A&W Food Services of Canada Inc.

Q2/2020

Consolidated Financial Statements

For the second quarter ended
June 14, 2020

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

A&W Food Services of Canada Inc.
Report to Unitholders of A&W Revenue Royalties Income Fund
December 30, 2019 to June 14, 2020

This report and the interim consolidated financial statements of A&W Food Services of Canada Inc. (A&W or Food Services) for the second quarter period from March 23, 2020 to June 14, 2020 and the year to date period from December 30, 2019 to June 14, 2020 are provided as a supplement to the interim condensed consolidated financial statements and Management Discussion and Analysis of the A&W Revenue Royalties Income Fund (the Fund) for the quarter and year to date period ended June 14, 2020. This report is dated July 21, 2020 and should be read in conjunction with the interim condensed consolidated financial statements of Food Services for the 12 weeks and 24 weeks ended June 14, 2020 and the audited annual consolidated financial statements of Food Services for the 52 weeks ended December 29, 2019. Such financial statements and additional information about the Fund and Food Services are available at www.sedar.com or www.awincomefund.ca.

Glossary

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

To align its financial reporting with the business cycle of its operations, Food Services uses a fiscal year comprising a 52 or 53 week period ending on the Sunday nearest December 31. The fiscal 2019 year was 52 weeks and ended December 29, 2019 (2018 – 52 weeks ended December 30, 2018). Food Services' second quarter ends 24 weeks after its fiscal year end. System Sales, System Sales Growth and Same Store Sales Growth (defined below) for the 12 weeks and 24 weeks ended June 14, 2020 are compared to the 12 weeks and 24 weeks ended June 16, 2019 so that the two years are comparable. References to year to date amounts in this report are in respect of the period from December 30, 2019 to June 14, 2020.

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 interim condensed consolidated financial statements are consistent with those followed in the preparation of Food Services' annual consolidated financial statements for the year ended December 29, 2019, 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".

(dollars in thousands)	**12 week period ended June 14, 2020**	12 week period ended June 16, 2019	**24 week period ended June 14, 2020**	24 week period ended June 16, 2019
System Sales[1]	**$260,155**	$363,878	**$577,367**	$680,856
System Sales Growth[2]	**-28.5%**	+15.3%	**-15.2%**	+15.2%
Same Store Sales Growth[3]	**-31.6%**	+10.3%	**-18.7%**	+10.2%
New restaurants opened	**2**	6	**5**	15
Restaurants permanently closed	**1**	2	**3**	2
Number of restaurants in the Royalty Pool	**971**	934	**971**	934
Gross sales reported by A&W restaurants in the Royalty Pool[4]	**$253,173**	$351,845	**$561,852**	$660,668
Royalty Pool Same Store Sales Growth[5]	**-31.6%**	+10.3%	**-18.7%**	+10.2%
Number of restaurants	**996**	965	**996**	965
Franchising & corporate restaurant revenue	**$37,408**	$50,921	**$82,490**	$99,375
Operating costs and general and administrative expenses	**(23,142)**	(37,406)	**(60,145)**	(75,600)
Depreciation of plant, equipment and right of use assets	**918**	579	**1,842**	1,163
Earnings before royalty expense, (recovery of) loss on impairment of lease receivables, gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	**$15,184**	$14,094	**$24,187**	$24,938
Royalty expense[6]	**(7,596)**	(10,555)	**(16,856)**	(19,820)
Net income (loss)	**$8,449**	$26,786	**$(7)**	$30,052

(1) "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 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".

(2) "System Sales Growth" is calculated in respect of all A&W Restaurants in Canada as the percentage change in System Sales in one period compared to the same period in the prior year. 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".

(3) "Same Store Sales Growth" is calculated as the change in System Sales of A&W restaurants that operated during the entire 12 and 24- week periods ending June 14, 2020 and June 16, 2019, and is based on an equal number of days in each quarter. 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".

(4) "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 a non-IFRS measure – see "Non-IFRS Measures".

(5) "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 during the entire 12 and 24-week periods ending June 14, 2020 and June 16, 2019, 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".

(6) Royalty expense for 2020 year to date includes a payable to the Fund of $10,486,000 for the royalty payable in respect of the gross sales reported by restaurants in the Royalty Pool for the period February 24, 2020 to June 14, 2020, including royalty payments totaling $7,448,000 deferred by Food Services for the period February 24, 2020 to May 17, 2020. Interest accrues on unpaid royalties in accordance with the Amended and Restated Licence and Royalty Agreement at 2% per annum over the prime rate. Food Services has resumed regular royalty payments to the Fund commencing with the royalty payment of $3,038,000 in respect of gross sales reported by restaurants in the Royalty Pool for the four-week period ended June 14, 2020, which amount was paid in full on July 10, 2020. See "Impact of COVID-19".

Same Store Sales

As noted above, Same Store Sales Growth is the change in gross sales of A&W restaurants that operated during the entire 12 and 24-week periods ended June 14, 2020 and June 16, 2019.

Same Store Sales for the second quarter of 2020 decreased by 31.6% as compared to the same quarter of 2019. Same Store Sales for the 24 week period ended June 14, 2020 decreased by 18.7% compared to the comparable period in 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". Same Store Sales and Same Store Sales Growth are non-IFRS measures. See "Financial Highlights" and "Non-IFRS Measures" for further information.

System Sales

System Sales were -28.5% for the second quarter of 2020 as compared to the same quarter of 2019. Total System Sales for all A&W restaurants in Canada for the 12 weeks ended June 14, 2020 were $260,155,000, a decrease of $103,723,000 from the 12 weeks ended June 16, 2019. Year to date System Sales were $577,367,000, a decrease of 15.2% from the comparable period in 2019. The decrease in System Sales was due to the impact of COVID-19. See "Impact of COVID-19". System Sales and Same Store Sales Growth are non-IFRS measures. See "Financial Highlights" and "Non-IFRS Measures" for further information.

New Restaurant Openings and Permanent Restaurant Closures

Food Services opened two new A&W restaurants in the quarter, compared to six new restaurants in the same quarter of 2019. One restaurant was permanently closed in the quarter, compared to two in the second quarter of 2019. Year to date, five new restaurants were opened in 2020 compared to 15 in the comparable period in 2019, and three restaurants were permanently closed in 2020 compared to two in the comparable period in 2019. As at June 14, 2020, there were 996 A&W restaurants in Canada, of which 987 were operated by franchisees and nine were corporately owned and operated.

Overview

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

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

The A&W trade-marks used in the A&W quick service restaurant business in Canada are owned by the Partnership. The Partnership has granted Food Services a licence (the Amended and Restated Licence and Royalty Agreement) to use the A&W trade-marks in Canada for a term expiring December 30, 2100, for which Food Services 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. The path that governments are following in easing restrictions on business operations, and in particular restaurants, could last many months and eased restrictions may be re-imposed at any time. Although there has been recent improvements in sales trends at the A&W restaurants in the Royalty Pool, it is also 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 1, 2020, a total of 230 A&W restaurants (out of 971 restaurants in the Royalty Pool) were temporarily closed. There was steady improvement in the latter half of the second quarter and at quarter end (June 14, 2020), 109 A&W restaurants in the Royalty Pool remained temporarily closed. At the date hereof, approximately 88 of these temporarily closed A&W restaurants have reopened and 21 remain closed. The remaining 21 temporarily closed A&W restaurants are expected to reopen when permitted by the appropriate authorities. For most of the second quarter, A&W restaurants which were operating were restricted to drive thru operations, delivery and mobile ordering. In a number of locations, A&W restaurants are now permitted to open for limited dine-in and take-out sales. As the provinces move through their reopening phases and restaurants begin to reopen, sales performance has begun to improve, from -45% Same Store Sales in the first four-week period of the second quarter, to -20% Same Store Sales in the last four-week period of the second quarter.
Food Services and its franchisees have continued to take 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 the second quarter of 2020 was down significantly as guests remained at home and practiced physical distancing. These sales declines resulted and continue to result 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.

To enable Food Services to continue to support the A&W system through this challenging period, Food Services took action to bolster its liquidity, including an equity investment of $10 million by Food Services' shareholders (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. Food Services is currently, and based upon the projections, expects to remain, in compliance with all covenants related to its operating loan facility. These actions have enabled and will continue to enable Food Services to assist its franchisees to deal with the unprecedented drop in sales with support on input costs, the deferral of service fees and other forms of direct assistance.

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 have received weekly written and oral updates from management of Food Services regarding the A&W business and the steps being taken by Food Services to protect and restore the A&W business. The Trustees have 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.

Given the extraordinary level of business uncertainty, especially related to the restaurant industry, coupled with the immediate decline in A&W restaurant sales and therefore the royalty payable to the Fund by Food Services, the Fund announced on March 31, 2020 that monthly distributions on the units would be temporarily suspended commencing with the March distribution that would ordinarily have been declared in April 2020. The Trustees determined that temporarily suspending distributions to unitholders was the most prudent course of action until business conditions and sales trends became less uncertain. They did so mindful of the long-term interests of the Fund, which includes all stakeholders, including unitholders, recognizing that it is in the long-term interest of unitholders to have a healthy and stable network of A&W restaurants coming out of the COVID-19 pandemic. The Trustees previously communicated that they would continue to closely monitor the results of operations and outlook of Food Services and the A&W system with the intention to preserve unitholder value by restarting distributions in a prudent manner based upon A&W restaurant sales that permit distributions to be paid in amounts that are reasonably predictable.

On July 7, 2020, Food Services announced that it would resume regular royalty payments to the Fund, commencing with the royalty payment of $3,038,000 in respect of gross sales reported by restaurants in the Royalty Pool for the four-week period ended June 14, 2020, which was paid in full on July 10, 2020. Food Services has 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. Food Services and the Fund have agreed repayment of this amount plus interest will take place no later than December 31, 2021. As contemplated in Amended and Restated Licence and Royalty Agreement, late payments of royalties accrue interest at the rate of 2% per annum over the prime rate. Food Services has agreed with the Fund and Trade Marks

that dividends declared on the common shares of Trade Marks held by Food Services will not be paid to Food Services until Food Services has paid all deferred royalties, together with interest. Food Services has not requested a waiver from its obligation to make royalty and interest payments, nor has the Fund provided any waiver of these obligations. The Fund has reserved all rights under its agreements with Food Services.

On July 7, 2020, the Fund announced that the Trustees approved the resumption of monthly distributions to unitholders commencing with the June distribution of 10¢ per unit that is payable on July 31, 2020 to unitholders of record as of the close of business on July 15, 2020 . The Trustees determined to recommence monthly distributions to unitholders on the basis of the recent improvement in the performance of A&W restaurants in the Royalty Pool and the resumption of royalty payments by Food Services. In making that determination, the Trustees reviewed financial and other information regarding the recent performance of Food Services and the A&W restaurants in the Royalty Pool, and financial projections for the Fund and Food Services for the remainder of 2020 and obtained advice from their independent financial advisors and legal counsel. 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.

The continued impacts of COVID-19 response measures during the quarter have impacted the ability of franchisees to operate restaurants at their full capacity. This has had negative impacts on the performance of restaurants in the Royalty Pool and was considered to be an impairment trigger, and therefore Food Services performed an impairment test of its investment in Trade Marks as at June 14, 2020. Food Services also performed an impairment test of its investment in Trade Marks as at March 22, 2020. Management used a value-in-use model to determine the recoverable amount of the investment in Trade Marks, which had a carrying amount of $116,961,000 as at June 14, 2020. The value-in-use model was calculated as the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal. The calculations were based on management's best estimates at a specific point in time, and as a result are subject to estimation uncertainty. Food Services assumed an after tax discount rate of 8.5% in order to calculate the present value of its projected cash flows. As a result of this test, it was determined that there was no impairment. Management performed a sensitivity analysis on the most sensitive assumptions which were the discount rate and the share price used in the terminal value. A 1% increase in the discount rate would have decreased the amount by which the recoverable amount exceeded the carrying amount by approximately $6,000,000, and would not have resulted in impairment. A 1% decrease in the estimated terminal value would have decreased the amount by which the recoverable amount exceeded the carrying amount by approximately $1,000,000, and would not have resulted in impairment.

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. Lease receivables 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 lease receivables. As a result of the unprecedented impact of COVID-19, Food Services has developed a probability-weighted 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 June 14, 2020, Food Services recorded an expected credit loss provision on long-term lease receivables of $7,895,000 (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, and are expected to continue to result in material year over year declines to sales at A&W restaurants in the Royalty Pool for the remainder of 2020, if not longer. These sales declines resulted and continue to result 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. 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 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 brings 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 units of the Fund for the 20 trading days ending October 28, 2019. The yield was adjusted to reflect 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 remaining consideration payable to Food Services for the January 5, 2020 adjustment to the Royalty Pool, if any, is to be paid by issuance of additional LP units, which issuance is held back until the number of LP units is determined in December 2020 based on the actual annual sales reported by the new restaurants. Due to the impact of COVID-19 on restaurant sales, it is currently not possible to reasonably estimate the amount, if any, of further consideration payable to Food Services in December 2020 in respect of the January 5, 2020 adjustment to the Royalty Pool. Given this uncertainty and the past and continuing impact of COVID-19 on restaurant sales, Food Services has assumed for purposes of preparing this report and the associated interim condensed consolidated financial statements of Food Services that only the initial consideration of $23,363,000 is payable. Accordingly, only

such initial consideration is recorded in the interim condensed consolidated financial statements as at June 14, 2020.

After the initial consideration was paid for the January 5, 2020 adjustment to the Royalty Pool, Food Services' indirect interest in the Fund increased to 23.6% on a fully diluted basis (20.9% as of December 29, 2019).

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[1]	-	-	(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[2]	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[3]	-	-	(2.7)	1,223,716	23,263	2.7	1,223,716	23,263
Balance as at June 14, 2020	28,129,271	164,605	76.4	8,677,479	118,602	23.6	36,806,750	283,207

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

(2) 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.

(3) The number of common shares does not include any LP units exchangeable for common shares of Trade Marks in respect of the remaining consideration payable to Food Services for the January 5, 2020 adjustment to the Royalty Pool, which LP units, if any, are held back until the number of LP units is determined in December 2020 based on the actual annual sales reported by the new restaurants. See "Annual Adjustment to the Royalty Pool".

Ownership of the Fund

The ownership of the Fund as of June 14, 2020 and December 29, 2019, on a fully-diluted basis, is as follows:

	June 14, 2020		December 29, 2019	
	Number of units	**%**	**Number of units**	**%**
Fund units held by public unitholders	14,064,673	76.4	14,064,673	79.1
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services[1]	4,338,740	23.6	3,726,882	20.9
Total equivalent units	18,403,413	100.0	17,791,555	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 one unit of the Fund.

2020 Operating Results

Revenue

Food Services' franchising and corporate revenue for the second quarter of 2020 was $37,408,000 compared to $50,921,000 for the second quarter of 2019. Year to date total revenue was $82,490,000 compared to $99,375,000 for 2019 year to date.

Franchising revenue for the quarter was $34,845,000 compared to $46,421,000 in the same quarter of 2019, a decrease of $11,576,000. Year to date franchising revenue was $75,898,000 compared to $90,758,000 for 2019 year to date, a decrease of $14,860,000. Revenue related to sales from the distribution of food and supplies, service fees and advertising fund contributions decreased in the quarter and year to date due to lower System Sales. In addition, equipment and turnkey revenue is lower as fewer new restaurants were opened in the quarter and year to date in 2020 as compared to 2019.

Corporate restaurant System Sales were $2,563,000 in the second quarter of 2020 compared to $4,500,000 in the second quarter of 2019, and $6,592,000 in 2020 year to date compared to $8,617,000 in 2019 year to date. The $1,937,000 decrease for the quarter and $2,025,000 decrease year to date is due to the impact of COVID-19.

Operating costs and general and administrative expenses

Operating costs for the second quarter of 2020 were $17,779,000 compared to $28,952,000 in the second quarter of 2019, a decrease of $11,173,000. Year to date operating costs were $43,844,000 compared to $56,077,000 for 2019 year to date, a decrease of $12,233,000. 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 $5,363,000 for the second quarter of 2020 compared to $8,454,000 in the second quarter of 2019, a decrease of $3,091,000. Year to date general and administrative expenses were $16,301,000 for 2010 compared to $19,523,000 for 2019 year to date, a decrease of $3,222,000. General and administrative expenses in 2020 are net of wage subsidies totaling $2,504,000 received or receivable under federal government subsidy programs in connection with COVID-19.

Operating earnings

(dollars in thousands)	**12 week period ended June 14, 2020**	12 week period ended June 16, 2019	**24 week period ended June 14, 2020**	24 week period ended June 16, 2019
Franchising & corporate restaurant revenue	**$37,408**	$50,921	**$82,490**	$99,375
Operating costs and general and administrative expenses	**(23,142)**	(37,406)	**(60,145)**	(75,600)
Depreciation of plant, equipment and right of use assets	**918**	579	**1,842**	1,163
Earnings before royalty expense, gain on sale of Fund units, (recovery of) loss on impairment of lease receivables, gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	**$15,184**	$14,094	**$24,187**	$24,938

Operating earnings (earnings before royalty expense, (recovery of) loss on impairment of lease receivables, gain on sale of Fund units, Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) increased by $1,090,000 to $15,184,000 in the second quarter of 2020 as compared to $14,094,000 in the second quarter of 2019. Year to date operating earnings decreased by $751,000 to $24,187,000 in 2020 as compared to $24,938,000 in 2019 year to date. The operating margin for 2020 year to date was 29.3% compared to 25.1% for 2019 year to date.

Royalty expense

Royalty expense for the second quarter of 2020 was $7,596,000 based on gross sales reported by restaurants in the Royalty Pool of $253,173,000, compared to royalty expense of $10,555,000 and gross sales reported by A&W restaurants in the Royalty Pool of $351,845,000 for the second quarter of 2019. Year to date royalty expense for 2020 was $16,856,000 based on gross sales reported by restaurants in the Royalty Pool of $561,852,000 compared to royalty expense of $19,820,000 and gross sales reported by A&W restaurants in the Royalty Pool of $660,668,000 for the comparable period in 2019. The $2,959,000 quarterly and $2,964,000 year to date decrease in royalty expense is due to the decline in Same Store Sales as a result of the impact of COVID-19 response measures. Royalty expense for 2020 year to date includes a payable from Food Services to the Fund of $10,486,000 for the royalty payable in respect of gross sales reported by restaurants in the Royalty Pool for the period February 24, 2020 to June 14, 2020, including royalty payments totaling $7,448,000 deferred by Food Services for the period February 24, 2020 to May 17, 2020. Interest accrues on unpaid royalties in accordance with the Amended and Restated Licence and Royalty Agreement at 2% per annum over the prime rate. Food Services has resumed regular royalty payments to the Fund, commencing with the royalty payment of $3,038,000 in respect of gross sales reported by restaurants in the Royalty Pool for the four-week period ended June 14, 2020, which amount was paid to the Fund in full on July 10, 2020. See "Impact of COVID-19", "Financial Highlights" and "Non-IFRS Measures" for further information.

Earnings after royalty expense

(dollars in thousands)	**12 week period ended June 14, 2020**	12 week period ended June 16, 2019	**24 week period ended June 14, 2020**	24 week period ended June 16, 2019
Earnings before royalty expense, (recovery of) loss on impairment of lease receivables, gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	**$15,184**	$14,094	**$24,187**	$24,938
Royalty expense	**(7,596)**	(10,555)	**(16,856)**	(19,820)
Earnings after royalty expense (before (recovery of) loss on impairment of lease receivables, gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	**$7,588**	$3,539	**$7,331**	$5,118

Earnings after royalty expense (but before (recovery of) loss on impairment of lease receivables, gain on sale of Fund units, Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) increased by $4,049,000 to $7,588,000 for the second quarter of 2020 compared to $3,539,000 for the second quarter of 2019. Earnings after royalty expense increased by $2,213,000 to $7,331,000 for 2020 year to date compared to $5,118,000 for 2019 year to date. The year to date increase was comprised of the $751,000 decrease in operating earnings, less the $2,964,000 decrease in royalty expense. See "Financial Highlights" and "Non-IFRS Measures" for further information.

(Recovery of) loss on impairment of lease receivables

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. Lease receivables 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 lease receivables. As a result of the unprecedented impact of COVID-19, Food Services has developed a probability-weighted risk matrix used to assess the credit risk of all head leases. As at June 14, 2020, Food Services has recorded an expected credit loss provision on long-term lease receivables of $7,895,000 (2019 - $nil). The recovery recorded in the second quarter of 2020 reflects the reversal of the credit loss provision of $11,765,000 recorded in the first quarter of 2020. See "Adoption of IFRS 16".

Finance expense - net

(dollars in thousands)	**12 week period ended June 14, 2020**	12 week period ended June 16, 2019	**24 week period ended June 14, 2020**	24 week period ended June 16, 2019
Interest income	**(3)**	($24)	**(23)**	($57)
Interest cost on supplementary retirement benefit plan	**113**	113	**226**	226
Interest on lease receivables	**(4,710)**	-	**(9,523)**	-
Interest on lease obligations	**4,967**	37	**9,945**	70
	$367	$126	**$625**	$239

Net interest expense increased by $241,000 in the quarter and $386,000 year to date as compared to 2019, primarily due to 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 the second quarter of 2020 decreased by $845,000 to $992,000 compared to $1,837,000 for the second quarter of 2019. Food Services' share of Trade Marks' income for 2020 year to date decreased by $1,225,000 to $2,290,000 compared to $3,515,000 for 2019 year to date. The decrease is primarily attributable to lower royalty income due to the impact of COVID-19.

Net income (loss)

(dollars in thousands)	**12 week period ended June 16, 2019**	12 week period ended June 17, 2018	**24 week period ended June 16, 2019**	24 week period ended June 17, 2018
Earnings after royalty expense (before recovery of (loss on) impairment of lease receivables, gain on sale of units of the Fund, share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	**$7,588**	$3,539	**$7,331**	$5,118
Recovery of (loss on) impairment of lease receivables (see "Adoption of IFRS 16")	**3,870**	-	**(7,895)**	-
Finance expense	**(367)**	(126)	**(625)**	(239)
Depreciation of plant, equipment and right of use assets	**(918)**	(579)	**(1,842)**	(1,163)
Amortization of deferred gain	**676**	656	**1,352**	1,160
Gain on sale of units of A&W Revenue Royalties Income Fund	**-**	24,307	**-**	24,307
Share of income from A&W Trade Marks Inc.	**992**	1,837	**2,290**	3,515
Income before income taxes	**11,841**	29,634	**611**	32,698
Provision for income taxes	**3,392**	2,848	**618**	2,646
Net income (loss) for the period	**$8,449**	$26,786	**$(7)**	$30,052

The year to date decrease in income before income taxes and decrease in net income is due to the non-cash loss on impairment of lease receivables in 2020 year to date, 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 income (loss)

Other comprehensive income consists of actuarial gains and losses, net of tax, on the supplementary retirement benefit plan. Actuarial gains result from an increase in the discount rate used to determine the accrued benefit obligation and actuarial losses result from a decrease in the discount rate. The actuarial gain, net of tax, for the second quarter of 2020 was $1,022,000 compared to a loss of $227,000 for the second quarter of 2019. There was no actuarial gain or loss in 2020 year to date, compared to a loss of $947,000 in 2019 year to date.

Liquidity and Capital Resources

Food Services is primarily a franchise business with 987 of its 996 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.

On May 26, 2020, Food Services increased its demand operating loan facility with a Canadian chartered bank (the Bank) from $6,000,000 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 July 21, 2020 and June 14, 2020, 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).

On April 14, 2020, Food Services' shareholders invested $10 million of common equity in the company to ensure that Food Services has sufficient liquidity during the period of uncertainty caused by COVID-19.

On July 7, 2020, Food Services announced that it would resume regular royalty payments to the Fund, commencing with the royalty payment of $3,038,000 in respect of gross sales reported by restaurants in the Royalty Pool for the four-week period ended June 14, 2020, which was paid in full on July 10, 2020. Food Services has 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. Food Services and the Fund have agreed repayment of this amount plus interest will take place no later than December 31, 2021. As contemplated in Amended and Restated Licence and Royalty Agreement, late payments of royalties accrue interest at 2% per annum over the prime rate. Food Services has not requested a waiver from its obligation to make royalty and interest payments, nor has the Fund provided any waiver of these obligations. The Fund has reserved all rights under its agreements with Food Services.

Off-Balance Sheet Arrangements

Food Services has no off-balance sheet arrangements.

Related Party Transactions and Balances

During the year to date period, royalty expense was $16,856,000 (2019 - $19,820,000), of which $10,486,000 is payable to the Partnership at June 14, 2020 (December 31, 2019 - $3,326,000), including royalty payments totaling $7,448,000 deferred by Food Services for the period February 24, 2020 to May 17, 2020. Interest accrues on unpaid royalties in accordance with the Amended and Restated Licence and Royalty Agreement at 2% per annum over the prime rate. Food Services has resumed regular royalty payments commencing with the royalty payment of $3,038,000 in respect of gross sales reported by restaurants in the Royalty Pool for the four-week period ended June 14, 2020, which amount was paid in full on July 10, 2020. Royalty expense for the quarter was $7,596,000 (2019 - $10,555,000). See "Impact of COVID-19".

During 2020 year to date, Trade Marks declared dividends on common shares held by Food Services of $1,380,000 (2019 - $3,482,000), of which $nil (December 29, 2019 - $nil) is receivable at June 14, 2020. Dividends declared by Trade Marks during the quarter were $nil (2019 - $2,033,000). Trade Marks temporarily suspended monthly dividends on its voting and non-voting common shares commencing with the March dividend that would ordinarily have

been declared in April 2020. Declaration of common share dividends was reinstated on July 7, 2020, commencing with the June dividend of 5¢ per share which is payable to the Fund on July 31, 2020. Food Services has agreed with the Fund and Trade Marks that dividends declared on the common shares of Trade Marks held by Food Services will not be paid to Food Services until Food Services has paid all deferred royalties, together with interest.

During the year to date period, 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 June 14, 2020, $nil (December 29, 2019 - $nil) is payable to the baseball club by Food Services. The amount paid during the quarter was $nil (2019 - $nil).

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 are investment in Trade Marks, supplementary retirement benefit plan and deferred income taxes. 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.

The continued impacts of COVID-19 response measures during the quarter have impacted the ability of franchisees to operate restaurants at their full capacity. This has had negative impacts on the performance of restaurants in the Royalty Pool and was considered to be an impairment trigger, and therefore Food Services performed an impairment test of its investment in Trade Marks as at June 14, 2020. Food Services also performed an impairment test of its investment in Trade Marks as at March 22, 2020. Management used a value-in-use model to determine the recoverable amount of the investment in Trade Marks, which had a carrying amount of $116,961,000 as at June 14, 2020. The value-in-use model was calculated as the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal. The calculations were based on management's best estimates at a specific point in time, and as a result are subject to estimation uncertainty. Food Services assumed an after tax discount rate of 8.5% in order to calculate the present value of its projected cash flows. As a result of this test, it was determined that there was no impairment.

Management performed a sensitivity analysis on the most sensitive assumptions which were the discount rate and the share price used in the terminal value. A 1% increase in the discount rate would have decreased the amount by which the recoverable amount exceeded the carrying amount by approximately $6,000,000, and would not have resulted in impairment. A 1% decrease in the estimated terminal value would have decreased the amount by which the

recoverable amount exceeded the carrying amount by approximately $1,000,000, and would not have resulted in impairment.

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 may include periods associated with options to extend or exclude periods associated with options to terminate the lease when it is reasonably certain that management will exercise these options. Additionally, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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, the lease receivable is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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 $**
Assets			
Lease receivable	-	567,334	**567,334**
Right-of-use asset	-	20,167	**20,167**
Plant and equipment	13,088	(1,895)	**11,193**
Liabilities			
Lease liability	-	587,501	**587,501**
Accounts payable and accrued liabilities	42,780	(839)	**41,941**
Obligations under finance leases	1,214	(1,214)	**-**
Shareholders' Deficiency	(141,736)	158	**(141,578)**

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 related to COVID-19 the same way as if they were not lease modifications.

Lease receivables 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 lease receivables. Food Services has developed a probability-weighted 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 June 14, 2020, Food Services recorded an expected credit loss provision of $7,895,000 (2019 - $nil) on long-term lease receivables. See "2020 Operating Results – Loss on Impairment of Lease Receivables".

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, and are expected to continue to result in, material year over year declines to system sales at A&W restaurants for the remainder of 2020, if not longer. These declines will result in reductions to the 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 Food Services will repay any deferred royalty payments, and interest thereon, by December 31, 2021, or at all, or that further royalty payments 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 the 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 of the 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. Recent 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. See "Impact of COVID-19".

Information with regards to 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 also may impair Food Services' business operations. If any of the risks actually occur, Food Services' business, results of operations and financial condition could be adversely affected.

Outlook

Based on the experience of other restaurant brands outside of Canada, 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 been working diligently to develop and implement plans and programs to mitigate the effects of the COVID-19 pandemic. Although there have been improvements in sales trends, restrictions on the operations of A&W restaurants as well as temporary restaurant closures have resulted, and are expected to continue to result in material year over year declines to sales at A&W restaurants in the Royalty Pool for the remainder of 2020, if not longer. These sales declines resulted and continue to result 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.

Food Services' objective is to ensure that as many as possible of A&W's 996 restaurants are able to operate (as permitted) during the COVID-19 pandemic and emerge 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 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. 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 the first quarter of 2020, A&W launched its new coffee, Fairtrade and organic as always, with a new sweet, warming flavour and complex aromas of caramel, chocolate, and red fruit.

In 2018, A&W further strengthened its positioning as a leader in food and innovation with the introduction of the Beyond Meat Burger. Food Services 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.

Limited time offers in 2020 year to date have 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.

Food Services has continued to grow new A&W restaurants, particularly in the key Ontario and Quebec markets. As at June 14, 2020, five new A&W restaurants were opened across the country in 2020. One additional new restaurant opened subsequent to the end of the quarter, and an additional 23 are under construction or in varying stages of permitting.

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 remain 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: resumption of monthly distributions on units of the Fund and the amount thereof; the payment date for the distribution to be paid on the units in July 2020; the Fund and Food Services have agreed that repayment of the deferred royalties plus interest will take place no later than December 31, 2021; the expectation that currently closed A&W restaurants will reopen when permitted by appropriate authorities; 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; the dividends payable to Food Services on its shares of Trade Marks are to be deferred until the deferred royalties and interest are paid in full; the future effect of COVID-19 on the economy and businesses, in general, remains uncertain; the path that governments are following in easing restrictions on business operations, and in particular restaurants, could last many months and eased restrictions may be re-imposed at any time; although there has been recent improvements in sales trends at the A&W restaurants in the Royalty Pool, it is also unclear if those trends will continue; the duration of various government support programs remains uncertain; 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; restrictions on the operations of A&W restaurants as well as temporary restaurant closures have resulted, and are expected to continue to result in material year over year declines to sales at A&W restaurants in the Royalty Pool for the remainder of 2020, if not longer and in turn material reductions to the amounts of royalties payable to and earned by the Fund, and correspondingly funds available to distribute to unitholders of the Fund; 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 Fund's belief that it is currently not possible to reasonably estimate the amount, if any, of further consideration payable to Food Services in December 2020 in respect of the January 5, 2020 adjustment to the Royalty Pool; 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 Service's 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; 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, other than those deferred amounts stated herein, which it is assumed will be repaid in due course;
- 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 and any overdue royalties will be repaid in full, with interest, no later than December 31, 2021;
- the impacts of the COVID-19 pandemic on the A&W system will not significantly worsen;
- it is currently not possible to reasonably estimate the amount, if any, of further consideration payable to Food Services in December 2020 in respect of the January 5, 2020 adjustment to the Royalty Pool; 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;
- changes in Food Services' ability to pay the royalty due to changes in A&W franchisees' ability to generate sales and pay franchise fees and other amounts to Food Services;
- changes in government regulation that affects the restaurant industry in general or the quick service restaurant industry in particular, 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;
- the availability and adequacy of insurance coverage;
- occurrence of catastrophic events; and
- risks related to COVID-19 set forth in this MD&A, 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.

A&W Food Services of Canada Inc.

Interim Condensed Consolidated Balance Sheet

Unaudited

(in thousands of dollars)

	Note		June 14 2020		December 29 2019
Assets					
Current assets					
Cash and cash equivalents		$	**25,568**	$	7,819
Accounts receivable			**25,273**		31,886
Short term investments			**-**		5,525
Inventories			**7,635**		7,141
Lease receivable	**5**		**24,396**		-
Prepaid expenses			**525**		999
			83,397		53,370
Non-current assets					
Investment in A&W Trade Marks Inc.	**6**		**116,961**		92,788
Deferred income taxes			**25,190**		23,589
Right-of-use asset+B40	**4**		**19,352**		-
Lease receivable	**5**		**537,140**		-
Plant and equipment			**10,689**		13,088
Total assets		$	**792,729**	$	182,835
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$	**28,102**	$	42,780
Royalties payable	**13**		**10,486**		3,326
Lease liability	**5**		**26,244**		-
Deposits on franchise and equipment sales			**13,037**		10,232
Deferred revenue			**2,434**		2,433
Income taxes payable			**1,303**		4,198
			81,606		62,969
Non-current liabilities					
Deferred gain	**6**		**230,403**		208,492
Deferred revenue			**26,630**		27,203
Lease liability	**5**		**562,527**		-
Supplementary retirement benefit plan			**13,802**		13,962
Other long-term liabilities			**19**		24
Obligations under finance leases			**-**		1,214
			914,987		313,864
Shareholders' Deficiency					
Share capital	**14**		**20,500**		10,500
Accumulated deficit			**(143,345)**		(141,736)
			(122,845)		(131,236)
Non-controlling interest			**587**		207
Total deficiency			**(122,258)**		(131,029)
Total liabilities and deficiency		$	**792,729**	$	182,835
Subsequent events	**16**				

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

The accompanying notes form an integral part of these financial statements

A&W Food Services of Canada Inc.

Interim Condensed Consolidated Statement of Income

Unaudited

(in thousands of dollars)

	Note	**12 week period ended Jun 14, 2020**	12 week period ended Jun 16, 2019	**24 week period ended Jun 14, 2020**	24 week period ended Jun 16, 2019
Revenue					
Franchising	**9**	**$ 34,845**	$ 46,421	**$ 75,898**	$ 90,758
Corporate restaurants		**2,563**	4,500	**6,592**	8,617
		37,408	50,921	**82,490**	99,375
Expenses (income)					
Operating costs	**10**	**17,779**	28,952	**43,844**	56,077
General and administrative expenses		**5,363**	8,454	**16,301**	19,523
Royalty expense	**13**	**7,596**	10,555	**16,856**	19,820
(Recovery of) loss on impairment of lease receivables	**5**	**(3,870)**	-	**7,895**	-
Finance expense - net	**11**	**367**	126	**625**	239
Amortization of deferred gain	**6**	**(676)**	(656)	**(1,352)**	(1,160)
Gain on sale of Units of A&W Revenue Royalties Income Fund	**13**	**-**	(24,307)	**-**	(24,307)
Share of income from A&W Trade Marks Inc.	**6**	**(992)**	(1,837)	**(2,290)**	(3,515)
		25,567	21,287	**81,879**	66,677
Income before income taxes		**11,841**	29,634	**611**	32,698
Provision for (recovery of) income taxes					
Current		**1,224**	5,765	**2,219**	6,133
Deferred		**2,168**	(2,917)	**(1,601)**	(3,487)
		3,392	2,848	**618**	2,646
Net income (loss) for the period		**$ 8,449**	$ 26,786	**$ (7)**	$ 30,052
Net income (loss) attributable to:					
Shareholders of A&W Food Services of Canada Inc.		**$ 8,177**	$ 26,550	**$ (387)**	$ 29,648
Non-controlling interest		**272**	236	**380**	404
		$ 8,449	$ 26,786	**$ (7)**	$ 30,052

A&W Food Services of Canada Inc.

Interim Condensed Consolidated Statement of Comprehensive Income

Unaudited

(in thousands of dollars)

	12 week period ended Jun 14, 2020	12 week period ended Jun 16, 2019	**24 week period ended Jun 14, 2020**	24 week period ended Jun 16, 2019
Net income (loss) for the period	**$ 8,449**	$ 26,786	**$ (7)**	$ 30,052
Other comprehensive loss				
Items that will not be reclassified to net income				
Actuarial gain (loss) on supplementary retirement benefit plan - net of tax	**1,022**	(227)	**-**	(947)
Comprehensive income (loss)	**$ 9,471**	$ 26,559	**$ (7)**	$ 29,105
Comprehensive income (loss) attributable to:				
Shareholders of A&W Food Services of Canada Inc.	**$ 9,199**	$ 26,323	**$ (387)**	$ 28,701
Non-controlling interest	**272**	236	**380**	404
	$ 9,471	$ 26,559	**$ (7)**	$ 29,105

The accompanying notes form an integral part of these financial statements

A&W Food Services of Canada Inc.

Interim Condensed Consolidated Statement of Changes in Shareholders' Deficiency

Unaudited

(in thousands of dollars)

		Share capital	Accumulated deficit	Total	Non-controlling interest	Total deficiency
Balance - December 30, 2018		10,500	(105,290)	(94,790)	171	(94,619)
Net income for the period		-	29,648	29,648	404	30,052
Dividends on common shares	**13**	-	(66,846)	(66,846)	-	(66,846)
Actuarial gain on supplementary retirement benefit plan - net of tax		-	(947)	(947)	-	(947)
Balance - June 16, 2019		10,500	(143,435)	(132,935)	575	(132,360)
Net income for the period		-	13,603	13,603	532	14,135
Dividends on common shares		-	(11,875)	(11,875)	(900)	(12,775)
Actuarial gain on supplementary retirement benefit plan - net of tax		-	(29)	(29)	-	(29)
Balance - December 29, 2019		10,500	(141,736)	(131,236)	207	(131,029)
Change in accounting policy	**2**	-	158	158	-	158
Net income (loss) for the period		-	(387)	(387)	380	(7)
Dividends on common shares	**13**	-	(1,380)	(1,380)	-	(1,380)
Capital contribution	**14**	10,000	-	10,000	-	10,000
Balance - June 14, 2020		$ 20,500	$ (143,345)	$ (122,845)	$ 587	$ (122,258)

The accompanying notes form an integral part of these financial statements

A&W Food Services of Canada Inc.

Interim Condensed Consolidated Statement of Cash Flows

Unaudited

(in thousands of dollars)

	Note	**12 week period ended Jun 14, 2020**	12 week period ended Jun 16, 2019	**24 week period ended Jun 14, 2020**	24 week period ended Jun 16, 2019
Cash flows used in operating activities					
Net income (loss) for the period		**$ 8,449**	$ 26,786	**$ (7)**	$ 30,052
Adjustments for					
Depreciation of plant and equipment	**10**	**431**	579	**878**	1,163
Depreciation of right-of-use asset	**10**	**487**	-	**964**	-
Deferred income taxes		**2,168**	(2,917)	**(1,601)**	(3,487)
Gain on sale of Units of A&W Revenue Royalties Income Fund	**13**	**-**	(24,307)	**-**	(24,307)
Net gain on disposal of plant and equipment		**-**	59	**-**	27
Increase in deposits on franchise and equipment sales		**651**	3,975	**2,805**	5,113
Supplementary retirement benefit plan		**(192)**	(192)	**(386)**	(384)
Decrease (increase) in deferred revenue		**(311)**	346	**(572)**	638
Decrease in other long-term liabilities		**(3)**	(5)	**(5)**	(10)
Amortization of deferred gain	**6**	**(676)**	(656)	**(1,352)**	(1,160)
(Recovery of) loss on impairment of lease receivables	**5**	**(3,870)**	-	**7,895**	-
Share of income of A&W Trade Marks Inc.	**6**	**(992)**	(1,837)	**(2,290)**	(3,515)
Current income tax expense		**1,224**	5,765	**2,219**	6,133
Income tax paid		**-**	(1,752)	**(5,114)**	(3,430)
Finance expense - net	**11**	**367**	126	**625**	239
Interest received		**(91)**	(13)	**(71)**	(13)
Changes in items of non-cash working capital	**12**	**1,420**	(2,242)	**(86)**	(4,313)
Net cash from operating activities		**9,062**	3,715	**3,902**	2,746
Cash flows generated from (used in) investing activities					
Purchase of plant and equipment		**(75)**	(164)	**(374)**	(1,078)
Redemption of short-term investment		**-**	-	**5,525**	-
Dividends from A&W Trade Marks Inc.		**690**	2,240	**1,380**	2,953
Net proceeds from sale of Units of A&W Revenue Royalties Income Fund	**13**	**-**	66,418	**-**	66,418
Net cash generated from (used in) investing activities		**615**	68,494	**6,531**	68,293
Cash flows used in financing activities					
Decrease in obligations under finance leases		-	(278)	-	(481)
Capital contribution from shareholder	**14**	**10,000**		**10,000**	
Operating lease payments		**(657)**	-	**(1,304)**	-
Dividends paid to shareholder	**13**	**(690)**	(66,132)	**(1,380)**	(66,846)
Net cash from (used in) financing activities		**8,653**	(66,410)	**7,316**	(67,327)
Increase in cash and cash equivalents		**18,330**	5,799	**17,749**	3,712
Cash and cash equivalents - beginning of period		**7,238**	9,050	**7,819**	11,137
Cash and cash equivalents - end of period		**$ 25,568**	$ 14,849	**$ 25,568**	$ 14,849
Non-cash investing activities					
Non-cash acquisition of automobiles through finance leases		**$ 108**	$ 422	**$ 145**	$ 723

The accompanying notes form an integral part of these financial statements

(figures in tables are expressed in thousands of dollars)

1 General information

A&W Food Services of Canada Inc. (the Company or Food Services) is in the business of developing and franchising quick-service restaurants in Canada. During the period ended June 14, 2020, the Company opened 5 locations and permanently closed 3 locations, bringing the total number of A&W restaurants to 996, of which 987 are franchised and nine are owned and operated corporately. Food Services' registered offices are located at Suite 300 - 171 West Esplanade, North Vancouver, British Columbia, Canada.

2 Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as applicable to interim financial reports including International Accounting Standards (IAS) 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with Food Services' audited annual consolidated financial statements as at December 29, 2019.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of Food Services' annual consolidated financial statements for the year ended December 29, 2019, except for the adoption of IFRS 16, Leases (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.

The Company 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.

The Company 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 may include periods associated with options to extend or exclude periods associated

with options to terminate the lease when it is reasonably certain that management will exercise these options. Additionally, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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, the Company 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, the Company 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 the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company 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. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Where the Company 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. The Company 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, the lease receivable is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

On adoption, the standard had a material impact on the Company's 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:

(figures in tables are expressed in thousands of dollars)

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

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 related to COVID-19 the same way as if they were not lease modifications.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors of Food Services on July 14, 2020.

3 Significant accounting policies

Consolidation

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

Fiscal year

To align its financial reporting with the business cycle of its operations, the Company uses a fiscal year comprising a 52- or 53-week period ending the Sunday nearest December 31. The fiscal 2019 year was 52 weeks and ended December 29, 2019 (2018 - 52 weeks ended December 30, 2018). Beverages uses a fiscal year ending December 31. The second quarter ends 24 weeks after the fiscal year end.

(figures in tables are expressed in thousands of dollars)

Wage subsidies

Food Services recognizes wage subsidies from the federal government in connection with COVID-19 when there is a reasonable assurance that Food Services complies with the conditions attached to the subsidies and that the subsidies will be received. Wage subsidies received or receivable are recorded on an accrual basis and are netted against related payroll costs and included in operating costs and general and administrative expenses on the consolidated statement of income (Note 10).

4 Right-of-use assets

The following table presents the right-of-use assets for the Company:

	Real Estate $	Automobiles $	Total $
Balance – December 30, 2019 (Note 2)	18,299	1,869	20,167
Additions	-	145	145
Remeasurement of lease liability	-	3	3
Depreciation	(605)	(359)	(964)
Balance – June 14, 2020	17,694	1,658	19,352

5 Leases

The Company's leased assets include base rent for restaurant premises and office space, equipment and automobiles. The Company is the head lessee for the majority of its franchised locations and enters into agreements whereby the Company licences the premises to the franchisee, for which the Company 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. The Company has included renewal options in the measurement of lease liabilities when it is reasonably certain to exercise the renewal option. Effective December 30, 2019, the Company adopted IFRS 16 as outlined in Note 2, recognizing $567.3 million of lease receivable, $20.2 million of right-of-use assets, $587.5 million of lease obligations and with the impact of adoption of $0.2 million recognized in retained earnings.

The following table reconciles the Company's lease commitments disclosed in the consolidated financial statements as at and for the year ended December 29, 2019, to the lease obligations recognized on initial application of IFRS 16:

(figures in tables are expressed in thousands of dollars)

	Finance Leases $	Operating Leases $
Lease commitments at December 29, 2019	2,053	564,121
Inclusion of option periods	-	406,711
Recognition exemptions for short-term and low-value leases	(113)	(131)
Discounted using the incremental borrowing rate at December 30, 2019	(89)	(257,342)
Lease remeasurements and other transitional adjustments	18	(127,726)
Lease obligations recognized at December 30, 2019	1,869	585,633

Lease obligations were measured at the present value of remaining lease payments at the transition date, discounted at the Company's incremental borrowing rate. The weighted average rate applied at December 30, 2019 was 3.68%.

Costs not included in the measurement of the lease obligation for the 12 and 24 weeks ended June 14, 2020 are as follows:

	12 week period ended Jun 14, 2020 $	24 week period ended Jun 14, 2020 $
Low-value lease costs	13	26
Short-term lease costs	28	63
Variable lease costs	272	427
	313	516

Lease receivables 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 lease receivables. Food Services has developed a probability-weighted 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. Food Services recorded an expected credit loss provision on long-term lease receivables of $7,895,000 as at June 14, 2020 (2019 - $nil).

(figures in tables are expressed in thousands of dollars)

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

In 2002, Food Services sold the A&W trade-marks used in the A&W quick service restaurant business in Canada to A&W Trade Marks Inc. (Trade Marks), which subsequently transferred them to the A&W Trade Marks Limited Partnership (the Partnership). The Partnership has granted Food Services a licence (the Amended and Restated Licence and Royalty Agreement) to use the A&W trade-marks in Canada for a term expiring December 30, 2100, for which Food Services pays a royalty of 3% of the sales reported to Food Services by specific A&W restaurants in Canada (the Royalty Pool). The gain realized on the sale of the A&W trade-marks was deferred and is being amortized over the term of the Amended and Restated Licence and Royalty Agreement. Prior to October 2003, the amortization was based upon the present value of the expected royalty payments made under the Amended and Restated Licence and Royalty Agreement. Amortization of the gain is recognized on the consolidated statement of income.

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

The 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 brings the total number of A&W restaurants in the Royalty Pool to 971. The estimated annual sales of the 44 new A&W restaurants are $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 remaining consideration payable to Food Services for the January 5, 2020 adjustment to the Royalty Pool, if any, is to be paid by issuance of additional LP units, which issuance is held back until the number of LP units is determined in December 2020 based on the actual annual sales reported by the new restaurants. Due to the impact of COVID-19 on restaurant sales, it is currently not possible to reasonably estimate the amount, if any, of further consideration payable to Food Services in December 2020 in respect of

(figures in tables are expressed in thousands of dollars)

the January 5, 2020 adjustment to the Royalty Pool. Accordingly, only the initial consideration of $23,263,000 is recorded in the interim condensed consolidated financial statements as at June 14, 2020.

Food Services' 23.6% (December 29, 2019 – 20.9%) investment in Trade Marks is recorded using the equity method.

	Common shares $	Cumulative equity in earnings $	Cumulative dividend $	Total $
Balance – December 30, 2018	105,536	37,959	(40,334)	103,161
January 5, 2019 adjustment to Royalty Pool	31,915	-	-	31,915
Equity in earnings	-	7,651	-	7,651
Dividends	-	-	(7,828)	(7,828)
Exchange of common shares for Units of A&W Revenue Royalties Income Fund (note 13)	(42,111)	-	-	(42,111)
Balance – December 29, 2019	95,340	45,610	(48,162)	92,788
January 5, 2020 adjustment to Royalty Pool	23,263	-	-	23,263
Equity in earnings	-	2,290	-	2,290
Dividends	-	-	(1,380)	(1,380)
Balance – June 14, 2020	118,603	47,900	(49,542)	116,961

Impact of COVID-19

The continued impacts of COVID-19 response measures during the quarter have impacted the ability of franchisees to operate restaurants at their full capacity. This has had negative impacts on the performance of restaurants in the Royalty Pool and was considered to be an impairment trigger, and therefore Food Services performed an impairment test of its investment in Trade Marks as at June 14, 2020. Food Services also performed an impairment test of its investment in Trade Marks as at March 22, 2020.

Management used a value-in-use model to determine the recoverable amount of the investment in Trade Marks, which had a carrying amount of $116,961,000 as at June 14, 2020. The value-in-use model was calculated as the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal. The calculations were based on management's best estimates at a specific point in time, and as a result are subject to estimation uncertainty. Food Services assumed an after tax discount rate of 8.5% in order to calculate the present value of its projected cash flows. As a result of this test, it was determined that there was no impairment.

(figures in tables are expressed in thousands of dollars)

Management performed a sensitivity analysis on the most sensitive assumptions which were the discount rate and the share price used in the terminal value. A 1% increase in the discount rate would have decreased the amount by which the recoverable amount exceeded the carrying amount by approximately $6,000,000, and would not have resulted in impairment. A 1% decrease in the estimated terminal value would have decreased the amount by which the recoverable amount exceeded the carrying amount by approximately $1,000,000, and would not have resulted in impairment.

Deferred gain

The deferred gain as at June 14, 2020 is as follows:

	Number of restaurants in Royalty Pool	Deferred gain $	Accumulated amortization $	Net deferred gain $
Balance – December 30, 2018	896	199,528	(20,380)	179,148
January 5, 2019 adjustment to Royalty Pool	38	31,914	-	31,914
Amortization of deferred gain	-	-	(2,570)	(2,570)
Balance – December 29, 2019	934	231,442	(22,950)	208,492
January 5, 2020 adjustment to Royalty Pool	37	23,263	-	23,263
Amortization of deferred gain	-	-	(1,352)	(1,352)
Balance – June 14, 2020	971	254,705	(24,302)	230,403

7 Operating loan facility

On May 26, 2020, Food Services increased its demand operating loan facility with a Canadian chartered bank (the Bank) from $6,000,000 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 prime rate plus 1.0% and are repayable on demand. As at June 14, 2020, 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).

(figures in tables are expressed in thousands of dollars)

8 New restaurant openings

Food Services opened two new franchised restaurants during the quarter (2019 – six). Year to date, five new franchised restaurants were opened (2019 – 15). There was a decrease in equipment and turnkey revenues and corresponding decrease in operating costs in the quarter and year to date as compared to the prior year related to the decrease in the number of new restaurants opened.

9 Franchising revenue

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

	12 week period ended Jun 14, 2020 $	12 week period ended Jun 16, 2019 $	**24 week period ended Jun 14, 2020 $**	24 week period ended Jun 16, 2019 $
At a point in time				
Advertising fund contributions	8,380	11,406	18,796	21,935
Distribution revenue and service fees	19,368	21,959	40,152	40,719
Equipment and turnkey revenue	5,344	9,608	13,164	22,088
Other revenue	1,229	2,843	2,607	4,942
Over time				
Initial franchise fees and renewal fees	524	605	1,179	1,074
	34,845	46,421	75,898	90,758

10 Expenses by nature

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

	12 week period ended Jun 14, 2020 $	12 week period ended Jun 16, 2019 $	**24 week period ended Jun 14, 2020 $**	24 week period ended Jun 16, 2019 $
Depreciation of plant and equipment	431	579	878	1,163
Depreciation of right-of-use asset	487	-	964	-
Employee benefit costs				
Wages and salaries and other termination benefits	3,391	6,292	9,993	12,565
Pension costs - defined contribution plan	174	117	443	433
	3,565	6,409	10,436	12,998

(figures in tables are expressed in thousands of dollars)

Employee wages and salaries in the second quarter and year to date 2020 are net of wage subsidies totaling $2,504,000 received or receivable under federal government subsidy programs in connection with COVID-19.

11 Finance (income) expense

	12 week period ended Jun 14, 2020 $	12 week period ended Jun 16, 2019 $	**24 week period ended Jun 14, 2020 $**	24 week period ended Jun 16, 2019 $
Interest income	(3)	(24)	(23)	(57)
Interest cost on supplementary retirement benefit plan	113	113	226	226
Interest on lease receivables	(4,710)	-	(9,523)	-
Interest on lease obligations	4,967	37	9,945	70
	367	126	625	239

12 Working capital

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

	12 week period ended Jun 14, 2020 $	12 week period ended Jun 16, 2019 $	**24 week period ended Jun 14, 2020 $**	24 week period ended Jun 16, 2019 $
Accounts receivable	(4,029)	(4,276)	6,613	(781)
Inventories	1,687	(1,718)	(494)	4,071
Prepaid expenses	315	236	474	1,111
Accounts payable and accrued liabilities	(4,149)	3,113	(13,839)	(9,052)
Royalties payable	7,596	403	7,160	338
	1,420	(2,242)	(86)	(4,313)

13 Related party transactions and balances

Royalty expense for the year to date period was $16,856,000 (2019 - $19,820,000), of which $10,486,000 (December 29, 2019 - $3,326,000) is payable to the Partnership at June 14, 2020, including royalty payments totaling $7,448,000 deferred by Food Services for the period February 24, 2020 to May 17, 2020. Interest accrues on unpaid royalties in accordance with the Amended and Restated Licence and Royalty Agreement at 2% per annum over the prime rate. Food Services has not requested a waiver from its obligation to make royalty and interest payments, nor has the Fund provided any waiver of these obligations. The Fund has reserved all rights under its agreements with Food Services. Royalty expense for the quarter was $7,596,000 (2019 - $10,555,000).

During the year to date period, Trade Marks declared dividends on common shares held by Food Services of $1,380,000 (2019 - $3,482,000), of which $nil (December 29, 2019 - $nil) is receivable at June 14, 2020. Dividends declared by Trade Marks during the quarter were $nil (2019 - $2,033,000).

(figures in tables are expressed in thousands of dollars)

During the year to date period, 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 June 14, 2020, $nil (December 29, 2019 - $nil) is payable to the baseball club by Food Services. The amount paid during the quarter was $nil (2019 - $nil).

Key management compensation

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

	12 week period ended Jun 14, 2020 $	12 week period ended Jun 16, 2019 $	**24 week period ended Jun 14, 2020 $**	24 week period ended Jun 16, 2019 $
Salaries, bonuses and other short-term employee benefits	776	700	1,552	1,371
Pension costs - defined contribution plan	35	35	119	112
Pension costs - supplementary retirement benefit plan	-	113	-	226
Total	811	848	1,671	1,709

Dividends

During the year to date period, Food Services paid dividends of $1,380,000 (2019 - $5,953,000) from working capital to its shareholder.

During the year to date period of 2019, Food Services paid a dividend to its shareholder of $60,893,000 from the proceeds of the sale of Units of the Fund. Food Services recognized a gain on the sale of Units of $24,307,000, net of transaction costs.

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

14 Share capital

	Share capital $
Balance – December 29, 2019	10,500
Capital contribution	10,000
Balance – June 14, 2020	20,500

(figures in tables are expressed in thousands of dollars)

On April 14, 2020, Food Services' shareholders invested $10 million of common equity in the Company to ensure that Food Services has sufficient liquidity during the period of uncertainty caused by COVID-19.

15 Financial instruments and financial risk management

Food Services' financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and royalties payable.

Fair values

Management estimates that the fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and royalties payable approximate their carrying values given the short term to maturity of these instruments.

Credit risk

The Company's exposure to credit risk is as indicated by the carrying amount of its accounts receivable. Receivables are due from franchisees and distributors. COVID-19 has impacted system sales at A&W restaurants and subsequently revenue from franchised restaurants, which may increase the credit risk associated with receivables from franchisees. The Company has deferred collections of service fees from franchisees for the period February 24, 2020 to March 22, 2020. Management has made allowances for expected credit losses using historical information and adjusted for specific circumstances due to COVID-19. The Company does not believe it has a significant exposure to any individual franchisee. As at June 14, 2020, $4,960,000 (December 29, 2019 – $5,616,000) is receivable from one distributor.

Liquidity risk

The primary sources of liquidity risk are the royalty payment to the Partnership and dividends on the common shares. The primary sources of funds to pay the royalty and dividends are the fees from franchised restaurants and revenues from the development of franchised restaurants, the sale of food and supplies to franchisees and distributors, revenue from Company-owned restaurants and the sale of A&W Root Beer concentrate. Despite the impact of COVID-19, the liquidity risk is assessed as low due to the nature of the income Food Services receives from the franchisees and the Company's ability to reduce future dividends if necessary. On April 14, 2020, Food Services' shareholders invested $10 million of common equity in the company to ensure that Food Services has sufficient liquidity during the period of uncertainty caused by COVID-19. On May 26, 2020, Food Services increased its demand operating loan facility with a Canadian chartered bank (the Bank) from $6,000,000 to $25,000,000 to fund working capital requirements and for general corporate purposes.

Interest rate risk

The Company has limited exposure to interest rate risk. The operating loan facility bears a floating rate of interest as disclosed in note 7. Cash and cash equivalents earn interest at market rates. All of the Company's other financial instruments are non-interest bearing.

(figures in tables are expressed in thousands of dollars)

16 Subsequent events

Food Services announced on July 7, 2020 that it would resume regular royalty payments to the Fund, commencing with the royalty payment of $3,038,000 in respect of gross sales reported by A&W restaurants in the Royalty Pool for the four-week period ended June 14, 2020, which was paid in full on July 10, 2020. Food Services has deferred royalty payments totaling $7,448,000 payable to the Fund in respect of gross sales reported by A&W restaurants in the Royalty Pool for the period February 24, 2020 to May 17, 2020. Food Services and the Fund have agreed repayment of this amount plus interest will take place no later than December 31, 2021. Interest accrues on unpaid royalties in accordance with the Amended and Restated Licence and Royalty Agreement at 2% per annum over the prime rate. Food Services has not requested a waiver from its obligation to make royalty and interest payments, nor has the Fund provided any waiver of these obligations. The Fund has reserved all rights under its agreements with Food Services.

On July 7, 2020, Trade Marks reinstated declaration of common share dividends, commencing with the June dividend of 5¢ per share. Food Services has agreed with the Fund and Trade Marks that dividends declared on the common shares of Trade Marks held by Food Services will not be paid to Food Services until Food Services has paid all deferred royalties and interest to the Fund.

A&W Food Services of Canada Inc.
300 – 171 West Esplanade
North Vancouver, BC
V7M 3K9

Tel: 604-988-2141
www.aw.ca