



**A&W Food Services of Canada Inc.
Report to Unitholders of A&W Revenue Royalties Income Fund
December 31, 2018 to December 29, 2019**

This report and the audited annual consolidated financial statements of A&W Food Services of Canada Inc. (A&W or Food Services) for the 52 weeks ended December 29, 2019 are provided as a supplement to the audited annual consolidated financial statements and Management Discussion and Analysis of the A&W Revenue Royalties Income Fund (the Fund) for the year ended December 31, 2019. This report is dated February 11, 2020 and should be read in conjunction with 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). System Sales, System Sales Growth and Same Store Sales Growth (defined below) for the 16 weeks and 52 weeks ended December 29, 2019 are compared to the 16 weeks and 52 weeks ended December 30, 2018 so that the two years are comparable.

The financial results reported in this report are in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRIC). The accounting policies applied in the audited

annual consolidated financial statements and this report have been consistently applied to all years presented unless otherwise stated.

Financial Highlights

The following selected information, other than “System Sales”, “System Sales Growth”, “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)	52 week period ended Dec 29, 2019	52 week period ended Dec 30, 2018
System Sales ⁽¹⁾	\$1,543,600	\$1,419,741
System Sales Growth ⁽²⁾	+8.7%	+14.5%
Same Store Sales Growth ⁽³⁾	+4.1%	+9.8%
New restaurants opened	50	42
Restaurants closed	8	8
Number of restaurants in the Royalty Pool	934	896
Gross sales reported by A&W restaurants in the Royalty Pool ⁽⁴⁾	\$1,482,323	\$1,362,996
Royalty Pool Same Store Sales Growth ⁽⁵⁾	+4.1%	+9.8%
Number of restaurants	994	952
Franchising & corporate restaurant revenue	\$246,305	\$206,005
Operating costs and general and administrative expenses	(185,636)	(154,607)
Depreciation of plant and equipment	2,540	2,271
Earnings before royalty expense, gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	\$63,209	\$53,669
Royalty expense	(44,470)	(40,890)
Net income	\$18,739	\$16,394

(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 26 4-week periods ending December 29, 2019, and is based on an equal number of days in each quarter and year. Same Store Sales Growth is a non-IFRS measure – see “Non-IFRS Measures”. This important information is provided as it is a key driver of growth and provides investors with an indication of the change in year-over-year sales of A&W restaurants. See “Same Store Sales”.

(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 26 4-week periods ending December 29, 2019, and is based on an equal number of days in each quarter and year. Royalty Pool Same Store Sales Growth is a non-IFRS measure – see "Non-IFRS Measures".

Same Store Sales

As noted above, Same Store Sales Growth is the change in gross sales of A&W restaurants that operated during the entire 26 4-week periods ending December 29, 2019.

Same Store Sales for the fourth quarter of 2019 decreased by 1.9% as compared to the same quarter of 2018. Annual Same Store Sales Growth was +4.1% compared to 2018. Annual Same Store Sales Growth was achieved in all concepts and was led by strong growth in BC, Quebec and Ontario. Same Store Sales and Same Stores Sales Growth are non-IFRS measures. See "Financial Highlights" and "Non-IFRS Measures" for further information.

System Sales

System Sales grew 2.8% for the fourth quarter and 8.7% for the full year as compared to 2018. Total System Sales for all A&W restaurants in Canada for the 16 weeks ended December 29, 2019 were \$476,632,000, an increase of \$13,062,000 from the 16 weeks ended December 30, 2018. Annual System Sales were \$1,543,600,000, an increase of \$123,859,000 from 2018. The increase in System Sales was due to the Same Store Sales Growth plus the increase in the number of restaurants from 952 at the end of 2018 to 994 at the end of 2019. 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 Restaurant Closures

Food Services opened 50 new A&W restaurants in 2019, compared to 42 new restaurants in 2018. Eight restaurants were closed in 2019, compared to eight in 2018. As at December 29, 2019, there were 994 A&W restaurants in Canada, of which 985 were operated by franchisees and nine were corporately owned and operated.

Overview

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

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

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

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 2019 adjustment to the Royalty Pool took place on January 5, 2019. The number of A&W restaurants in the Royalty Pool was increased by 46 new restaurants less eight restaurants that permanently closed during 2018. The addition of these 38 net new restaurants brings the total number of A&W restaurants in the Royalty Pool to 934. The estimated annual gross sales of the 46 new A&W restaurants was \$62,283,000 and annual gross sales for the eight permanently closed restaurants was \$4,795,000. The initial consideration for the estimated additional royalty stream was \$27,305,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on units of the Fund for the 20 trading day ending October 29, 2018. The yield was adjusted to reflect income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or \$21,844,000 by issuance of 627,514 LP units which were subsequently exchanged for 1,255,028 non-voting common shares of Trade Marks. The final adjustment to the number of units issued was made on December 6, 2019 based on actual annual sales reported by the new A&W restaurants of \$72,093,000 compared to the original estimate of \$62,283,000. As a result, \$5,461,000, representing the remaining 20% of the initial consideration, and additional consideration of \$4,609,000 were paid to Food Services on December 6, 2019 by issuance of 289,279 additional LP units, which were subsequently exchanged for 578,558 non-voting common shares of Trade Marks.

Subsequent to December 29, 2019, 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 are \$65,953,000 and annual sales for the seven permanently closed restaurants were \$4,078,000. 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 day 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 20% of the consideration or \$5,816,000 will be paid in December 2020 by issuance of additional LP units, which may be exchanged for non-voting common shares of Trade Marks. The actual amount of the consideration paid in December 2020 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

After the initial consideration was paid for the January 5, 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 31, 2017	25,009,271	122,494	78.1	7,020,731	75,558	21.9	32,030,002	198,052
January 5, 2018 adjustment to the Royalty Pool ⁽¹⁾	-	-	(4.0)	1,719,446	29,978	4.0	1,719,446	29,978
Balance as at December 30, 2018	25,009,271	122,494	74.1	8,740,177	105,536	25.9	33,749,448	228,030
January 5, 2019 adjustment to the Royalty Pool ⁽²⁾	-	-	(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	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

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

⁽²⁾ The number of common shares includes the 289,279 LP units exchanged for 578,558 common shares of Trade Marks representing the final consideration paid in December 2019 for the January 5, 2019 adjustment to the Royalty Pool.

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 (the Offering). Food Services recognized a gain at fair value on the exchange of \$24,307,000, net of transaction costs. Following the sale of the Units pursuant to the Offering, Food Services owned approximately 19.6% of the Units of the Fund on a fully diluted basis. The net proceeds from the Offering were used to pay dividends to Food Services' shareholder. The Fund did not receive any proceeds from the Offering and Food Services paid for the expenses of the Offering. See "Related Party Transactions and Balances".

Ownership of the Fund

The ownership of the Fund as of December 29, 2019 and December 30, 2018, on a fully-diluted basis, is as follows:

	December 29, 2019		December 30, 2018	
	Number of units	%	Number of units	%
Fund units held by public unitholders	14,064,673	79.1	12,504,673	74.1
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services ⁽¹⁾	3,726,882	20.9	4,370,089	25.9
Total equivalent units	17,791,555	100.0	16,874,762	100.0

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

The following chart shows the ownership of the Fund as of the date of this report, on a fully-diluted basis, after the initial consideration for the January 5, 2020 adjustment to the Royalty Pool.

	Number of units	%
Fund units held by public unitholders	14,064,673	76.4
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services	4,338,740	23.6
Total equivalent units	18,403,413	100.0

The chart below shows the ownership of the Fund, on a fully-diluted basis, when the remaining 20% of the initial consideration for the January 5, 2020 adjustment to the Royalty Pool is expected to be paid in December 2020, by issuance of 152,965 LP units exchangeable for 305,930 common shares of Trade Marks. The actual amount of the consideration paid in December 2020 may differ from this amount depending on the actual annual gross sales reported by the new A&W restaurants.

	Number of units	%
Fund units held by public unitholders	14,064,673	75.8
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services	4,491,705	24.2
Total equivalent units	18,556,378	100.0

2019 Operating Results

Revenue

Food Services' franchising and corporate revenue for 2019 was \$246,305,000 compared to \$206,005,000 for 2018. 2019 franchising revenue was \$226,984,000 compared to \$190,120,000 in 2018, an increase of \$36,864,000. Revenue related to sales from the distribution of food and supplies and services fees and Advertising fund contributions have increased in 2019 due to higher System Sales. Equipment and turnkey revenue increased in 2019 due to an increase in

revenues from turnkey projects, reimage, renovation and the sale of other miscellaneous equipment.

Corporate restaurant System Sales were \$19,321,000 in 2019 compared to \$15,885,000 in 2018. The \$3,436,000 increase is due to the Same Store Sales Growth and a new restaurant opened late in 2018. System Sales and Same Store Sales Growth are non-IFRS measures. See “Financial Highlights” and “Non-IFRS Measures” for further information.

Operating costs and general and administrative expenses

Operating costs for 2019 were \$139,543,000 compared to \$110,119,000 in 2018, an increase of \$29,424,000. The increase is primarily attributable to higher advertising expenses incurred by the National Advertising Fund and increased turnkey construction costs and costs of sales of equipment which are in line with the increase in revenue noted above. Corporate restaurant operating expenses have also increased due to the new restaurant opened late in 2018.

General and administrative expenses represent costs of providing services to franchised restaurants and establishing new restaurants, and were \$46,093,000 for 2019 compared to \$44,488,000 in 2018, an increase of \$1,605,000. The increase is driven by higher expenses related to technology services and the mobile app development, the growth in the number of restaurants and system sales and inflationary increases.

Operating earnings

(dollars in thousands)	52 week period ended Dec 29, 2019	52 week period ended Dec 30, 2018
Franchising & corporate restaurant revenue	\$246,305	\$206,005
Operating costs and general and administrative expenses	(185,636)	(154,607)
Depreciation of plant and equipment	2,540	2,271
Earnings before royalty expense, gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	\$63,209	\$53,669

Operating earnings (earnings before royalty expense, gain on sale of Fund units, Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) increased by \$9,540,000 to \$63,209,000 in 2019 as compared to \$53,669,000 in 2018. The operating margin for 2019 was 25.7% compared to 26.1% for 2018. The decrease in margin is primarily attributable to timing differences on revenue and costs related to the opening of new restaurants as the revenue from initial fees is amortized over the term of the franchise agreement whereas the costs associated with opening new restaurants are recognized in the period incurred.

Royalty expense

Royalty expense for 2019 increased by \$3,580,000 to \$44,470,000 compared to \$40,890,000 for 2018. The increase in royalty expense resulted from the additional net 38 restaurants in the Royalty Pool and the positive Royalty Pool Same Store Sales Growth. Royalty Pool Same Stores Sales Growth is a non-IFRS measure. See “Financial Highlights” and “Non-IFRS Measures” for further information.

Earnings after royalty expense

(dollars in thousands)	52 week period ended Dec 29, 2019	52 week period ended Dec 30, 2018
Earnings before royalty expense, gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	\$63,209	\$53,669
Royalty expense	(44,470)	(40,890)
Earnings after royalty expense (before gain on sale of Fund units, share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	\$18,739	\$12,779

Earnings after royalty expense (but before the gain on sale of Fund units, Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) increased by \$5,960,000 to \$18,739,000 for 2019 compared to \$12,779,000 for 2018. The increase was comprised of the \$9,540,000 increase in operating earnings, partially offset by the \$3,580,000 increase in royalty expense related to the Royalty Pool Same Store Sales Growth and the additional net 38 restaurants in the Royalty Pool. Royalty Pool Same Store Sales Growth is a non-IFRS measure. See "Financial Highlights" and "Non-IFRS Measures" for further information.

Finance expense - net

(dollars in thousands)	52 week period ended Dec 29, 2019	52 week period ended Dec 30, 2018
Interest income	(\$221)	(\$130)
Interest on term loan	-	24
Interest cost on supplementary retirement benefit plan	521	490
Finance leases	150	144
Other interest	15	-
	\$465	\$528

Net interest expense decreased by \$63,000 to \$465,000 for 2019 compared to \$528,000 for 2018. The decrease is primarily due an increase in interest income due to higher cash balances throughout the year. See "Liquidity and Capital Resources".

Food Services' share of Trade Marks' income

Food Services' share of Trade Marks' income for 2019 decreased by \$527,000 to \$7,651,000 compared to \$8,178,000 for 2018. The decrease is attributable to Food Services' share of Trade Mark's income being 23.5% for 2019 as compared to 25.9% for 2018, partially offset by an increase in Trade Mark's net income.

Net income

(dollars in thousands)	52 week period ended Dec 29, 2019	52 week Period ended Dec 30, 2018
Earnings after royalty expense (before gain on sale of Units of the Fund, share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	\$18,739	\$12,779
Finance expense	(465)	(528)
Depreciation of plant and equipment	(2,540)	(2,271)
Amortization of deferred gain	2,570	2,181
Amortization of deferred finance fees	-	(59)
Gain on sale of Units of A&W Revenue Royalties Income Fund	24,307	-
Share of income from A&W Trade Marks Inc.	7,651	8,178
Earnings before income taxes	50,262	20,280
Provision for income taxes	6,075	3,886
Net income	\$44,187	\$16,394

The increase in earnings before income taxes, income taxes and net income is due primarily to the gain on the exchange of common shares of Trade Marks for Units of the Fund and the subsequent sale of the Units of the Fund in the second quarter of 2019, and the increase in earnings previously noted, net of the impact of the change in the provision for income taxes. See "Common Shares of A&W Trade Marks Inc."

Net income attributable to non-controlling interests

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

Other comprehensive income

Other comprehensive income consists of actuarial gains and losses, net of tax, on the supplementary retirement benefit plan. Actuarial gains result from an increase in the discount rate used to determine the accrued benefit obligation and actuarial losses result from a decrease in the discount rate. The actuarial loss, net of tax, for 2019 was \$976,000 compared to a gain of \$609,000 for 2018.

Liquidity and Capital Resources

Food Services is primarily a franchise business with 985 of its 994 restaurants franchised. Food Services' capital requirements are related to its corporate restaurants and head office and investments in technology and information. Future restaurant growth will continue to be funded by franchisees although from time to time, Food Services expects to incur capital expenditures to open new corporate restaurants in the Ottawa market. Food Services also expects to incur capital expenditures for the Urban Franchise Associate program aimed at attracting millennials to become owner-operators of urban concept restaurants where Food Services will contribute to the cost of building the physical location. Food Services expects to have sufficient capital resources to fund these capital requirements and has sufficient cash on hand to meet its obligations. Food

Services has a demand operating loan facility with a Canadian chartered bank (the Bank) of \$8,000,000 to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the Bank's prime rate plus 0.5% and are repayable on demand. As at December 29, 2019, letters of credit totalling \$298,000 (December 30, 2018 - \$329,000) have been issued by the Bank to landlords and cities for development of new restaurants, leaving \$7,702,000 of the facility available (December 30, 2018 - \$7,671,000).

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

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

Off-Balance Sheet Arrangements

Food Services has no off-balance sheet arrangements.

Cash Flows

Cash flows from operating activities decreased by \$381,000 in 2019 as compared 2018. The decrease was primarily driven by a decrease in deposits on franchise and equipment sales and increase in incomes taxes paid, partially offset by the increase in operating earnings discussed previously and a decrease in inventories.

Related Party Transactions and Balances

Royalty expense for 2019 was \$44,470,000 (2018 - \$40,890,000), of which \$3,326,000 (December 30, 2018 - \$3,262,000) is payable to the Partnership at December 29, 2019.

During the year, Trade Marks declared and paid dividends on common shares held by Food Services of \$7,828,000 (2018 - \$7,316,000).

During the year, Food Services paid \$125,000 (2018- \$125,000) to a professional baseball club, of which a shareholder and director of Food Services is a part owner, in exchange for advertising the A&W brand at the ballpark. At December 29, 2019, \$nil (December 30, 2018 - \$nil) is payable to the baseball club by Food Services.

The Offering was completed by Food Services and the Fund following the exercise by Food Services of its registration rights pursuant to the terms of the registration rights agreement between Food Services and the Fund dated February 15, 2002, a copy of which is available on SEDAR at www.sedar.com. Food Services agreed to indemnify the Fund and its subsidiaries and their respective trustees, directors, officers, agents and employees against certain liabilities and expenses of the Offering. For full details of the Offering, see the short form prospectus of the Fund dated May 29, 2019, a copy of which is available on SEDAR at www.sedar.com.

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. However, such estimates are not "critical accounting estimates" as (i) they do not require Food Services to make assumptions about matters that are highly uncertain at the time the estimate is made, and (ii) different estimates that could have been used, or changes in the accounting estimates that are reasonably likely to occur from period to period, would not have had a material impact on Food Services' financial condition, changes in financial condition or financial performance.

New standards and interpretations not yet adopted

In January 2016, the IASB issued IFRS 16, which sets out a new model for lease accounting replacing IAS 17, "Leases". The standard introduces a single lessee accounting model and 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. Lessors continue to classify leases as finance and operating leases. Other areas of the lease accounting model have been impacted, including the definition of a lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 has been adopted.

Food Services will adopt IFRS 16 on December 30, 2019 using the modified retrospective method. The modified retrospective method applies the requirements of IFRS 16 retrospectively with no restatement of the comparative period.

IFRS 16 will materially increase the assets and liabilities on the consolidated balance sheet as the majority of Food Services' leases, including those where Food Services is an intermediate sublessor, are in scope for IFRS 16. As an intermediate lessor, Food Services will derecognize the right-of-use asset arising from the head lease and recognize a corresponding lease receivable if the sublease is a finance lease.

Based on analysis performed to date, as a result of the initial application of IFRS 16, Food Services is estimated to recognize approximately \$565 million to \$615 million of lease liability, \$547 million to \$593 million of lease receivable and \$18 million to \$22 million of right-of-use asset on its consolidated balance sheet. The difference, net of the deferred tax impact, will be recorded in opening retained earnings.

On initial application, Food Services has elected to record the right-of-use asset and lease receivable based on corresponding lease liability. The right-of-use assets will be depreciated on a straight-line basis over the remaining lease term. The lease liability will be carried at amortized cost with a finance charge recorded from the amortization of the lease liability discount. The lease receivables will be amortized at the same discount rate as the lease liabilities and Food Services will recognize finance income equal to the finance charge recognized from the amortization of the lease liability discount. The depreciation expense of the right of-use assets and the finance charge of the lease liability will partially replace the lease-related expenses

recorded in operating expenses, previously recognized on a straight-line basis over the lease term under IAS 17. Variable lease payments will continue to be expensed as incurred.

IFRS 16 will not change the amount of cash transferred between the lessor and lessee, but will change the presentation of the operating and financing cash flows presented in our consolidated statement of cash flows.

IFRS 16 permits the use of recognition exemptions and practical expedients. Food Services has elected to apply the following recognition exemptions and practical expedients:

- exclude certain short-term leases with terms less than 12 months and low value leases from IFRS 16 lease accounting;
- apply a single discount rate to a portfolio of leases with reasonably similar characteristics at the date of initial application; and
- exclude initial direct costs from the measurement of the right-of-use assets at the date of initial application.

Risks and Uncertainties

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

Outlook

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

A&W is proud to be a Canadian company, 100% Canadian owned and operated. As a leader in the QSR industry, we believe that sourcing simple, great-tasting ingredients, farmed with care is the right thing to do. We're known for being an innovator and are driven by both the desires of our guests and the expertise of our partners. In 2013, we became the first and only national burger chain in Canada to serve beef raised without artificial hormones or steroids, and since then we've introduced countless other natural ingredient firsts; including chicken raised without the use of antibiotics and Organic Fairtrade coffee. In 2017, A&W launched a new Root Beer Guarantee. A&W Root Beer served in restaurants is now made from natural cane sugar and all-natural flavours - another first for the QSR industry. A&W also moved to using real cheese on all burgers and breakfast sandwiches. A&W's real cheeses include cheddar, mozzarella, jalapeno jack, and cheddar cheese curds, all made in Canada. All processed cheese was removed from A&W's menu.

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. In 2019, the Beyond Meat Sausage & Egger was introduced. Also in 2019, A&W added to its plant-based offerings by launching plant-based nuggets as a limited time menu item in A&W restaurants in BC and Ontario.

Food Services' continues to rapidly grow new A&W restaurants, particularly in the key Ontario and Quebec markets. Fifty new A&W restaurants were opened across the country in 2019. As of December 31, 2019, an additional fifty-six were under construction or in varying stages of permitting.

A further important strategic initiative of Food Services is to deliver an industry leading guest experience. To ensure each guest at an A&W restaurant has a positive experience, Food Services introduced new satisfaction measurement and feedback systems, system level processes, staffing, CLIMATE, and restaurant equipment. This initiative also includes the ongoing re-imaging and modernizing of our existing restaurants and innovation in technology. Costs of re-imaging A&W restaurants are borne by the franchisees and there is no cost to the Fund.

A&W is also on a journey to reduce our environmental impact and we're proud to lead the way for the quick service food industry. Over the years, we've made changes to food packaging: dine-in guests are served with ceramic and glass mugs for hot and cold beverages, metal baskets for fries and onion rings, ceramic bowls for poutine and ceramic plates and stainless steel cutlery for breakfast; all in effort to reduce waste going to landfills. In 2018, A&W became the first quick service restaurant chain in North America to remove all plastic straws from restaurants, replacing them with paper straws that are 100% biodegradable, compostable and sustainably sourced.

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

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: expected future consideration payable on adjustments to the Royalty Pool; the expected impact on Food Services’ financial position, results of operations and cash flows from the adoption of IFRS 16; Food Services’ strategic initiatives, including repositioning and differentiating A&W in the QSR industry through its use of “better ingredients”, new restaurant growth, delivering an industry leading guest experience, ongoing reimagining and modernizing of existing A&W restaurants, innovation in technology and minimizing its environmental footprint; the number of new A&W restaurants under construction and the expected timing for their opening; Food Services’ expectation that it will incur capital expenditures to open new corporate restaurants in the Ottawa market, that it will incur capital expenditures for the Urban Franchise Associate program where Food Services will contribute to the cost of building the physical location, and that it will have sufficient capital resources to fund these capital requirements; Food Services’ continued efforts to consistently deliver great food and a better guest experience, in combination with reimage progress, contributing to winning guest visits and building loyalty and enhancing performance over the long term.

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

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

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

- the general risks that affect the restaurant industry in general and the quick service segment in particular, 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 "better 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 prime locations and obtain qualified operators to become A&W franchisees;
- increases in closures of A&W restaurants adversely affecting the Royalty;
- decreases in traffic at shopping centers;
- changes in Food Services' ability to pay the Royalty due to changes in A&W franchisees' ability to generate sales and pay franchise fees and other amounts to Food Services;
- changes in government regulation that affects the restaurant industry in general or the quick service restaurant industry in particular, 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; and,
- occurrence of catastrophic events.

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

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

These risks, uncertainties and other factors are more particularly described in the Fund's most recent Annual Information Form under the heading "Risk Factors".

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

