A&W Food Services of Canada Inc.
Report to Unitholders of A&W Revenue Royalties Income Fund
December 29, 2014 to January 3, 2016

This report and the audited annual consolidated financial statements of A&W Food Services of Canada Inc. (A&W or Food Services) for the 53 weeks ended January 3, 2016 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, 2015. This report is dated February 5, 2016 and should be read in conjunction with the audited annual consolidated financial statements of Food Services for the 53 weeks ended January 3, 2016. 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 2015 year was 53 weeks and ended January 3, 2016 (2014 – 52 weeks ended December 28, 2014). System sales, system sales growth and same store sales growth are reported for the 16 weeks and 52 weeks ended December 27, 2015 in order to be comparable to the prior year.

The financial results 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 principal accounting policies adopted in the preparation of the annual audited consolidated financial statements and this report have been consistently applied to all years presented unless otherwise stated.

Financial Highlights

(dollars in thousands)	53 week period ended Jan 3, 2016	52 week period ended Dec 28, 2014
System sales	**$1,093,397**	$985,619
System sales growth	**10.9%**	10.6%
Same store sales growth[(1)]	**+7.6%**	+6.3%
New restaurants opened	**32**	37
Restaurants closed	**9**	8
Number of restaurants	**854**	831
Franchising & corporate restaurant revenue	**$117,632**	$104,232
Operating costs and general and administrative expenses	**(76,585)**	(67,507)
Depreciation of plant and equipment	**1,812**	1,610
Earnings before royalty expense, share of Trade Marks' earnings, interest, taxes, depreciation and amortization	**$42,859**	$38,335
Royalty expense	**(32,249)**	(28,612)
Net income	**$11,253**	$9,225

(1) System sales, system sales growth and same store sales growth are reported for the 52 weeks ended December 27, 2015 in order to be comparable to the prior year. Same store sales growth does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

Same Store Sales

Same store sales growth is the change in sales of A&W restaurants that operated during the entire 13 4-week periods of both the current and the prior year.

Same store sales for the fourth quarter of 2015 grew by 5.3% as compared to the same quarter of 2014. Annual same store sales growth for 2015 was 7.6% which brings the 2014 and 2015 two year stacked same store sales growth to +13.9%. These strong sales results reflect the continued positive guest response to A&W's ingredients guarantee of beef raised without the use of hormones or steroids, eggs from hens fed only a vegetarian diet without animal by-products and chicken raised without the use of antibiotics.

System Sales

System sales grew 8.4% for the quarter and 10.9% for the full year. For the 16 weeks ended December 27, 2015, total system sales for all A&W restaurants in Canada were $350,662,000, an increase of $27,176,000 from the 16 weeks ended December 28, 2014. System sales for the 52 weeks ended December 27, 2015 were $1,093,397,000, an increase of $107,778,000 from the 52 weeks ended December 28, 2014. System sales surpassed $1 billion for the first time in 2015. The increase in system sales was due to the same store sales growth plus the increase in the number of restaurants from 831 at the end of 2014 to 854 at the end of the 2015.

New Restaurant Openings and Restaurant Closures

Food Services opened 32 new A&W restaurants during 2015 compared to 37 in 2014. Nine restaurants were closed in 2015 compared to eight closures in 2014. As at January 3, 2016, there were 854 A&W restaurants in Canada, of which 845 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 sales reported by specific A&W restaurants in Canada (the Royalty Pool).

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 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 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 2015 adjustment to the Royalty Pool took place on January 5, 2015. The number of A&W restaurants in the Royalty Pool was increased by 32 new restaurants less eight restaurants that permanently closed during 2014. The addition of these 24 net new restaurants brought the total number of A&W restaurants in the Royalty Pool to 814. The estimated annual sales of the 32 new A&W restaurants were $32,971,000 and annual sales for the eight permanently closed restaurants were $5,171,000. The initial consideration for the estimated additional royalty stream was $11,405,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on units of the Fund for the 20 trading days ending October 27, 2014. The yield was adjusted to reflect income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration ($9,124,000) by issuance of 369,558 LP units which were subsequently exchanged for 739,116 non-voting common shares of Trade Marks.

The final adjustment to the number of LP units issued was made on December 14, 2015 based on the actual annual sales reported by the new A&W restaurants of $38,226,000 compared to the original estimate of $32,971,000. As a result, $2,281,000 representing the remaining 20% of the initial consideration and additional consideration of $2,190,000 was paid to Food Services by issuance of 181,101 additional LP units, which were exchanged for 362,202 non-voting common shares of Trade Marks.

Subsequent to January 3, 2016, the 2016 adjustment to the Royalty Pool took place on January 5, 2016. The number of A&W restaurants in the Royalty Pool was increased by 32 new restaurants less eight restaurants that permanently closed during 2015. The addition of these 24 net new restaurants brings the total number of A&W restaurants in the Royalty Pool to 838. The estimated annual sales of the 32 new A&W restaurants are $41,502,000 and annual sales for the eight permanently closed restaurants were $3,905,000. The initial consideration for the estimated additional royalty stream was $16,079,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on units of the Fund for the 20 trading days ending October 26, 2015. The yield was adjusted to reflect income tax payable by Trade Marks. The Partnership paid Food Services 80% of the initial consideration or $12,863,000 by issuance of 489,847 LP units which were subsequently exchanged for 979,694 non-voting common shares of Trade Marks. The remaining 20% of the consideration or $3,216,000 will be paid in December 2016 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 2016 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, 2016 adjustment to the Royalty Pool, Food Services' indirect interest in the Fund increased to 21.0%.

Common Shares of A&W Trade Marks Inc.

The ownership of common shares of Trade Marks is 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, 2013	24,262,671	114,680	89.1	2,961,009	19,862	10.9	27,223,680	134,542
January 5, 2014 adjustment to the Royalty Pool(1)	-	-	(4.4)	1,415,660	15,636	4.4	1,415,660	15,636
Balance as at December 28, 2014	24,262,671	114,680	84.7	4,376,669	35,498	15.3	28,639,340	150,178
January 5, 2015 adjustment to the Royalty Pool(1)	-	-	(3.1)	1,101,318	13,595	3.1	1,101,318	13,595
Balance as at January 3, 2016	24,262,671	114,680	81.6	5,477,987	49,093	18.4	29,740,658	163,773

(1) The number of common shares and consideration for the January 5, 2015 adjustment to the Royalty Pool includes the 181,101 LP units exchanged for 362,202 common shares of Trade Marks representing the final consideration paid in December 2015. The number of common shares and consideration for the January 5, 2014 adjustment to the Royalty Pool includes the 210,490 LP units exchanged for 420,980 common shares of Trade Marks representing the final consideration paid in December 2014.

Ownership of the Fund

The ownership of the Fund, on a fully-diluted basis, is as follows:

	January 3, 2016		December 28, 2014	
	Number of units	**%**	**Number of units**	**%**
Fund units held by public unitholders	12,131,373	81.6	12,131,373	84.7
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services(1)(2)	2,738,994	18.4	2,188,335	15.3
Total equivalent units	14,870,367	100.0	14,319,708	100.0

(1) The number of Fund units issuable to Food Services includes the 181,101 LP units exchanged for 362,202 common shares of Trade Marks representing the final consideration paid in December 2015 for the January 5, 2015 adjustment to the Royalty Pool.

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

The chart below shows the ownership of the Fund, on a fully-diluted basis, after the initial consideration was paid for the January 5, 2016 adjustment to the Royalty Pool.

	Number of units	**%**
Fund units held by public unitholders	12,131,373	79.0
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services	3,228,841	21.0
Total equivalent units	15,360,214	100.0

The chart below shows the ownership of the Fund, on a fully-diluted basis, when the remaining 20% of the consideration for the January 5, 2016 adjustment to the Royalty Pool is expected to be paid in December 2016, by issuance of 122,462 LP units exchangeable for 244,924 common shares of Trade Marks. The actual amount of the consideration paid in December 2016 may differ from this amount depending on the actual annual sales reported by the new A&W restaurants.

	Number of units	**%**
Fund units held by public unitholders	12,131,373	78.4
Number of Fund units issuable upon exchange of securities of Trade Marks held by Food Services	3,351,303	21.6
Total equivalent units	15,482,676	100.0

2015 Operating Results

Revenue

Food Services' franchising and corporate revenue for 2015 was $117,632,000 compared to $104,232,000 for 2014, an increase of $13,400,000. 2015 franchising revenue was $103,883,000 compared to $93,948,000 for the prior year, an increase of $9,935,000. Revenue generated by the system sales growth increased by $7,233,000 and revenue from the re-image program and equipment sales to existing new restaurants increased by $3,601,000. Offsetting this was an $899,000 decrease in construction, equipment and other revenue from opening new restaurants, as 32 new restaurants opened in 2015 compared to 37 new restaurants in 2014. Corporate restaurant sales in 2015 were $13,749,000 compared to $10,284,000 in 2014. Same store sales growth in the corporately owned and operated restaurants was in line with national same store sales growth. In addition, a new corporate restaurant was opened in Ottawa in late 2014, and two additional restaurants are currently being operated corporately until they are refranchised.

Operating costs and general and administrative expenses

Operating costs for 2015 were $46,068,000 compared to $40,371,000 in 2014, an increase of $5,697,000. Costs of food and packaging increased by $3,558,000 in line with the increase in corporate restaurant sales and franchising revenue generated by the system sales growth noted above. Costs of equipment for existing restaurants increased by $3,262,000. Construction and equipment costs for new restaurants decreased by $1,123,000 in 2015 compared to 2014, in line with the decrease in revenue and number of new restaurants noted above.

General and administrative expenses represent costs of providing services to franchised restaurants and establishing new restaurants, and were $30,517,000 in 2015 compared to $27,136,000 for 2014. The increase in the year was due to inflationary increases and investments in strategic initiatives.

Operating earnings

(dollars in thousands)	**53 week period ended Jan 3, 2016**	52 week period ended Dec 28, 2014
Franchising & corporate restaurant revenue	**$117,632**	$104,232
Operating costs and general and administrative expenses	**(76,585)**	(67,507)
Depreciation of plant and equipment	**1,812**	1,610
Operating earnings (earnings before royalty expense, share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	**$42,859**	$38,335

Operating earnings (earnings before royalty expense, Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) increased by $4,524,000 to $42,859,000 for 2015 compared to $38,335,000 for 2014. The 2015 operating margin remained consistent at 36.4% compared to 36.8% for 2014.

Royalty expense

Royalty expense for 2015 increased by $3,637,000 to $32,249,000 compared to $28,612,000 for 2014. The increase in royalty expense resulted from the additional net 24 restaurants in the Royalty Pool and the same store sales growth of restaurants in the Royalty Pool.

Earnings after royalty expense

(dollars in thousands)	**53 week period ended Jan 3, 2016**	52 week period ended Dec 28, 2014
Operating earnings	**$42,859**	$38,335
Royalty expense	**(32,249)**	(28,612)
Earnings after royalty expense (before share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	**$10,610**	$9,723

Earnings after royalty expense (but before Food Services' share of income from Trade Marks, interest, taxes, depreciation and amortization) increased by $887,000 to $10,610,000 for 2015 compared to $9,723,000 for 2014. The $887,000 increase was comprised of the $4,524,000 increase in operating earnings, offset by the $3,637,000 increase in royalty expense related to same store sales growth of restaurants in the Royalty Pool.

Finance expense - net

(dollars in thousands)	**53 week period ended Jan 3, 2016**	52 week period ended Dec 28, 2014
Interest income	**($85)**	($106)
Interest cost on supplementary retirement benefit plan	**531**	527
Finance leases	**140**	128
	$586	$549

Food Services' share of Trade Marks' income

Food Services' share of Trade Marks' income for 2015 increased by $1,324,000 to $3,923,000 compared to $2,599,000 for 2014. Trade Marks' 2015 net income was higher than the prior year due to the growth in royalty income and a lower non-cash loss on interest rate swaps in 2015 as compared to 2014. In addition, Food Services' ownership in Trade Marks increased from 15.3% as at the end of 2014 to 18.4% as at the end of 2015.

Net income

(dollars in thousands)	**53 week period ended Jan 3, 2016**	52 week period ended Dec 28, 2014
Earnings after royalty expense (before share of Trade Marks' earnings, interest, taxes, depreciation and amortization)	**$10,610**	$9,723
Finance expense	**(586)**	(549)
Depreciation of plant and equipment	**(1,812)**	(1,610)
Amortization of deferred gain	**1,416**	1,258
Share of income from A&W Trade Marks Inc.	**3,923**	2,599
Earnings before income taxes	**13,551**	11,421
Provision for income taxes	**(2,298)**	(2,196)
Net income	**$11,253**	$9,225

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 (loss) consists of actuarial gains or 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; actuarial losses results from a decrease in the discount rate. The actuarial loss net of tax was $157,000 for 2015 compared to $1,461,000 for 2014.

Liquidity and Capital Resources

Food Services is primarily a franchise business with 845 of its 854 restaurants franchised. Food Services has minimal capital requirements related to its corporate restaurants and head office. Future restaurant growth will continue to be funded by franchisees although in 2014, Food Services incurred capital expenditures to open a new corporate restaurant in the Ottawa market. Food Services expects to have sufficient capital resources to fund the expansion of corporate restaurants and has no long term debt obligations. Food Services has sufficient cash on hand to meet its obligations and has a $5,000,000 demand operating loan facility with HSBC Bank Canada (the Bank) to fund its working capital requirements and for general corporate purposes.

Amounts advanced under the facility bear interest at the bank prime rate plus 0.5% and are repayable on demand. Food Services has provided 2,000,000 common shares of Trade Marks as collateral. As at January 3, 2016, letters of credit totalling $25,000 (December 28, 2014 - $407,000) have been issued by the Bank on behalf of Food Services to landlords and cities for development of new restaurants, leaving $4,975,000 (December 28, 2014 - $4,593,000) of the facility available.

Off-Balance Sheet Arrangements

Food Services has no off-balance sheet arrangements.

Related Party Transactions and Balances

Royalty expense for the year was $32,249,000 (2014 - $28,612,000), of which $3,062,000 (2014 - $2,381,000) is payable to the Partnership by Food Services at January 3, 2016.

During the year, dividends of $3,944,000 (2014 - $2,802,000) were received from Trade Marks. The dividends received in 2015 include special dividends of $238,000 representing the dividends that Food Services would have received on the 362,202 non-voting common shares of Trade Marks issued to Food Services on December 14, 2015 in relation to the final consideration for the January 5, 2015 adjustment to the Royalty Pool, had they been issued on January 5, 2015.

During the year, Food Services contracted with a private company controlled by a shareholder, director and officer of Food Services, for rental of a private plane and crew for business travel. The cost of the services provided under the contract during the year totalled $402,000 (2014 - $185,000). At January 3, 2016, $nil (2014- $nil) is payable to the private company by Food Services.

During the year, Food Services paid $100,000 (2014 - $100,000) to a professional baseball club, of which a shareholder, director and officer of Food Services is a part owner, in exchange for advertising the A&W brand at the ballpark. At January 3, 2016, $nil (2014 - $nil) is payable to the baseball club by Food Services.

Food Services maintains an advertising fund that is supported by prescribed contributions from corporate and franchise restaurants. The advertising fund paid $545,000 (2014 - $611,000) to Food Services during the year for marketing, promotional and administrative services provided to the advertising fund. At January 3, 2016, the advertising fund had a surplus balance of $85,000 which is included in accounts payable (2014 - $437,000 surplus included in accounts payable).

Other related party transactions and balances are referred to elsewhere in this report.

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 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.

Adoption of New Accounting Standards

International Accounting Standards (IAS) 24, *Related Party,* has been amended to (i) revise the definition of "related party" to include an entity that provides key management personnel services to the reporting entity or its parent, and (ii) clarify related disclosure requirements. This amendment is effective for fiscal years beginning on or after July 1, 2014. The adoption of this standard did not have a material impact on Food Services' consolidated financial statements.

New Accounting Standards and Interpretations Not Yet Adopted

IFRS 16, *Leases*, replaces the current guidance in IAS 17 and is effective for periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15, *Revenue from Contracts with Customers*, is also applied. The standard requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts. For lessors, the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts). Food Services is currently reviewing the impact of the adoption of this standard and has yet to determine if it will have a material impact on the consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers*, converges standards from the IASB and the Financial Accounting Standards Board (FASB) on revenue recognition. The standard is effective for periods beginning on or after January 1, 2018. The standard will improve the financial reporting of revenue and improve comparability of the top line financial statements globally. Food Services is currently reviewing the impact of the adoption of this standard and has yet to determine if it will have a material impact on the consolidated financial statements.

IFRS 9, *Financial Instruments*, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010 and is effective for periods beginning on or after January 1, 2018. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. Food Services has yet to assess IFRS 9's full impact and will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB. Food Services does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on Food Services.

Risks and Uncertainties

The success of Food Services is dependent on the ability of Food Services to (i) grow same store sales, (ii) maintain and grow the current system of franchises, (iii) locate new retail sites in prime locations and (iv) obtain qualified operators to become A&W franchisees. Sales are subject to a number of factors that affect the restaurant industry generally and the quick service segment of this industry in particular, including the highly competitive nature of the industry, traffic patterns, demographic considerations, and the type, number and proximity of competing quick service restaurants. Any significant event that adversely affects consumption of quick service food and beverages, such as increased food and labour costs, changing tastes or health concerns, inflation, publicity from any food borne illness, government regulations concerning menu labelling or disclosure and drive-thru restrictions could adversely impact the sales of A&W restaurants and consequently, the amount of the royalty payable to the Partnership. Economic conditions, unemployment, changes in disposable consumer income, and a disease outbreak, could adversely impact consumer visits to restaurants, and consequently sales in A&W restaurants and royalty income for the Partnership. Any significant event that adversely impacts traffic to shopping centres, including closures of “anchor” stores, could adversely impact the sales of A&W restaurants in those shopping centres and consequently, the amount of the royalty payable to the Partnership.

The introduction of sales taxes upon sales by restaurants could negatively impact sales at A&W restaurants. In addition, an increase in sales taxes on sales by restaurants could adversely affect sales at A&W restaurants.

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

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

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

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

Food Services and A&W franchisees may be the subject of complaints or litigation from guests alleging food-related illnesses, injuries suffered on the premises or other food quality, health or operational concerns. Adverse publicity resulting from such allegations or from public health inspection reports may materially affect the sales of A&W restaurants, regardless of whether such allegations are true or whether Food Services or an A&W franchisee is ultimately held liable.

Outlook

Food Services is a strategy driven company with initiatives in place aimed at growing market share in the quick service restaurants (QSR) burger market. These initiatives include repositioning and differentiating A&W in the QSR industry through its use of natural ingredients, accelerating new restaurant growth, and delivering an industry leading guest experience. The continued positive sales performance is a result of these initiatives, coupled with television and on-line advertising campaigns which continue to perform well.

A&W's mission is "to delight time-crunched Canadian burger lovers with the joy of great tasting natural food, made by people they trust."

Work on differentiating A&W through the use of "better ingredients" began in 2013, when Food Services became the first major QSR chain to use only beef raised without the use of hormones and steroids. The following year, Food Services began to serve only chicken raised without the use of antibiotics. As chicken is one of the fastest growing segments of the QSR industry, this move was a key element in Food Services' strategy to accelerate growth. Also in 2014, Food Services enhanced its breakfast menu by moving to eggs from hens fed only a vegetarian diet without animal by-products. Breakfast was further supported by the launch in January 2015 of organic and Fair Trade coffee, another first for a major chain.

Menu innovation continued in 2015 with limited time offers like the Peppered Bacon and Maple Chipotle Mama, Papa and Grandpa Burgers, the Sriracha Teen Burger and Sriracha Bacon & Egger, and the Mushroom Mozza Burger and Mushroom Mozza Chicken Grill. The Bacon Ranch Chubby Chicken Wrap was added to the menu as a permanent menu item. All of these menu items were very well received by Food Services' guests.

Food Services' second strategic initiative is accelerating the pace of growth of new A&W restaurants, particularly in the key Ontario and Quebec markets. Thirty two new A&W restaurants were opened across the country in 2015, following 37 new restaurants opened in each of 2013 and 2014.

A third strategic initiative of Food Services is to deliver a great guest experience. This initiative includes the ongoing re-imaging and modernizing of our existing restaurants, and innovation in equipment, operating systems and technology. 65% of A&W's existing restaurants have completed the re-image to the new design. Including the new restaurants opened in the new design since the beginning of the re-image program, over 600 A&W restaurants now have the new design. Costs of re-imaging franchised A&W restaurants are borne by the franchisees and there is no cost to Food Services or the Fund.

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 receivable on adjustments to the Royalty Pool; Food Services' plans to reposition and differentiate A&W in the QSR industry through its use of natural ingredients, accelerating new restaurant growth, and delivering an industry leading guest experience; Food Services expects to have sufficient capital resources to fund the expansion of corporate restaurants.

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

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: general risks that affect the restaurant industry including changes in the availability of experienced management and hourly employees and changes in government regulations concerning menu labelling and disclosure and drive-thru restrictions; publicity from any food-borne illness; competition; changes in the quick service restaurant burger market including as a result of changes in consumer taste and health concerns and changes in economic conditions and unemployment and a disease outbreak; increases in food and labour costs; dependence on the availability and quality of raw materials; dependence on additional franchise sales and franchise operations; Food Services' ability to grow same store sales; Food Services' ability to maintain and grow the current system of franchises; Food Services' ability to locate new retail sites in prime locations; Food Services' ability to obtain qualified operators to become A&W franchisees; the closure of A&W restaurants may affect the amount of the Royalty; changes in traffic patterns at shopping centres; dependence on certain suppliers; dependence on A&W franchisees' ability to pay franchise fees and other amounts; the impact of new or increased sales taxes upon gross sales; dependence on key personnel; dependence on intellectual property; potential litigation from guests alleging food-related illness, injuries suffered on the premises or other food quality, health or operations concerns; dependence of the Fund on Trade Marks, the Partnership and Food Services; dependence of the Partnership on Food Services; risks related to leverage and restrictive covenants; the risk that cash distributions are not guaranteed and will fluctuate with the Partnership's performance; risks relating to the nature of units; risks relating to the distribution of securities on redemption or termination of the Fund; the Fund may issue additional units diluting existing unitholders' interests; and income tax matters, all as more particularly described in this report under the heading "Risks and Uncertainties" and in the Fund's Annual Information Form under the heading "Risk Factors".

All forward-looking information in this 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.