including its impact on the global economy in general and on the businesses of Food Services and A&W franchisees in particular; statements with respect to government restrictions on business operations, and in particular restaurants; statements regarding the extent to which the COVID-19 pandemic will alter consumer behaviour and demand for QSR services; expectations regarding improvements in sales trends at the A&W restaurants in the Royalty Pool; statements regarding the duration of various government support programs; Food Services' expectation that the food service industry, and more particularly the QSR segment, will recover; the success of the A&W brand and individual franchised restaurants being paramount to the long-term success of the overall A&W system and, in turn, to the unitholders of the Fund; Food Services' objectives with respect to the A&W restaurants and its planned strategies to achieve those objectives; statements regarding

future restrictions on the operations of A&W restaurants as well as temporary restaurant closures and the corresponding material reductions to the amounts of royalties payable to and earned by the Fund, as well as funds available to distribute to unitholders of the Fund, in each case, in relation to prior comparable periods; the expectation that Trade Marks will remain in compliance with all covenants related to its term debt based on current projections; the expectation that Food Services will remain in compliance with all covenants related to its operating loan facility based on current projections; the expectation that the remaining 20% of the initial consideration payable to Food Services in respect of the January 5, 2021 adjustment to the Royalty Pool will be paid in December 2021, and that the amount thereof may vary depending on the actual annual sales report by the new A&W restaurants; Food Services' expectation that future restaurant growth will be funded by franchisees; Food Services' expectation that it will incur capital expenditures to open new corporate restaurants in the Ottawa market and that it will have sufficient capital resources to fund these capital requirements; Food Services' belief that its mission "to be loved for our natural ingredients, great taste, convenience, and for doing what's right" will help it to rebound from the impact of COVID-19; Food Services' belief that strategic initiatives will be key to delivering strong results and improved market share as the QSR industry and the QSR burger market resume growth; growth of new locations, industry leading innovation, a safe and stable supply chain, and continued efforts to consistently deliver great food and a better guest experience are all expected to contribute to building loyalty and enhancing performance over the long term; and Food Services remaining committed to the long-term health and success of its franchise network and the Fund.

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

- the general risks that affect the restaurant industry will not arise, other than those related to COVID-19;
- there are no changes in availability of experienced management and hourly employees;
- there are no material changes in government regulations concerning menu labelling and disclosure and drive-thru restrictions;
- no publicity from any food borne illness;
- no material changes in competition;
- no material increases in food and labour costs;
- the continued availability of quality raw materials;
- continued additional franchise sales and maintenance of franchise operations;
- Food Services is able to maintain and grow the current system of franchises;
- Food Services is able to locate new retail sites in desirable locations;
- Food Services is able to obtain qualified operators to become A&W franchisees;
- no material impact from new or increased sales taxes upon gross sales;
- continued availability of key personnel;
- continued ability to preserve intellectual property;
- no material litigation from guests at A&W restaurants;
- Food Services continues to pay the royalty;
- Food Services can continue to comply with its obligations under its credit arrangements;
- Trade Marks can continue to comply with its obligations and covenants under its credit arrangements;
- current store closures will be temporary and restaurant performance will continue to improve;

- the Fund will receive sufficient revenue in the future (in the form of royalty payments from Food Services) to maintain the payment of monthly distributions;
- the projections for the A&W business provided by Food Services are accurate;
- the impacts of the COVID-19 pandemic on the A&W system will not significantly worsen;
- the remaining 20% of the initial consideration payable to Food Services in respect of the January 5, 2021 adjustment to the Royalty Pool will be paid in December 2021; and
- Food Services will be successful in executing on its business strategies and such strategies will achieve their intended results.

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

- the general risks that affect the restaurant industry in general and the quick service segment in particular, including competition with other well-capitalized franchisors and operators of quick service restaurants;
- changes in consumer preferences that adversely affect the consumption of quick service restaurant hamburgers, chicken, fries, breakfast items or soft drinks;
- negative publicity, litigation or complaints from perceived or actual food safety events or other events involving the foodservice industry in general or A&W restaurants in particular;
- changes in the availability and quality of raw materials, including A&W's natural ingredients;
- the possible lack of success of new products and advertising campaigns;
- changes in climate or increases in environmental regulation;
- changes in Food Services' ability to continue to grow same store sales, locate new retail sites in desirable locations and obtain qualified operators to become A&W franchisees;
- increases in closures of A&W restaurants adversely affecting the royalty;
- decreases in traffic at shopping centres and other retail modes;
- 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 affect the restaurant industry in general or the quick service restaurant industry in particular, including franchise legislation and sales tax legislation;
- changes in the availability of key personnel, including qualified franchise operators;
- changes in the ability to enforce or maintain intellectual property;
- technological breakdowns, cybersecurity breaches and the security of consumer and personal information;
- the amplificatory effects of media and social media;
- risks related to global health crises, disease outbreaks (including COVID-19), and other unexpected events which could affect Food Services' and A&W franchisees' supply chains, business continuity, and financial results;
- the availability and adequacy of insurance coverage;
- occurrence of catastrophic events; and
- risks related to COVID-19 set forth in this report, including under the headings "Risks and Uncertainties – COVID-19" and "Impact of COVID-19".

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

- dependence of the Fund on Trade Marks, Partnership and Food Services;
- dependence of the Partnership on Food Services;
- risks related to leverage and restrictive covenants;
- the risk that cash distributions are not guaranteed and will fluctuate with the Partnership's performance and could be reduced or suspended at any time;
- risks related to the unpredictability and volatility of unit prices;
- risks related to the nature of units;
- risks related to the distribution of securities on redemption or termination of the Fund;
- risks related to the Fund issuing additional units diluting existing unitholders' interests;
- risks related to income tax matters and investment eligibility;
- risks related to the limitations of internal controls over financial reporting;
- risks related to COVID-19 set forth in this report, including under the headings "Risks and Uncertainties – COVID-19" and "Impact of COVID-19"; and
- risks related to Food Services not meeting its objectives, and the possibility that its strategies to meet its objectives may not be successful.

These risks, uncertainties and other factors are more particularly described 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.