



**A&W Food Services of Canada Inc.  
Report to Unitholders of A&W Revenue Royalties Income Fund  
January 4, 2021 to January 2, 2022**

This report and the annual consolidated financial statements of A&W Food Services of Canada Inc. (“A&W” or “Food Services”) for the 52 weeks ended January 2, 2022 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, 2021. This report is dated February 15, 2022 and should be read in conjunction with the audited annual consolidated financial statements of Food Services for the 52 weeks ended January 2, 2022. Such financial statements and additional information about the Fund and Food Services are available at [www.sedar.com](http://www.sedar.com) or [www.awincomefund.ca](http://www.awincomefund.ca).

**Glossary**

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

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 2021 year was 52 weeks and ended January 2, 2022 (2020 – 53 weeks ended January 3, 2021). System Sales, System Sales Growth and Same Store Sales Growth – Franchised Restaurants for the 16 weeks and 52 weeks ended January 2, 2022 are compared to the 16 weeks and 52 weeks ended December 27, 2020 so that the two years are comparable.

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

## Selected Information

The following selected information, other than “System Sales”, “System Sales Growth”, “Same Store Sales Growth – Franchised Restaurants”, “Gross sales reported by A&W restaurants in the Royalty Pool”, “Royalty Pool Same Store Sales Growth”, “Operating Earnings” 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 Jan 2, 2022	53-week period ended Jan 3, 2021
System Sales <sup>(i)</sup>	<b>\$1,609,107</b>	\$1,376,716
System Sales Growth <sup>(ii)</sup>	<b>16.9%</b>	-10.8%
Same Store Sales Growth - Franchised Restaurants <sup>(iii)</sup>	<b>14.0%</b>	-14.3%
New restaurants opened	<b>34</b>	23
Restaurants permanently closed	<b>11</b>	11
Number of restaurants	<b>1,029</b>	1,006
Gross sales reported by A&W restaurants in the Royalty Pool <sup>(iii)</sup>	<b>\$1,569,377</b>	\$1,347,387
Royalty Pool Same Store Sales Growth <sup>(iii)</sup>	<b>14.0%</b>	-14.3%
Number of restaurants in the Royalty Pool	<b>994</b>	971
Revenue from franchising	<b>\$226,574</b>	\$185,762
Revenue from corporate restaurants	<b>18,409</b>	16,130
Total revenue	<b>244,983</b>	201,892
Operating costs and general and administrative expenses	<b>(168,902)</b>	(138,510)
Depreciation of plant, equipment and right-of-use assets	<b>4,246</b>	4,003
Operating Earnings <sup>(i)</sup>	<b>80,327</b>	67,385
Royalty expense	<b>(47,022)</b>	(40,662)
Income before taxes	<b>45,368</b>	27,189
Net income	<b>\$36,770</b>	\$21,653

<sup>(i)</sup> “System Sales” and “Operating Earnings” are a non-IFRS financial measures. Refer to the tables below for reconciliations of these measures to the most comparable IFRS measures and the “Non-IFRS Measures” section of this report for further details on how these measures are used to assess Food Services’ performance.

<sup>(ii)</sup> “System Sales Growth” is a non-IFRS ratio and is calculated as the change in “System Sales”, a non-IFRS financial measure. Refer to the table below for a reconciliation of “System Sales” to the most comparable IFRS measure and the “Non-IFRS Measures” section of this report for further details on how “System Sales Growth” is calculated and used to assess Food Services’ performance.

<sup>(iii)</sup> “Same Store Sales Growth – Franchised Restaurants”, “Gross sales reported by A&W restaurants in the Royalty Pool”, “Royalty Pool Same Store Sales Growth”, are non-IFRS supplementary financial measures. Refer to the “Non-IFRS Measures” section of this report for further details on how these measures are calculated and used to assess Food Services’ performance.

The following table provides a reconciliation of “System Sales” to “Revenue from Corporate Restaurants”, the most comparable IFRS measure, for the periods indicated.

(dollars in thousands)	52-week period ended Jan 2, 2022	53-week period ended Jan 3, 2021
Revenue from corporate restaurants	\$18,409	\$16,130
Sales reported by franchised restaurants	1,590,698	1,360,586
System Sales	<b>\$1,609,107</b>	\$1,376,716

The following table provides a reconciliation of “Operating Earnings” to “Income before income taxes”, the most comparable IFRS measure, for the periods indicated.

(dollars in thousands)	52-week period ended Jan 2, 2022	53-week period ended Jan 3, 2021
Income before taxes	\$45,368	\$27,189
Depreciation of plant, equipment and right-of-use assets	4,246	4,003
Royalty expense	47,022	40,662
(Recovery of) loss on impairment of leases receivable	(2,024)	4,281
Finance expense - net	1,243	1,360
Amortization of deferred gain	(3,136)	(2,927)
Gain on sale of Units of A&W Revenue Royalties Income Fund	(2,670)	-
Share of income from associates	(9,722)	(7,183)
Operating Earnings	<b>\$80,327</b>	\$67,385

### 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 IFRS measures, 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. 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 companies.

### Non-IFRS financial measures

The following non-IFRS financial measures are disclosed in this report:

*System Sales.* System Sales is a non-IFRS financial measure and is calculated in respect of all A&W restaurants in Canada as the sum of (1) gross sales reported to Food Services by franchisees of such A&W restaurants without audit, verification or other form of independent assurance and (2) revenue from corporate restaurants. System Sales reflect sales after deducting amounts for discounts for coupons and other promotional offerings and applicable sales taxes. Food Services believes System Sales is a key performance indicator as it is the main driver of Food Services’ revenues and provides an indication of the growth of the overall A&W restaurant chain. See “System Sales”. Refer to the “Selected Information”

section for a reconciliation of System Sales to revenue from corporate restaurants, the most comparable IFRS measure, for the current and comparable reporting period.

*Operating Earnings.* Operating Earnings is a non-IFRS financial measure and is calculated by taking income before taxes and adding back the depreciation on plant, equipment and right-of-use assets, royalty expense, (recovery of) loss on impairment of leases receivable and finance expense (net) and deducting the amortization of deferred gain, gain on sale Units of A&W Revenue Royalties Income Fund and share of income from associates. Food Services believes that Operating Earnings is a useful measure of operating performance, as it provides a more relevant picture of operating results in that it excludes the effects of financing and investing activities and other non-recurring income and expenses that are not reflective of Food Services' underlying business performance. Food Services use Operating Earnings to facilitate a comparison of its operating performance on a consistent basis. Refer to the "Selected Information" section for a reconciliation of Operating Earnings to income before taxes, the most comparable IFRS measure, for the current and comparable reporting periods.

#### **Non-IFRS ratios**

The following non-IFRS ratio is disclosed in this report:

*System Sales Growth.* System Sales Growth is a non-IFRS ratio and calculated as the percentage change in System Sales for the current reporting period as compared to the comparable reporting period in the prior year. Food Services believes that System Sales Growth is a key performance indicator as it provides an indication of the growth of the overall A&W restaurant chain. See "System Sales".

#### **Non-IFRS supplementary financial measures:**

The following non-IFRS supplementary financial measures are disclosed in this report:

*Same Store Sales Growth – Franchised Restaurants.* Same Store Sales Growth – Franchised Restaurants reflects the change in gross sales of franchised A&W restaurants that operated, or were temporarily closed at any point due to COVID-19, during the entire 52-week periods ended January 2, 2022 and December 27, 2020 and is based on an equal number of days in each period. This measure is a key performance indicator for Food Services as it highlights the performance of existing franchised restaurants.

*Gross sales reported by A&W restaurants in the Royalty Pool.* Gross sales reported by A&W restaurants in the Royalty Pool (the "Royalty Pool") reflects the sum of (1) the gross sales reported to Food Services by franchisees of A&W restaurants that are in the Royalty Pool without audit, verification or other form of independent assurance and (2) the gross sales of A&W restaurants owned and operated by Food Services that are in the Royalty Pool. The Gross sales reported by A&W restaurants in the Royalty Pool reflect sales 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 the basis for which the royalty is payable by Food Services to the Partnership therefore is a key driver of the royalty expense.

*Royalty Pool Same Store Sales Growth.* Royalty Pool Same Store Sales Growth reflects the change in gross sales of A&W restaurants in the Royalty Pool that operated, or were temporarily closed at any point due to COVID-19, during the entire 52-week periods ended January 2, 2022 and December 27, 2020 and is based on an equal number of days in each period. This measure is a key performance indicator for Trade Marks Inc. ("Trade Marks") and the Fund, both of which Food Services has investments in, and is also a

key driver of the royalty expense as it highlights the performance of the existing A&W restaurants in the Royalty Pool.

### **Same Store Sales Growth – Franchised Restaurants**

Same Store Sales Growth – Franchised Restaurants<sup>(iii)</sup> for the fourth quarter of 2021 was +13.8% as compared to the fourth quarter of 2020. Same Store Sales Growth – Franchised Restaurants<sup>(iii)</sup> for the 52-week period ended January 2, 2022 was +14.0% as compared to the 52-week period ended December 27, 2020. The Same Store Sales Growth – Franchised Restaurants was primarily driven by there being fewer public health restrictions related to COVID-19 in place across Canada which led to a reduction in the number of A&W restaurants that were temporarily closed or were not able to offer dine-in services, as compared to 2020. As at January 2, 2022 and February 15, 2022, all of the A&W restaurants that had been temporarily closed due to COVID-19 related restrictions had reopened. See “Impact of COVID-19”.

The actions required in 2020 and 2021 in response to COVID-19 have adversely impacted A&W restaurant operations across Canada, particularly for those restaurants located on urban street fronts and in shopping centres. However, since the second quarter of 2020 when COVID-19 impacts on A&W were at their peak, the impact of COVID-19 on Same Store Sales Growth – Franchised Restaurants has lessened.

<sup>(iii)</sup> “Same Store Sales Growth – Franchised Restaurants” is a non-IFRS supplementary financial measure. Refer to the “Non-IFRS Measures” section of this report for further details on how this measure is calculated and used to assess Food Services’ performance.

### **System Sales**

System Sales<sup>(i)</sup> for the fourth quarter were \$521,710,000, an increase of 16.4% or \$73,340,000 from the fourth quarter of 2020. Annual System Sales<sup>(i)</sup> were \$1,609,107,000, an increase of 16.9% or \$232,391,000 from 2020. The increase in System Sales was due to the more pronounced impact of COVID-19 on 2020 sales as well as the net addition of new restaurants. See “Impact of COVID-19”, “New Restaurant Openings and Permanent Restaurant Closures” and “Financial Highlights” for further information.

<sup>(i)</sup> “System Sales” is a non-IFRS financial measure. Refer to the table in the “Selected Information” section for a reconciliation of this measures to the most comparable IFRS measure and the “Non-IFRS Measures” section of this report for further details on how this measure is used to assess Food Services’ performance.

### **New Restaurant Openings and Permanent Restaurant Closures**

Food Services opened 34 new A&W restaurants in 2021, compared to 23 openings in 2020. Eleven restaurants were permanently closed in both of 2021 and 2020. As at January 2, 2022, there were 1,029 A&W restaurants in Canada, of which 1,019 were operated by franchisees and 10 were corporately owned and operated.

### **Overview**

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

Food Services’ operating costs include the cost of materials, supplies and equipment sold either directly to franchisees or to distributors that service the restaurants or that are sold to the licensed bottlers, and costs

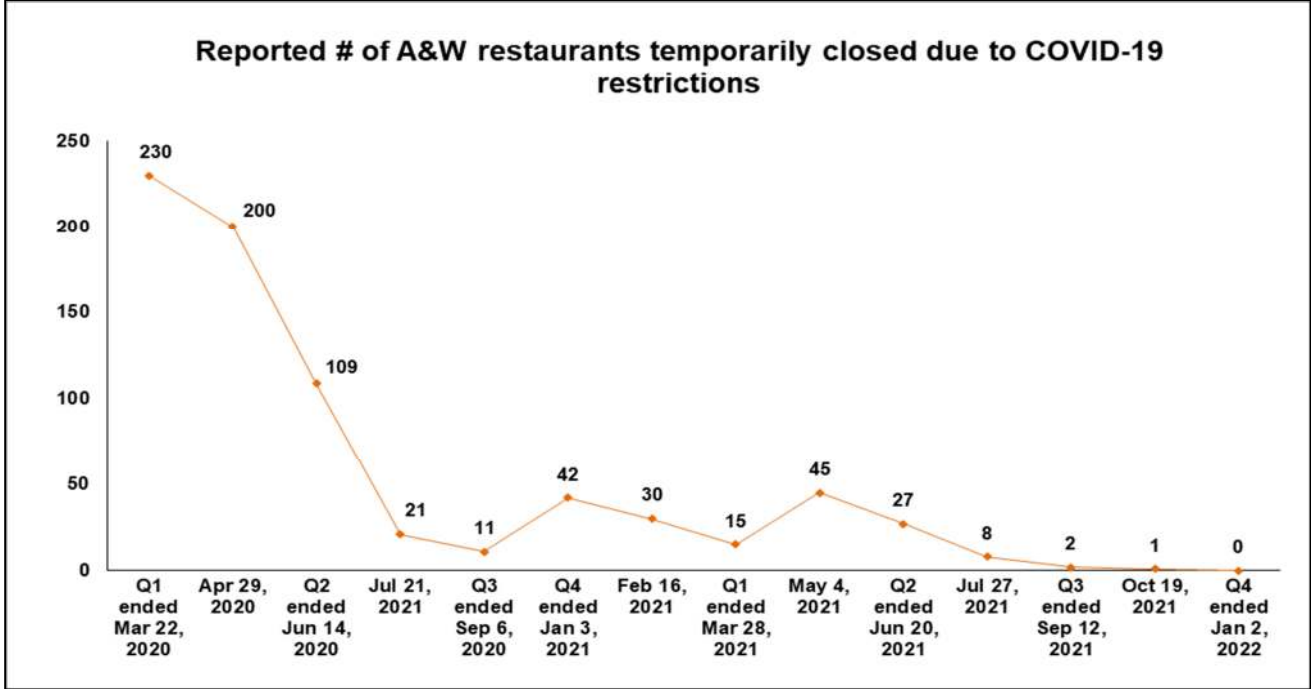
of sales and other expenses of the restaurants operated corporately by Food Services. General and administrative expenses are expenses associated with providing services to the franchised A&W restaurants and establishing new A&W restaurants.

The A&W trade-marks used in the A&W quick service restaurant business in Canada are owned by the Partnership. The Partnership has granted Food Services a licence (the “Amended and Restated Licence and Royalty Agreement”) to use the A&W trade-marks in Canada for a term expiring December 30, 2100, for which Food Services is required to pay a royalty of 3% of the gross sales reported by those A&W restaurants in the Royalty Pool which are identified in the Amended and Restated Licence and Royalty Agreement, as amended from time to time.

**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 Canadians, in general, continues to be uncertain. Since the onset in March 2020, jurisdictions across Canada have had varying levels of COVID-19 related restrictions in place and many of those restrictions have been modified multiple times in response to the fluctuating number of COVID-19 cases.

Actions required in response to the COVID-19 pandemic have adversely affected A&W restaurant operations in Canada, including the temporary closure of A&W restaurants. At its peak impact in the second quarter of 2020, a total of 230 A&W restaurants (out of the then 971 restaurants in the Royalty Pool) were temporarily closed due to public health measures in response to COVID-19. The COVID-19 related public health restrictions began to ease in the second quarter of 2021, and as at January 2, 2022 all of the restaurants that were temporarily closed due to restrictions had reopened (42 as at January 3, 2021). The chart below shows the reported number of A&W restaurants that were temporarily closed due to COVID-19 restrictions at specified dates in 2020 and 2021.



Throughout the pandemic, Food Services and its franchisees have worked together on initiatives to help accelerate sales recovery. These initiatives include, but are not limited to promotional activity, strengthening and expanding partnerships with third party delivery service providers, increasing the speed of service for drive-thru and enhancing the A&W mobile app. Food Services and its franchisees also continue to take and maintain significant measures in their restaurants and broader operations to protect the health of employees and guests in compliance with physical distancing recommendations and other mandates of relevant public health authorities, such as the requirement for dine-in guests to show proof of vaccination in jurisdictions where required and the requirement for restaurant staff who have contracted, or been exposed to, COVID-19 to self-isolate. During the pandemic to date, various levels of government have offered a number of important financial programs which have helped support individual restaurant businesses, including A&W franchisees; however, the eligibility criteria for most of those programs has become stricter and some programs have ceased. See “Risks and Uncertainties”.

In March 2020, and as a response to the sudden onset of COVID-19, Food Services Fund temporarily suspended monthly distributions on the units of the Fund (“Units”); accordingly, no distributions were declared by the Fund in the second quarter of 2020. Regular monthly distributions to unitholders resumed at 10¢ per Unit in the third quarter of 2020 and special distributions totaling 50¢ per Unit were paid in the fourth quarter of 2020.

In 2021, the monthly distribution rate was increased three times. It was first increased to 13.5¢ per Unit beginning with the February distribution that was paid March 31, 2021 and secondly to 15.0¢ per Unit beginning with the July distribution that was paid on August 31, 2021. The monthly distribution rate was increased for a third time to 15.5¢ per Unit beginning with the October distribution that is payable on November 30, 2021.

Food Services is the head lessee for the majority of its franchised locations and enters into agreements whereby Food Services licences the premises to the franchisee, for which Food Services receives a premises licence fee from its franchisees. Under the licence agreement, the franchisee is responsible for the obligations under the lease. IFRS 16 requires Food Services, where it acts as the intermediate lessor, to recognize a lease liability and a corresponding lease receivable. Lease receivables are reviewed for impairment based on expected losses at each balance sheet date in accordance with IFRS 9 - Financial Instruments. An impairment provision is recorded based on the estimated expected credit loss. Food Services has developed a risk matrix used to assess the credit risk of all head leases and has included the impacts of COVID-19 response measures in its credit risk assumptions. Factors taken into consideration include restaurant concept, payment performance and future expectations for the restaurant operations. Food Services recorded an expected credit loss provision on leases receivable of \$2,257,000 as at January 2, 2022 (January 3, 2021 – \$4,281,000). The \$2,024,000 decrease in the provision has been recognized as a recovery of impairment of leases receivable in 2021 (2020 – loss of \$4,218,000).

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

The Royalty Pool is adjusted annually to reflect sales from new A&W restaurants added to the Royalty Pool, net of the sales of any A&W restaurants that have permanently closed. Food Services is paid for the additional royalty stream related to the sales of the net new 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, 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 or limited voting units of the Fund (“Limited Voting Units” and together with the Units, “Trust Units”) on the basis of two common shares for one Trust Unit. 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 2021 annual adjustment to the Royalty Pool took place on January 5, 2021. The number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants less 11 restaurants that permanently closed. The Partnership paid Food Services \$13,271,000, by issuance of 465,316 LP units to Food Services, representing 80% of the initial consideration based on the estimated annual sales of the net new restaurants. The LP units were subsequently exchanged for 930,632 non-voting common shares of Trade Marks.

The final adjustment to the number of LP units issued was made on December 9, 2021, based on the actual annual sales reported by the new restaurants. The actual annual sales of the 34 new A&W restaurants were \$53,842,000, compared to the original estimate of \$45,248,000, resulting in total consideration of \$20,164,000 payable to Food Services. The remaining consideration of \$6,893,000 was paid to Food Services by issuance of 241,683 additional LP units, which were exchanged for 483,366 non-voting common shares of Trade Marks.

On January 5, 2022, the number of A&W restaurants in the Royalty Pool was increased by 34 new restaurants less 13 restaurants that permanently closed. The initial consideration for the estimated royalty revenue from the net 21 restaurants added to the Royalty Pool is \$21,472,000. The Partnership paid Food Services \$17,178,000 by issuance of 444,327 LP units, representing 80% of the initial consideration. The LP units were exchanged for 888,654 non-voting common shares of Trade Marks. The remaining 20% or \$4,294,000 and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be paid in December 2022 by issuance of additional LP units, which may be exchanged for non voting common shares of Trade Marks.

After the initial consideration for the January 5, 2022 adjustment to the Royalty Pool but before the issuance of the excess exchangeable LP units that represent the remaining 20% of the initial consideration for the January 5, 2022 adjustment to the Royalty Pool that are payable in December 2022, Food Services’ indirect interest in the Fund increased to 26.0% on a fully diluted basis (24.3% as of January 2, 2022).



## 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 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 29, 2019	28,129,271	164,605	79.1	7,453,763	95,339	20.9	35,583,034	259,944
January 5, 2020 adjustment to the Royalty Pool <sup>(1)</sup>	-	-	(3.3)	1,519,260	28,881	3.3	1,519,260	28,881
Balance as at January 3, 2021	28,129,271	164,605	75.8	8,973,023	124,220	24.2	37,102,294	288,825
January 5, 2021 adjustment to the Royalty Pool <sup>(2)</sup>	-	-	(2.9)	1,413,998	20,164	2.9	1,413,998	20,164
April 16, 2021 exchange of common shares of Trade Mark for Trust Units	4,056,040	63,193	10.6	(4,056,040)	(63,193)	(10.6)	-	-
Balance as at January 2, 2022	32,185,311	227,798	83.5	6,330,981	81,191	16.5	38,516,292	308,989

<sup>(1)</sup> The number of common shares includes the 147,772 LP units exchanged for 295,544 common shares of Trade Marks representing the remaining consideration paid in December 2020 for the January 5, 2020 adjustment to the Royalty Pool.

<sup>(2)</sup> The number of common shares includes the 241,683 LP units exchanged for 483,366 common shares of Trade Marks representing the remaining consideration paid in December 2021 for the January 5, 2021 adjustment to the Royalty Pool. See "Adjustment to the Royalty Pool".

On April 16, 2021, A&W of Canada Inc., an indirect shareholder of Food Services, completed a reorganization to provide liquidity for some of its shareholders and to simplify the indirect ownership of Food Services (the "Reorganization").

As part of the Reorganization, and pursuant to the Declaration of Trust and the Amended and Restated Exchange Agreement, Food Services exchanged 1,042,000 common shares of Trade Marks for 521,000 Units, which Units were then purchased by shareholders of A&W Canada at a price of \$36.42 per Unit. The 521,000 Units sold are subject to a four-month statutory hold period under applicable securities laws. After the exchange and sale of these Units, and as at June 20, 2021 and July 27, 2021, there were 14,585,673 Units outstanding.

The shareholders who purchased the 521,000 Units also entered into an agreement with three individuals (each a "Designated Representative"), which agreement provides that any two of the Designated

Representatives are entitled to exercise the voting rights attached to the 521,000 Units while they remain held by those shareholders. There is no agreement, arrangement, commitment or understanding among the Designated Representatives themselves or amongst the Designated Representatives and those shareholders as to how the voting rights attached to the 521,000 Units will be exercised in any particular circumstance. The Designated Representatives, individually, therefore do not have control or direction over any of the 521,000 Units.

In addition, Food Services exchanged 3,014,040 of its common shares of Trade Marks for 1,507,020 Limited Voting Units. Limited Voting Units may be converted to Units and have equal rights and privileges to Units except that holders of the Limited Voting Units, together with the common shares of Trade Marks that are exchangeable for Trust Units, are not entitled in the aggregate to cast more than 40% of the votes cast upon a resolution with respect to the appointment or removal of Trustees of the Fund (the "Trustees") and are not entitled to cast votes upon a resolution to amend the Declaration of Trust.

Prior to the Reorganization, Food Services owned 26.0% of the common shares of Trade Marks which are exchangeable into 26.0% of the total outstanding voting securities of the Fund on a fully diluted basis. Following the Reorganization, but excluding the issuance of the excess exchangeable LP units that represented the remaining 20% of the initial consideration for the January 5, 2021 Adjustment to the Royalty Pool that were paid in December 2021, Food Services owned 15.4% of the exchangeable common shares of Trade Marks and 9.4% of the Fund's Trust Units. Taken together, Food Services' ownership of exchangeable common shares of Trade Marks and Trust Units equated to Food Services owning 23.3% of the total outstanding voting securities of the Fund on a fully diluted basis, before the inclusion of the issuance of the excess exchangeable LP units.

The Fund did not receive any proceeds from the Reorganization and Food Services paid for the expenses of the Reorganization. The Reorganization did not constitute a change of control of Food Services, as the existing shareholders continue to maintain majority control of Food Services. There was no change in management or the operations of the Food Services' business in connection with the Reorganization.

## Ownership of the Fund

The table below shows the ownership of the Fund as of January 2, 2022 and January 3, 2021 on a fully-diluted basis.

	January 2, 2022		January 3, 2021	
	Number of units	%	Number of units	%
Units held by public unitholders	14,585,673	75.7	14,064,673	75.8
Limited Voting Units held by Food Services <sup>(1)</sup>	1,507,020	7.8	-	-
Number of Trust Units issuable upon exchange of securities of Trade Marks held by Food Services <sup>(2)</sup>	3,165,491	16.5	4,486,512	24.2
<b>Total equivalent units</b>	<b>19,258,184</b>	<b>100.0</b>	<b>18,551,185</b>	<b>100.0</b>

<sup>(1)</sup> Limited Voting Units held by Food Services may be exchanged for Units on the basis of one Limited Voting Unit for one Unit.

<sup>(2)</sup> Common shares of Trade Marks held by Food Services may be exchanged for Trust Units on the basis of two common shares for one Trust Unit.

The chart below shows the ownership of the Fund, on a fully-diluted basis, after the initial consideration for the January 5, 2022 adjustment to the Royalty Pool but before the issuance of the excess exchangeable LP units that represent the remaining 20% of the initial consideration for the January 5, 2022 adjustment to the Royalty Pool that are payable in December 2022.

	Number of units	%
Units held by public unitholders	14,585,673	74.0
Limited Voting Units held by Food Services <sup>(1)</sup>	1,507,020	7.6
Number of Trust Units issuable upon exchange of securities of Trade Marks held by Food Services <sup>(2)</sup>	3,609,818	18.4
<b>Total equivalent units</b>	<b>19,702,511</b>	<b>100.0</b>

<sup>(3)</sup> Limited Voting Units in the Fund held by Food Services may be exchanged for Units on the basis of one Limited Voting Unit for one Unit.

<sup>(4)</sup> Common shares of Trade Marks held by Food Services may be exchanged for Trust Units on the basis of two common shares for one Trust Unit.

## 2021 Operating Results

### Revenue

Food Services' franchising and corporate restaurants revenue for 2021 was \$244,983,000 compared to \$201,892,000 for 2020. Annual franchising revenue in 2021 was \$226,574,000 compared to \$185,762,000 for 2020, an increase of \$40,812,000. The increase in franchising revenue is attributable to higher service fees, contributions to the National Advertising Fund and revenue related to the distribution of food and supplies as a result of the increase in Same Store Sales Growth – Franchised Restaurants as well as an increase in revenue for equipment sales and initial fees for new restaurants due to the increase in the number of restaurants opened in 2021, as compared to 2020.

Corporate restaurant System Sales were \$18,409,000 in 2021 compared to \$16,130,000 in 2020. The \$2,279,000 increase is due to the opening of a new corporate restaurant in the first quarter of 2021 and higher sales in freestanding corporate restaurants, partially offset by lost sales due to one corporate restaurant being closed for several months in 2021 while it was being relocated as well as a reduction in sales from the four corporate restaurants that are located in shopping centres.

### Operating costs and general and administrative expenses

Operating costs for 2021 were \$128,451,000 compared to \$104,586,000 for 2020, an increase of \$23,865,000. The increase is primarily attributable to increases in advertising expenses incurred by the National Advertising Fund, turnkey construction costs and costs of sales of equipment, all of which are in line with the increase in revenue noted above. Corporate restaurant operating expenses have also increased due to the new restaurant that opened in the first quarter of 2021.

General and administrative expenses represent costs of providing services to franchised restaurants and establishing new restaurants, and were \$40,451,000 for 2021 compared to \$33,924,000 for 2020, an increase of \$6,527,000. Operating costs and general and administrative expenses for 2021 are net of wage subsidies totaling \$1,325,000 (2020 - \$6,388,000) and rent subsidies totaling \$454,000 (2020 - \$nil). The reduction in wage subsidies in 2021 accounts for the majority of the year over year increase in general and administrative expenses. The remaining increase is largely attributable to higher employee compensation and employee related expenses due to inflation and an increase in the number of employees.

## Operating Earnings

(dollars in thousands)	52-week period ended Jan 2, 2022	53-week period ended Jan 3, 2021
Operating Earnings <sup>(i)</sup>	\$80,327	\$67,385

Operating Earnings<sup>(i)</sup> for 2021 increased by \$12,942,000 to \$80,327,000 as compared to \$67,385,000 for 2020. The increase in Operating Earnings is due to the increase in revenues, partially offset by the increase in operating costs and general and administrative expenses.

<sup>(i)</sup> “Operating Earnings” is a non-IFRS financial measure. Refer to the tables in the “Selected Information” section for a reconciliation of this measure to the most comparable IFRS measure and the “Non-IFRS Measures” section of this report for further details on how this measure is used to assess Food Services’ performance

### **Royalty expense**

Royalty expense for 2021 was \$47,022,000 compared to \$40,662,000 for 2020. The increase in royalty expense is attributable to the increase in Gross sales reported by A&W restaurants in the Royalty Pool which was driven by the increase in Royalty Pool Same Store Sales Growth and the gross sales from the additional net 23 new restaurants added to the Royalty Pool on January 5, 2021. See “Annual Adjustment to the Royalty Pool”. It is important to note that the royalty expense for 2021 and 2020 reported by Food Services differs in amount from the royalty income reported by the Fund as the Fund’s royalty income is based on Gross sales reported by A&W restaurants in the Royalty Pool from January 1, 2021 to December 31, 2021 (2020 – January 1, 2020 to December 31, 2020) whereas the royalty expense is based on Gross sales reported by A&W restaurants in the Royalty Pool from January 4, 2021 to January 2, 2022 (2020 – December 30, 2019 to January 3, 2021).

### **(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. Food Services has developed a risk matrix used to assess the credit risk of all head leases. Food Services recorded an expected credit loss provision on leases receivable of \$2,257,000 as at January 2, 2022 (January 3, 2021 – \$4,281,000). The \$2,024,000 year over year decrease in the provision has been recognized as a recovery of impairment of leases receivable in 2021 (2020 – loss of \$4,218,000).

## **Finance expense - net**

(dollars in thousands)	52-week period ended Jan 2, 2022	53-week period ended Jan 3, 2021
Net interest expense (income) on operating loan facility and cash	\$10	(\$50)
Standby fees	87	38
Interest on deferred royalties	-	184
Interest cost on supplementary retirement benefit plan	365	446
Interest on leases receivable	(21,901)	(21,229)
Interest on lease liabilities	22,633	21,948
Amortization of deferred financing fees	49	23
	<b>\$1,243</b>	<b>\$1,360</b>

Net interest expense decreased by \$117,000 in 2021 as compared to 2020 which is primarily due to the \$184,000 interest expense related to deferred royalties in 2020. In response to the onset of COVID-19, Food Services deferred royalty payments totaling \$7,448,000 payable to the Fund for the period from February 24, 2020 to May 17, 2020. As contemplated in the Amended and Restated Licence and Royalty Agreement, late payments of royalties accrue interest at the rate of 2% per annum over the prime rate. On December 3, 2020, Food Services paid the previously deferred royalty payments totaling \$7,448,000 plus accrued interest of \$184,000. The deferral of royalty payments in 2020 was unprecedented and Food Services did not defer any royalty payments during the year ended January 2, 2022.

### **Food Services' share of income from associates**

As a result of the annual adjustment to the Royalty Pool and the exchange rights granted under the Amended and Restated Declaration of Trust and the Amended and Restated Exchange Agreement, Food Services owns common shares of Trade Marks and as a result of Food Services exchanging common shares of Trade Marks for Limited Voting Units, Food Services also has direct ownership in the Fund. These investments are accounted for as investments in associates and are recorded using the equity method. As at January 2, 2022 Food Services had a 16.5% investment in Trade Marks (January 3, 2021 – 24.2%) and a 9.4% investment in the Fund (January 3, 2021 – n/a). Taken together, Food Services' ownership of exchangeable common shares of Trade Marks and Limited Voting Units equated to Food Services owning 24.3% of the total equivalent units of the Fund on a fully diluted basis as at January 2, 2022 (24.2% as at January 3, 2021).

Food Services' share of income from associates for 2021 totaled \$9,722,000 compared to \$7,183,000 for 2020. The increase is primarily attributable to an increase in the earnings of Trade Marks and the Fund due to higher royalty income due to the increase in Gross sales reported by A&W restaurants in the Royalty Pool.

## Net income

(dollars in thousands)	52-week period ended Jan 2, 2022	53-week period ended Jan 3, 2021
Operating Earnings <sup>(i)</sup>	\$80,327	\$67,385
Royalty expense	(47,022)	(40,662)
Recovery of (loss on) impairment of lease receivables	2,024	(4,281)
Finance expense – net	(1,243)	(1,360)
Depreciation of plant, equipment and right-of-use assets	(4,246)	(4,003)
Amortization of deferred gain	3,136	2,927
Gain on sale of Units of A&W Revenue Royalties Income Fund	2,670	-
Share of income from associates	9,722	7,183
Income before income taxes	45,368	27,189
Provision for income taxes	8,598	5,536
Net income for the period	\$36,770	\$21,653

The increase in income before income taxes and in net income is primarily attributable to the \$12,942,000 increase in Operating Earnings<sup>(i)</sup>, the \$6,305,000 decrease in the loss on impairment of lease receivables, the \$2,670,000 gain on sale of Units of A&W Revenue Royalties Income Fund and the \$2,539,000 increase in income from associates, partially offset by the \$6,360,000 increase in royalty expense. The \$3,062,000 increase in the provision for income taxes is attributable to the increase in income before income taxes which has increased for the reasons discussed.

<sup>(i)</sup> “Operating Earnings” is a non-IFRS financial measure. Refer to the tables in the “Selected Information” section for a reconciliation of this measure to the most comparable IFRS measure and the “Non-IFRS Measures” section of this report for further details on how this measure is used to assess Food Services’ performance

### 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 (loss) consists of actuarial gains and losses, net of tax, on the supplementary retirement benefit plan. Actuarial gains result from an increase in the discount rate used to determine the accrued benefit obligation and actuarial losses result from a decrease in the discount rate. There was an actuarial gain, net of tax, of \$542,000 recognized in 2021 (2020 – loss, net of tax, of \$892,000).

### Liquidity and Capital Resources

Food Services is primarily a franchise business with 1,019 of its 1,029 restaurants franchised. Food Services’ capital requirements are related to its corporate restaurants and head office and investments in technology and information systems. 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 April 23, 2021, Food Services increased its credit facility from \$25,000,000 to \$40,000,000 (January 3, 2021 - \$25,000,000) to fund working capital and for general corporate purposes. Consistent with the terms under the \$25,000,000 credit facility, amounts advanced under the \$40,000,000 facility bear interest at the bank prime rate plus 1.0% and are repayable on demand. The covenants, which remain unchanged from those of the \$25,000,000 credit facility, include the requirement to meet certain debt to earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA) ratios and debt to Food Services' investment in Trade Marks ratios during each trailing four quarter period. The amendment included a reduction to the number of common shares of Trade Marks that Food Services is required to pledge from 7,000,000 shares to 5,000,000 shares.

As at January 2, 2022, Food Services had not drawn on the credit facility and had \$nil (January 3, 2021 - \$36,000) in letters of credit that had been issued by the Bank to cities for development of new restaurants, leaving \$40,000,000 of the facility available (January 3, 2021 - \$24,964,000). Food Services was in compliance with all of its financial covenants as at February 15, 2022, January 2, 2022 and January 3, 2021.

In the second quarter of 2020, and shortly after the onset of COVID-19 in Canada, Food Services' shareholder invested \$10 million of common equity in the company to ensure sufficient liquidity during the period of uncertainty caused by COVID-19. In the second quarter of 2021, Food Services returned \$371,000 in capital to its shareholder.

In 2021 Food Services paid cash dividends of \$57,518,000 (2020 – \$6,811,000) to its shareholder of which \$49,195,000 related to the Reorganization transaction that occurred on April 16, 2021. The remaining cash dividends paid during the year of \$8,323,000 (January 3, 2021 – \$6,811,000) were paid from working capital and funded by the dividends and distributions Food Services received from Trade Marks and the Fund.

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

Food Services has no off-balance sheet arrangements.

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

Royalty expense for 2021 was \$47,022,000 (2020 – \$40,662,000), of which \$3,513,000 (January 3, 2021 – \$3,692,000) is payable to the Partnership by Food Services at January 2, 2022. In response to the onset of COVID-19, in 2021, Food Services deferred royalty payments payable to the Partnership for gross sales reported by restaurants in the royalty pool for the period from February 24, 2020 to May 17, 2020. As contemplated in the Amended and Restated Licence and Royalty Agreement, late payments of royalties accrue interest at the rate of 2% per annum over the prime rate. On December 3, 2020, Food Services paid the previously deferred royalty payments totaling \$7,448,000 plus accrued interest of \$184,000. The deferral of royalty payments in 2020 was unprecedented and Food Services did not defer any royalty payments in 2021.

In 2021, Trade Marks declared and paid dividends of \$6,258,000 (2020 –\$6,811,000) to Food Services.

In 2021, the Fund declared distributions of \$2,065,000 (2020 –n/a) payable to Food Services as a result of Food Services’ ownership of Limited Voting Units. The \$234,000 distribution declared on December 9, 2021 was paid to Food Services subsequent to the period end on January 31, 2022 is reported as a current asset as at January 2, 2022 (January 3, 2021 – n/a).

In 2021, Food Services recognized \$40,000 (2020 - \$ nil) as an offset to general and administrative expenses as a result of administrative and advisory services provided to Trade Marks, all of which is reported in accounts receivable as at January 2, 2022 (January 3, 2021 - \$nil).

In 2021, Food Services paid \$115,000 (2020 – \$125,000) to a professional baseball club, of which a director of Food Services is a part owner, in exchange for advertising the A&W brand at the ballpark and tickets to the baseball games. At January 2, 2022, \$nil (January 3, 2021 – \$nil) is payable to the baseball club by Food Services.

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

### **Critical Accounting Estimates**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. It is reasonably possible that circumstances may arise that would cause actual results to differ from management estimates; however, management does not believe it is likely that such differences will materially affect Food Services’ financial position. Significant areas requiring the use of management estimates and judgements are investments in associates, supplementary retirement benefit plan, deferred income taxes and leases receivable. The supplementary retirement benefit plan and deferred income taxes are not “critical accounting estimates” as (i) they do not require Food Services to make assumptions about matters that are highly uncertain at the time the estimate is made, and (ii) different estimates that could have been used, or changes in the accounting estimates that are reasonably likely to occur from period to period, would not have had a material impact on Food Services’ financial condition, changes in financial condition or financial performance.

### **Risks and Uncertainties**

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

Since March 2020, the COVID-19 pandemic has had significant impacts on the Canadian economy, the QSR industry, and the willingness of the general public to dine outside their homes and travel. These have negatively impacted Food Services, its franchisees and the Fund (including Trade Marks and the Partnership), and have adversely affected each of their respective investments, results of operations and financial condition. Restrictions on the operations of A&W restaurants in response to COVID-19, as well as temporary restaurant closures and vaccine passport mandates, continued to impact System Sales at A&W restaurants in 2021. System Sales drive the fees payable to Food Services by its franchisees and the amount of royalties payable to the Fund (through the Partnership), and correspondingly, the 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. 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. Monthly distributions on Trust Units are not guaranteed and may be reduced, suspended or terminated at any time. Recent sales improvements A&W restaurants may not continue and may slow or regress. A&W restaurant 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 that have been helpful to A&W franchisees are winding down and are expected to eventually cease and may not be available to some franchisees, and may not be available in amounts expected for those franchisees.

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

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

Information regarding the other risks and uncertainties applicable to the business operations of Food Services and the Fund 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 to the Directors of Food Services and the Trustees, or that are currently not considered to be material may also impair the Food Service's and the Fund's business operations. If any of the risks actually occur, Food Services' and the Fund's business, results of operations and financial condition, could be adversely affected.

## **Outlook**

Food Services believes that the food service industry, and more particularly the quick service restaurant (QSR) segment of the industry, will recover from the impact of COVID-19. However, the timing and strength of the recovery cannot yet be predicted with any degree of certainty. Against this backdrop, the success of the A&W brand and individual franchised A&W restaurants is paramount to the long-term success of the overall A&W system and, in turn, to the Fund. Both Food Services and its franchisees have worked diligently to develop and implement plans and programs to mitigate the effects of the COVID-19 pandemic. Food Services' objective is to ensure that A&W's 1,029 restaurants (as at January 2, 2022) are able to safely operate (as permitted by health authorities and government regulations mandated from time

to time) and have the ability to emerge from this period of uncertainty in a financial condition that enables them to compete effectively and grow their businesses.

Food Services believes that its mission “To become #1 with millennial burger lovers, chosen and trusted for truly good food and the convenience they crave” will help it to continue 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 launched an initiative to focus on natural ingredients and became the first and only national burger chain in Canada to serve beef raised without artificial hormones or steroids. This was then followed by the introduction of countless other natural ingredient firsts; including chicken raised without the use of antibiotics, Organic Fairtrade coffee, bacon from pork raised without the use of antibiotics, real cheese on all burgers and breakfast sandwiches, and A&W Root Beer served in restaurants made from natural cane sugar and all-natural flavours.

In 2018, A&W further strengthened its positioning as a leader in food and innovation with the introduction of the Beyond Meat<sup>(1)</sup> branded plant-based burger. Food Services was very excited to be the first national burger chain in Canada to offer burger lovers across Canada this burger patty made using 100% plant-based protein with peas, rice, mung beans, coconut oil, pomegranates, potatoes, apples and beets. A&W continues to enhance its position as a leader in great tasting plant-based options with regular introductions of new recipes and products to its plant-based line-up, including a limited time offer of Beyond Meat Nuggets in 2021.

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

In 2020, A&W announced that all of its beef is grass-fed and grass-finished, from cattle that graze on grass and other forage, like hay.

A&W continues to innovate to serve the increasing number of guests that are mobile app users and offered its mobile app users unlimited free coffee for the month of March 2021 through a trial of the A&W ‘Sipscription’, a coffee subscription program. On April 1, 2021 Food Services announced that it is expanding the beverage offerings at A&W restaurants with the phased rollout of the A&W Brew Bar<sup>TM</sup>. The A&W Brew Bar offers a variety of frozen beverages as well as hot and cold espresso-based beverages. The A&W Brew Bar is now available in over 110 A&W restaurants across the country.

<sup>TM</sup> trademark of the Partnership, used under license.

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

Food Services has continued to grow new A&W restaurants, particularly in the key Ontario and Quebec markets. In the 52 weeks ended January 2, 2022 Food Services opened thirty four restaurants, fourteen of

which opened in the fourth quarter, and an additional eleven restaurants were under construction as at January 2, 2022.

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

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

On October 25, 2021 Food Services announced that it had entered into a non-binding term sheet reflecting an agreement in principle (the "Agreement") with UK-based Pret A Manger (Europe) Limited ("Pret"), which sets forth the general terms and conditions of a proposed Country Agreement with Pret that would grant Food Services master franchisor rights to Canada (the "Country Agreement").

Pursuant to the Agreement, Food Services will be granted the exclusive right to use the Pret brand in Canada for a two-year pilot (the "Trial Phase") during which Food Services will introduce the Pret brand within A&W restaurants in select markets in Canada. If the Trial Phase is successful, Food Services will have the exclusive right to expand the Pret brand across Canada (the "Expansion Phase") pursuant to an agreed development plan. The proposed exclusive Canadian rights to be granted to Food Services during both the Trial Phase and Expansion Phase remains subject to the negotiation and completion of the definitive Country Agreement, which is subject to Board approval.

The royalty payable to the Fund will apply to Pret products sold within A&W restaurants during the Trial Phase to the extent that such restaurants are in the Royalty Pool. Should the Trial Phase prove successful, the Royalty will also be earned by the Fund on the sales of any Pret products made within A&W restaurants thereafter.

## **FORWARD LOOKING INFORMATION**

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

The forward-looking information in this report includes, but is not limited to; the expectation that the Trustees will continue to review distribution levels on a regular basis and that any change in monthly distributions will be implemented with a view to maintain the continuity of uniform monthly distributions; expectations regarding Canada being on the road to recovery from COVID-19; the impact of COVID-19, including its impact on the global economy in general and on the businesses of Food Services and A&W franchisees in particular; statements with respect to government restrictions on business operations, and in particular restaurants; statements regarding the extent to which the COVID-19 pandemic will alter consumer behaviour and demand for QSR services; expectations regarding improvements in sales trends at

A&W restaurants; statements regarding the duration of various government support programs; Food Services' expectation that the food service industry, and more particularly the QSR segment, will recover; the success of the A&W brand and individual franchised restaurants being paramount to the long-term success of the overall A&W system and, in turn, to the unitholders of the Fund; Food Services' objectives with respect to the A&W restaurants and its planned strategies to achieve those objectives; statements regarding future restrictions on the operations of A&W restaurants as well as temporary restaurant closures and the corresponding reductions to the amounts of royalties payable to and earned by the Fund, as well as funds available to distribute to unitholders of the Fund; 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; 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 become #1 with millennial burger lovers, chosen and trusted for truly good food and the convenience they crave" will help it to continue to rebound from the impact of COVID-19; Food Services' belief that strategic initiatives will be key to delivering strong results and improved market share as the QSR industry and the QSR burger market resume growth; growth of new locations, industry leading innovation, a safe and stable supply chain, and continued efforts to consistently deliver great food and a better guest experience are all expected to contribute to building loyalty and enhancing performance over the long term; the expectation that Food Services will open Pret locations and that the Fund will earn royalty income from the sale of Pret products; the expectation that the Trial Phase will be successful and that Food Services will expand the Pret brand across Canada; and Food Services remaining committed to the long-term health and success of its franchise network and the Fund.

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

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

- Trade Marks can continue to comply with its obligations and covenants under its credit arrangements;
- current store closures will be temporary and restaurant performance will continue to improve;
- the Fund will receive sufficient revenue in the future (in the form of royalty payments from Food Services) to maintain the payment of monthly distributions;
- the projections for the A&W business provided by Food Services are accurate;
- the impacts of the COVID-19 pandemic on the A&W system will not significantly worsen; and
- Food Services will be successful in executing on its business strategies and such strategies will achieve their intended results.

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

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

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

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

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

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