A&W Revenue Royalties Income Fund

2004

ANNUAL REPORT

Legacy of Trust

About the A&W Revenue Royalties Income Fund

The A&W Revenue Royalties Income Fund owns the A&W trade-marks, which include some of the strongest brand names in the Canadian foodservice industry. It licences these trade-marks to A&W Food Services of Canada Inc. in exchange for a royalty of 3% of the gross sales of 620 A&W restaurants across Canada.

This structure makes the A&W Revenue Royalties Income Fund a "top-line" fund because income is based solely on the gross sales of A&W restaurants, minus the Fund's minimal operating expenses. As a result, the Fund is not subject to the variability of earnings or expenses associated with an operating business.

A&W's Climate Goals

Listening – We pay sincere attention and actively listen to each other and our customers. Feelings are real and accepted as facts.

Trust – We believe each other, have confidence in each other and rely on each other as friends.

Self Responsibility – I care for myself by taking responsibility for and being proud of my own growth, my relationship with others and my achievements.

Appreciation – I feel cared for by my friends. They recognize, support and appreciate me.

Teams – Our talent is unleashed through teams focused on developing and achieving shared goals.

Getting Better – We act quickly on what we learn from our customers.

Being Extraordinary – I act courageously, quickly and at times "unreasonably" to create the future. I am committed to being extraordinary.

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Performance at a Glance: Fiscal 2004

"The A&W restaurants enjoyed a strong year in terms of sales growth in 2004, resulting in strong revenues and increases in distributable cash. The Fund is poised for continuing strong performance in 2005."

John R. McLernon, Chairman
A&W Revenue Royalties Income Fund

Financial Highlights

(dollars in thousands)

	Year ended December 31, 2004	Year ended December 31, 2003
Same store sales growth	3.9%	1.8%
Number of restaurants in the royalty pool	620	604
Gross sales reported by the restaurants in the royalty pool	$ 494,321	$ 455,971
Royalty income	$ 14,830	$ 13,679
Net earnings for the period	$ 8,383	$ 7,859

Financial Achievements

- A&W's same store sales performance continued to accelerate, achieving an increase of 3.9% for the year.
- $526,000 of excess distributable cash generated, resulting in surplus distributable cash of $269,000 at end of year.
- From inception in February 2002 through December 2004, the Fund made its projected distributions to unitholders of 9 cents per month.

Operational Achievements

- New television advertising campaign and Cruise Nights have been successful in strengthening A&W's bond with baby boomers, and building sales.
- Menu initiatives included building A&W's breakfast business and reintroducing A&W Root Beer Floats.
- Restaurant re-imaging program continuing with over 170 restaurants re-imaged.

Chairman's Report to Unitholders

I am very pleased to present the 2004 Annual Report for the A&W Revenue Royalties Income Fund (the Fund). 2004 was an excellent year for the Fund, as the A&W business enjoyed success on all fronts, resulting in strong growth in both revenues and distributable cash for unitholders.

The Fund owns the A&W trade-marks and licences A&W Food Services of Canada Inc. (Food Services) to franchise and operate A&W restaurants under those trade-marks. In exchange, the Fund receives a royalty of 3% of the top line sales of the A&W restaurants in the royalty pool. In January 2004, the number of restaurants in the pool was increased to 620 to include the new restaurants opened during 2003. In January 2005, the pool was further increased to 638 to include restaurants opened in 2004.

One of the principal drivers of success for the Fund is growth in same store sales for the restaurants. During 2004, the A&W restaurants in the royalty pool enjoyed a same store sales growth of 3.9%. This is the strongest performance since the inception of the Fund in February 2002, and builds on the momentum established in 2003. The report which follows from Paul Hollands, President and CEO of Food Services, outlines the key initiatives and programs which have driven this growth.

A key factor in the growth was the improved conditions in the overall Canadian foodservice industry. Foodservice sales in Canada rebounded in 2004, following two very difficult years for the industry, when growth was at the lowest level in over a decade.

As a result of the increase in the same store sales, coupled with the increase in the size of the royalty pool, revenues in the Fund grew to $14,830,000, an increase of 8.4%. More importantly, distributable cash increased by 10.2% to $13,559,000. A key component in growing distributable cash was our effort to reduce the costs associated with the operation of the Fund. While the Fund has no direct employees, it does have costs associated with its administration. During 2004, due to careful management, these costs were reduced by $97,000, or the equivalent of just less than 1 cent per fully diluted unit. We are committed to creating the maximum possible value for our unitholders and I believe this is tangible evidence of our commitment.

As a result of this continued strong performance, the Fund achieved its target distribution of $1.08 per unit, and has now delivered 9 cents per unit every single month since its inception. In 2004, the Fund generated $526,000 of distributable cash in excess of its 2004 distributions and finished the year with surplus distributable cash of $269,000, setting the groundwork for future increases in distributions to unitholders.

Another important milestone occurred on February 15, 2005, with the retirement of Jeff Mooney as CEO, and Axel Rehkatsch as CFO of Food Services. On behalf of the unitholders I would like to thank Mr. Mooney and Mr Rehkatsch for their contributions which were instrumental in building A&W into the powerful chain it is today. Paul Hollands, who has been with Food Services for 24 years, assumes the CEO role, having most recently filled the role of President and COO. Don Leslie, the incumbent Vice President of Finance, takes over the responsibilities of CFO. This is an important leadership change in the business, and underscores the depth of the overall management team. Today, the top 7 executives with Food Services have an average experience in the A&W business of 15 years. It is an extremely experienced yet youthful management team who will provide strong leadership in the years to come.

My thanks to our unitholders who have continued to place their trust in the A&W Revenue Royalties Income Fund. Having proven the stability of the Fund through two years of very difficult market conditions, we are delighted to report such a strong year in 2004, and are looking forward to continuing to build momentum in the coming year.

John R. McLernon,
Chairman
A&W Revenue Royalties Income Fund

A&W Food Services of Canada Inc.
Report to Fund Unitholders

2004 was a superb year for the A&W Revenue Royalties Income Fund (the Fund) and for A&W Food Services of Canada Inc. (Food Services). Excellent progress was made on all the key strategic initiatives, and this translated into excellent performance for both the Fund and for Food Services. As John McLernon has noted in his report, same store sales, which are a critical barometer of the health of the business, and the success of our strategy, continued to accelerate, achieving an increase of 3.9% for the year. Total system sales increased by 7.8%, also an increase in pace from the previous year. A total of 27 new restaurants were opened during the year. Most importantly 70% of these were opened in Ontario, Quebec and Atlantic Canada, which are designated as the key growth markets for the A&W chain.

In the past three years, we summarized the three pillars on which the success of the Fund is built:

1. *Strategy and Brand*
2. *Climate*
3. *Management*

This year I would like to highlight an additional factor which underpins the entire success of the A&W business. This is the strength, energy and expertise of our franchisees. A&W is primarily a franchised business. Independent franchised operators invest in A&W restaurants and operate in markets right across the country. A&W's franchised operators are a great source of competitive advantage for a number of reasons.

The first is the high level of experience that they have. There are many franchisees in our system who have been in the business for over twenty years. In a number of cases, we have second generation franchisees, where sons or daughters have taken over a business that their parents established decades ago. This length and level of experience is invaluable in a business which is so highly sensitive to operations.

The second is the creativity and leadership that our franchisees bring to the business. They are actively involved in major decision making processes in the organization through bodies like our Standards Board, which establishes key standards of operations, and our National Advertising Advisory Council, which reviews and approves all major advertising and promotional plans. It is often the case in our business that the best and most innovative ideas come from our franchisees.

The third major strength is the relationship which exists between A&W and its franchisees. Consistent with the A&W Climate Goals, the relationship is one that is founded on respect, trust and listening.

Finally, the operational strength of the franchisees is a powerful competitive advantage. Their commitment to delivering the best tasting food, to providing fast service and to having a first class looking facility is unparalleled.

2004 was an excellent year for A&W. Through our continued focus on our strategic initiatives, coupled with our Climate Goals, and enhanced by the strength of our franchisee base, we enjoyed an industry-leading rate of growth.

All of these factors enable us to continue to earn the trust of you, the unitholders of the Fund. We thank you for your continued support, and look forward to continuing to earn it in the coming year.

Paul Hollands
President & CEO
A&W Food Services of Canada Inc.

REVIEW OF OPERATIONS

More Boomers *More Often*

A&W's Mission

"…to be the number one choice of THE BABY BOOMER generation…"

A&W is a strategy driven business. For almost 30 years, every major decision or initiative for the A&W business has been rooted in its strategy. At the core of the strategy, driving the major changes in the business, is the mission, and at the focal point of the mission is the customer, the baby boomer.

The baby boomer generation is the largest single group of consumers in the Canadian marketplace. They grew up with A&W and have an attachment that goes back almost 50 years. There are no other national foodservice brands that have this kind of life long relationship with their customers.

Today, A&W has an aggressive strategy underway which can be summed up most simply as "more boomers, more often." This strategy is driving an unprecedented level of change in the business; in advertising, in menu development, in restaurant design and in new restaurant development. During 2004, excellent progress was made in all these areas.

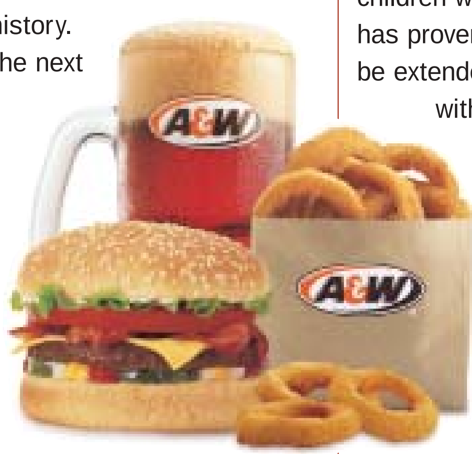
Reaching for their hearts.

In 2004, a bold new direction in advertising was undertaken with the development of a new campaign designed to reach back to the powerful emotional connections that boomers have with A&W, going back to the drive-in days. The first spot, entitled "Drive", showcased a boomer couple and a 1965 Mustang as they re-kindled the romance of their youth. The campaign has been an unprecedented success. Research results show increases in all the important measures for the campaign. But more importantly, direct consumer feedback has been outstanding. The following quote typifies the response that we received from hundreds of customers in e-mails, telephone calls and in person:

"My wife and I grew up in the carhop era and spent many nights going to A&W drive-in restaurants for a burger.

The commercial brings back many fond memories."

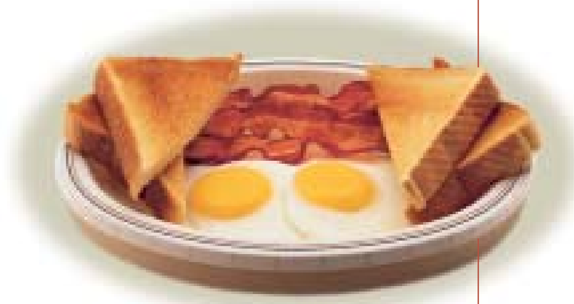
This campaign has exceeded expectations and provided A&W with a significant competitive advantage. In 2005, the campaign will be further extended with a number of new commercials, including the follow on to the "Drive" spot. The 2005 campaign will be the most powerful ever with the highest level of media spending in the company's history. It will mark the next step in our ongoing campaign to "win the hearts" of the baby boomers.



Re-experiencing the Drive-In Days

For most of the baby boomers, the A&W drive-in was one of their highlights of growing up. Either as young children with their parents, or as teenagers out for their first date in their dad's car, the A&W drive-in was an integral part of growing up as a baby boomer. And the boomers have very fond memories of those times. While it isn't possible to go back to the drive-in concept, in 2004, A&W helped thousands of Canadian baby boomers experience a little bit of the past through a new program called "Cruise Nights."

Throughout the summer of 2004, over 100 A&W restaurants sponsored A&W Cruise Night celebrations. On these special evenings, classic cars from the 50's, 60's and 70's mingle with the rock and roll music from the era, and the familiar tastes of A&W Root Beer and Teen Burgers; just like they did back when the boomers were young. Today the boomers turn out by the hundreds to these Cruise Night events, often bringing their own children with them. The program has proven so powerful that it will be extended even further in 2005 with the majority of the over 300 freestanding restaurants slated to participate in the program.



Continued Menu Innovation

A&W has historically had one of the strongest menu line ups in the industry. Anchored by the iconic Teen Burger, and supported by the Burger Family line up, A&W is consistently rated number one in consumer research for best tasting burgers. Backed up by fresh hand made onion rings and world famous A&W Root Beer, A&W is also consistently rated as having the best tasting food overall in the quick service burger market.

But A&W is strategically committed to having a menu that is powerful in all major dayparts and appeals strongly to the baby boomers. An important innovation during 2004 was the launch of A&W Root Beer Floats in all restaurants across the system. The demand for cold sweet beverages is one of the fastest growing segments of the whole foodservice market, and A&W Root Beer has a reputation and quality which lines up perfectly against this opportunity. In addition, its heritage and history going back to the drive-ins gives it a special place in the hearts of the baby boomers. The launch was a significant success with sales far exceeding expectations.

A second important area of menu focus for 2004 was breakfast. Going back to the early 1990's, A&W has had a strong breakfast offering. A&W's offering appeals both to the breakfast customer who is in a hurry, with the branded breakfast sandwiches, as well as to the "traditional" breakfast eater who wants eggs done their way, with all the nice touches of a full breakfast. During 2004, a multi-year program was launched to further build the breakfast daypart. The cornerstone was a new advertising campaign designed to drive awareness and trial of A&W's breakfast, with the strategy of building a larger and more loyal customer base. The campaign was very successful, with sales increases for breakfast in the range of 20%.

Continued Investment in Facilities

The re-image program for A&W restaurants which was launched in 2001 continued to roll out aggressively in 2004. The new retro-modern restaurant design has been extremely well received by both the baby boomer customer and franchisees who are responsible for implementing the program in their restaurants. When the program started, there were approximately 240 old style A&W restaurants in the system which needed to be re-imaged. As at year end 2004, over 170 of those restaurants had completed the re-imaging of the exterior of the restaurants, including all the signage and menuboards. Sales increases for re-imaged

restaurants have been in excess of 5%. In 2005, a key initiative will be to complete the exterior re-imaging program in the majority of the remaining restaurants.

Breaking through to Boomers in Ontario, Quebec and Atlantic Canada

In the early 1990's A&W focussed on building a dominant market presence in Western Canada, and today the number of restaurants in the West is close to parity with the largest competitor. However, in order to achieve its mission A&W must have a much greater number of restaurants in Ontario, Quebec and Atlantic Canada. For several years this has been the key area of focus for new restaurant development initiatives.

2004 represented a breakthrough year for this initiative. Overall A&W opened a total of 27 new restaurants during 2004. Of this total, 19 were in Ontario, Quebec, and Atlantic Canada, representing 70% of the total new restaurant openings.

Ontario, as Canada's most populous province, enjoyed particular success. A total of 9 new restaurants opened in this market during 2004. The response to new A&W locations by consumers as well as franchisees has been very strong, and it is anticipated to continue to be a key driver of growth in the coming years.

Looking Forward

Excellent progress was made during 2004 on all of the key strategic initiatives in the business. The result was a strong vote of confidence from consumers. The growth in same store sales of +3.9% reflected increasing numbers of boomers visiting A&W's across the country. Today almost 50% of A&W's customer visits are made by baby boomers, up 5 points from 3 years ago. Overall system sales increased by 7.8% as a result of the same store sales growth, as well as the continued new restaurant growth.

Looking forward, A&W will continue to focus on initiatives which build and strengthen the depth of this relationship with the baby boomer customer. Menu innovation, continued focus on highly effective advertising and investing in facility re-imaging to enhance both street presence and appeal to boomers will be the focal points of these efforts.

Management's Discussion and Analysis

The following is a discussion of the consolidated financial statements and results of operations of A&W Revenue Royalties Income Fund (the "Fund"). It should be read in conjunction with the audited Consolidated Financial Statements of the Fund which are on pages 18 to 26.

Readers should be aware that 2004 results are not directly comparable to the prior year due to the fact that there were 620 restaurants in the royalty pool in 2004 and there were 604 restaurants in the royalty pool in 2003.

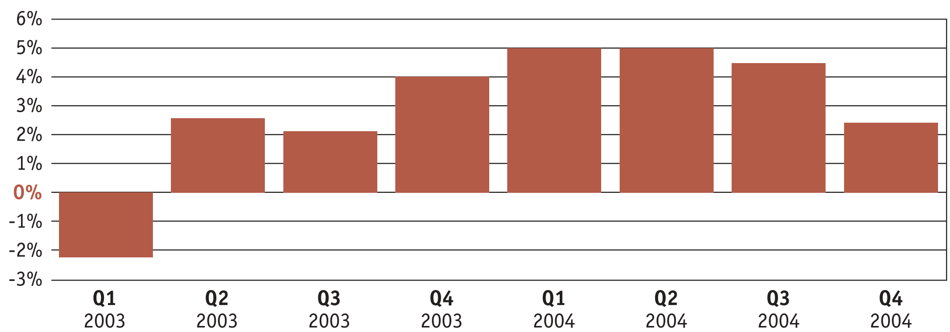
Same Store Sales Growth

The source of revenue for the Fund is royalty income from A&W Food Services of Canada Inc. ("Food Services"). As a result, same store sales growth by A&W restaurants is a key performance indicator for the Fund.

The fourth quarter of 2004 was the seventh consecutive quarter of same store sales growth for the A&W restaurants in the royalty pool. The increase of 2.4% during the quarter resulted in a same store sales increase for the full year of 3.9%. This represents a significant acceleration in growth when compared to the prior year same store sales growth of 1.8%.

The following chart shows the percentage change in same store sales by A&W restaurants for the eight most recently completed quarters:

Same Store Sales Growth



Management believes that the strong same store sales growth reflects the significant headway made on all of A&W's strategic initiatives aimed at "becoming the number one choice of the baby boomer generation". A&W has also benefitted from an improving foodservice market in Canada.

Overall Performance

Royalty income for the year increased 8.4% over 2003 due to the same store sales growth of 3.9% and the increase in the number of restaurants in the royalty pool from 604 to 620.

Distributable cash also showed strong growth. Distributable cash available to pay distributions to unitholders and dividends on Class A and B shares increased by 10.2% to $13,559,000. Distributions of $9,007,000 ($1.08 per unit) were paid in the year. The increase in distributable cash was generated through growth in royalty income plus a reduction in the cash taxes and expenses of the Fund.

The Fund generated $526,000 of distributable cash in excess of its 2004 distributions of $1.08 per unit. After recognition of the 2003 shortfall of $257,000, the Fund finished the year with a surplus of distributable cash of $269,000.

The Fund delivered its anticipated annual distribution of $1.08 per unit for the year. From inception in February 2002 through to December 2004, the Fund has made its projected distributions to unitholders of 9 cents per unit per month in every single month.

Highlights

(dollars in thousands except per unit amounts)

	Period from September 6 2004 to December 31 2004	Period from September 8 2003 to December 31 2003	Year ended December 31 2004	Year ended December 31 2003
Same store sales growth	2.4%	4.0%	3.9%	1.8%
Number of restaurants in the royalty pool	620	604	620	604
Sales reported by the restaurants in the royalty pool	$ 161,617	$ 150,223	$ 494,321	$ 455,971
Royalty income	4,849	4,507	14,830	13,679
Cash expenses and taxes	356	378	1,271	1,378
Total distributable cash available for distributions and dividends	4,493	4,129	13,559	12,301
Distributions paid per Trust Unit	$ 0.360	$ 0.360	$ 1.080	$ 1.080
Net earnings for the period	2,823	2,663	8,383	7,859
Basic and diluted earnings per Trust Unit	$ 0.338	$ 0.319	$ 1.005	$ 0.942

Distributable cash is not an earnings measure recognized by generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures presented by other issuers.

Overview

The Fund is a limited purpose trust established to invest in A&W Trade Marks Inc. ("Trade Marks"). Through its controlling interest in Trade Marks, the Fund owns the A&W trade-marks and licences their use by Food Services, which operates the A&W restaurant and soft drink beverage businesses. The trade-marks comprise some of the best-known brand names in the Canadian foodservice industry.

In return for licensing Food Services' use of its trade-marks, the Fund (through Trade Marks) receives royalties equal to 3% of gross sales of the A&W restaurants in the royalty pool. In the event that a restaurant in the royalty pool closes, Food Services pays the royalties that would have been paid to the Fund if the restaurant had not closed, until the next adjustment to the royalty pool.

The royalty pool is adjusted in January of each year to reflect sales from new restaurants, net of the sales of any A&W restaurants that have permanently closed. The Fund (through Trade Marks) pays Food Services for the additional royalty stream of the sales of the net new restaurants, based on a formula set out in the licence agreement. The formula, designed to be accretive to unitholders, is based on the amount of estimated sales from the net new restaurants and the yield on the units of the Fund, and provides for a payment to Food Services in the form of common and class B shares of Trade Marks on the basis of 92.5% of that value. Twenty percent of the shares are held in escrow for a year until the actual sales of the new restaurants are known and the corresponding adjustment is made to the consideration.

Distributions to unitholders are based on top-line revenues of the A&W restaurants in the royalty pool, less the Fund's expenses, and are thereby isolated from many of the factors that impact an operating business.

Expenses of the Fund are limited to general and administrative expenses for the administration of the Fund itself, amortization of deferred financing fees, interest expenses (which include Class A and Class B share dividends, as stipulated by GAAP) and taxes.

Food Services owned during 2004 the equivalent of 31% of the units of the Fund on a fully-diluted basis, up from 28% in 2003. An important aspect of the Fund is that, provided Food Services holds an indirect interest in the Fund, distributions to unitholders are made in priority to distributions to Food Services. Financial statements for Food Services are included as a supplement to this report.

Expansion of the Royalty Pool

On January 5, 2004, the number of A&W restaurants for which royalties are paid to the Fund was increased by 28 new restaurants less 12 restaurants which permanently closed during 2003. The Fund (through Trade Marks) paid Food Services $5,210,000, by issuance of 495,681 Class B and common shares, as consideration for the royalty stream from the 16 net restaurants added to the royalty pool.

The third adjustment to the royalty pool took place on January 5, 2005. The number of A&W restaurants for which royalties are paid increased by 27 new restaurants less 9 restaurants which permanently closed during 2004. Food Services was paid $6,293,000, by issuance of 519,209 Class B and common shares, as initial consideration for the estimated royalty stream from the 18 net restaurants added to the royalty pool. A final adjustment to the share consideration will be made in December 2005 based upon the actual annual gross sales reported by the new restaurants. Until then, 20% of the shares will be held in escrow. After the January 5, 2005 adjustment to the royalty pool, Food Services owns the equivalent of 34% of the units of the Fund on a fully-diluted basis.

Selected Annual Information

Note that 2004, 2003 and 2002 results are not directly comparable to each other due to the different number of restaurants in the royalty pool in each year, and due to the fact the Fund commenced operations on February 15, 2002.

(dollars in thousands except per unit amounts)

	Year ended December 31 2004	Year ended December 31 2003	February 15, 2002 (commencement of operations) to December 31 2002
Same store sales growth	3.9%	1.8%	-1.4%
Number of restaurants in the royalty pool	620	604	585
Sales reported by the restaurants in the royalty pool	$ 494,321	$ 455,971	$ 384,286
Royalty income	14,830	13,679	11,529
Total distributable cash available for distributions and dividends	13,559	12,301	10,414
Distributions paid per Trust Unit	$ 1.080	$ 1.080	$ 0.848
Net earnings	8,383	7,859	7,063
Basic and diluted earnings per Trust Unit	$ 1.005	$ 0.942	$ 0.847
Total assets	133,055	127,875	122,829
Term loan	10,000	10,000	10,000
A&W Trade Marks Inc. shares	38,453	33,716	28,138

Results of Operations

For the quarter ended December 31, 2004, royalty income earned from Food Services was $4,849,000, based on sales of $161,617,000 reported by the A&W restaurants in the royalty pool. This is an increase of 7.6% over royalty income of $4,507,000 and sales of $150,223,000 for the quarter ended December 31, 2003.

Royalty income for the year was $14,830,000, based on sales of $494,321,000 reported by the A&W restaurants in the royalty pool. This is an increase of 8.4% over royalty income of $13,679,000 and sales of $455,971,000 for the year ended December 31, 2003.

This quarterly and annual increase is due to the combined impact of the additional 16 restaurants in the royalty pool and the same store sales increase of 2.4% for the quarter and 3.9% for the year.

Expenses and Taxes

(dollars in thousands)

	Period from September 6 2004 to December 31 2004	Period from September 8 2003 to December 31 2003	Year ended December 31 2004	Year ended December 31 2003
General and administrative	$ 107	$ 102	$ 405	$ 502
Amortization of deferred financing fees	6	43	168	137
Interest on term loan	199	195	630	615
A&W Trade Marks Inc. share dividends	1,311	1,085	4,026	3,485
Large corporations tax	50	80	164	261
Future income taxes	353	338	1,054	820

General and administrative expenses for the quarter increased by $5,000 but expenses for 2004 decreased by $97,000 to $405,000, compared to $502,000 in 2003. These reduced costs are primarily a result of measures taken to reduce costs of the Annual General Meeting and printing and mailing of the annual and quarterly reports.

On April 1, 2004, Trade Marks replaced its original $10,000,000 term loan with a new credit facility. The remaining unamortized deferred financing fees of $125,000 relating to the former term loan were expensed in the current year. The cost of securing and documenting the new term loan ($72,000) is being amortized over the term of the new loan. As a result, amortization of deferred financing fees decreased by $37,000 for the fourth quarter, and increased by $31,000 to $168,000 for the year.

The dividends on Trade Marks' shares are treated for accounting purposes as interest expense and, as such, are accrued and deducted in arriving at net earnings. Accrued Class A and Class B share dividends increased by $226,000, from $1,085,000 in the fourth quarter of 2003 to $1,311,000 in 2004, and by $541,000 from $3,485,000 in 2003 to $4,026,000 for 2004. The increase is due to Food Services' increased equivalent ownership in the Fund to 31% from 28%.

The large corporations capital tax decreased by $30,000 for the quarter and by $97,000 for 2004 as the government is phasing out the tax between 2004 and 2008, and limiting it to tax on capital in excess of $50 million in 2004. Future income taxes increased by $15,000 for the quarter to $353,000, and by $234,000 for the year to $1,054,000. The increase is largely attributable to the increase in earnings before taxes for the year.

Distributions to Unitholders

The amount of cash to be distributed to unitholders is determined with reference to distributable cash, which is calculated as net earnings adjusted for amortization, future income taxes and accrued Class A and B share dividends. The distributable cash measure clearly identifies the amount of actual cash available to pay distributions to unitholders and dividends on Class A and B shares.

(dollars in thousands except per unit amounts)

	Period from September 6 2004 to December 31 2004	Period from September 8 2003 to December 31 2003	Year ended December 31 2004	Year ended December 31 2003
Net earnings for the period	$ 2,823	$ 2,663	$ 8,383	$ 7,859
Add: Amortization of deferred financing fees	6	43	168	137
Future income taxes	353	338	1,054	820
A&W Trade Marks Inc. share dividends	1,311	1,085	4,026	3,485
Less: Financing fees – new term loan	—	—	(72)	—
Distributable cash	$ 4,493	$ 4,129	$ 13,559	$ 12,301
Shortfall - beginning of period	(5)	(434)	(257)	(66)
Distributable cash for Trust Units	(2,908)	(2,867)	(9,007)	(9,007)
Distributable cash for dividends	(1,311)	(1,085)	(4,026)	(3,485)
Surplus (shortfall) - end of period	$ 269	$ (257)	$ 269	$ (257)
Distributable cash per Trust Unit (8,340,000 Units)	$ 0.349	$ 0.344	$ 1.080	$ 1.080
Distributions paid per Trust Unit (8,340,000 Units)	$ 0.360	$ 0.360	$ 1.080	$ 1.080

Distributable cash is not an earnings measure recognized by generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures presented by other issuers.

Distributable cash available to pay distributions to unitholders and dividends on Class A and B shares increased by $364,000 to $4,493,000 for the quarter and by $1,258,000 to $13,559,000 for the year. The increase is due to the increase in royalty income and reduction in costs.

Cash distributed to unitholders during the year was $9,007,000 ($1.08 per unit), the same as the prior year.

Tax Treatment of Distributions

Of the $1.08 per Trust Unit distributions paid in the year, $1.075 per Trust Unit is taxable to unitholders as other investment income and $0.005 per Trust Unit is dividend income.

Dividends on Class A and B Shares

Dividends payable to Food Services on Class A and B shares of Trade Marks are subordinated to distributions to unitholders. The subordination of dividends was eliminated during 2004 and the Fund finished the year with a surplus of distributable cash of $269,000 versus a deficit of $257,000 for the 2003 year end.

Dividends paid to Food Services were $1,182,000 in the fourth quarter of 2004 compared to $837,000 in the same quarter in 2003. Total dividends paid to Food Services in 2004 were $4,400,000 compared to $2,724,000 in 2003. The increase of $1,676,000 is due to timing of payment of 2003 dividends and the increase in Food Services' equivalent ownership in the Fund from 28% in 2003 to 31% in 2004.

Seasonality

Sales in the QSR industry fluctuate seasonally. In freestanding restaurants, weather impacts sales. In shopping centres, sales fluctuate due to higher traffic during back to school and Christmas shopping seasons.

Differences between earnings per unit and distributions paid per unit arise because of this seasonality of sales and because the royalty is paid by Food Services every four weeks (13 times a year) while uniform distributions are paid monthly. Distributions per unit are higher than earnings per unit due to non-cash expenses.

Summary of Quarterly Results

(dollars in thousands except per unit amounts)

	2004				2003			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Number of restaurants in the royalty pool	620	620	620	620	604	604	604	604
Royalty income	$ 4,849	$ 3,706	$ 3,471	$ 2,804	$ 4,507	$ 3,397	$ 3,165	$ 2,610
Net earnings	2,823	2,237	$ 1,910	1,413	2,663	2,083	1,779	1,334
Basic and diluted earnings per Trust Unit	0.338	0.268	$ 0.229	0.170	0.319	0.250	0.213	0.160
Distributable cash for Trust Units	2,908	2,057	$ 2,058	1,984	2,867	2,063	2,063	2,014
Distributable cash per Trust Unit	0.349	0.247	$ 0.247	0.237	0.344	0.247	0.247	0.242
Distributions paid	3,002	2,252	$ 2,252	1,501	3,002	2,252	2,252	1,501
Distributions paid per Trust Unit	0.360	0.270	$ 0.270	0.180	0.360	0.270	0.270	0.180

The distribution for December, which is paid the following January, is recorded for income tax purposes in the period it was earned. Therefore, each year, four distributions are declared during the fourth quarter and two distributions are declared during the first quarter of each year.

Liquidity and Capital Resources

The Fund believes it has sufficient financial resources to pay ongoing future distributions and dividends. Trade Marks has a demand operating loan of up to $2,000,000 to fund its working capital requirements and to meet its cash flow needs. The operating loan bears interest at bank prime rate plus 0.5% and is repayable on demand. As at December 31, 2004, the full amount of the facility was available.

Trade Marks has a term loan in the amount of $10,000,000. The term loan is repayable on March 15, 2008 and bears interest at bank prime rate plus between 0.0% and 0.5% depending on specified financial ratios.

Interest only is payable monthly, providing trailing Earnings before interest, taxes, depreciation and amortization (EBITDA) at any time is not less than $10,000,000. In the event that EBITDA is less than $10,000,000, the term loan will be fully amortized over the remaining term and repayment will be by way of blended monthly instalments of principal and interest.

EBITDA for the year ended December 31, 2004 was $14,425,000.

EBITDA is not an earnings measure recognized by generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures presented by other issuers.

An interest rate swap agreement maturing February 15, 2005 fixes the interest rate at 6.18% per annum. A second interest rate swap agreement was entered into which fixes the interest rate at 5.81% for the period February 16, 2005 to February 18, 2008.

Payments Due by Period

(dollars in thousands)

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Term loan	$ 10,000	$ 0	$ 10,000	$ 0	$ 0

The Fund has no other contractual or purchase obligations. The Fund does not have any capital expenditures; its operating and administrative expenses are expected to be stable and reasonably predictable and are considered to be in the ordinary course of business.

Off-Balance Sheet Arrangements

The Fund has no off-balance sheet arrangements.

Transactions with Related parties

During the year, royalty income of $14,830,000 (2003 - $13,679,000) was earned from Food Services, of which $1,409,000 (2003 - $1,267,000) is receivable at December 31, 2004.

The Fund has entered into an administration agreement with Trade Marks whereby Trade Marks, at its expense, will provide or arrange for the provision of services required in the administration of the Fund. In turn, Trade Marks has arranged for certain of these services to be provided by Food Services until 2011.

Other related party transactions and balances are referred to elsewhere in this Management Discussion & Analysis.

Critical Accounting Estimates

The intangible assets consist of the A&W trade-marks and are recorded at cost. Food Services reviews the carrying value for the intangible assets at least annually, taking into consideration any events or circumstances which might have impaired the carrying value. If a permanent decline in the carrying amount is determined, the intangible assets are written down to their estimated net recoverable amount. Food Services believes that there has been no decline in the carrying value of the intangible assets as at December 31, 2004.

Financial Instruments

The Fund's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, distributions payable to Unitholders, dividends payable, and term loan. Unless otherwise noted, it is management's opinion that the Fund is not exposed to significant interest or credit risks arising from these financial instruments. Management estimates that the fair values of these financial instruments approximate their carrying values, unless otherwise noted.

Changes in Accounting Policies

Hedging Relationships

Effective January 1, 2004, the Fund adopted CICA Accounting Guideline – 13 "Hedging Relationships", (ACG-13). Trade Marks uses interest rate swap agreements to manage risks from fluctuations in interest rates. All such instruments are used only for risk management purposes. When the arrangement qualifies for hedge accounting, the net receipts or payments arising from financial instruments relating to the management of interest rate risks are recognized in interest expense over the term of the instrument. The adoption of ACG-13 had no impact on the Fund's results of operations or financial position.

Consolidation of Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline - 15 "Consolidation of Variable Interest Entities" (ACG-15). This accounting guideline requires the consolidation of Variable Interest Entities (VIEs) by the primary beneficiary. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIE's expected losses, expected residual returns, or both. Revisions to this guideline were published by the CICA in August 2004 to harmonize with the U.S. VIE accounting standard. A VIE is an entity where (a) its equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others and/or where certain essential characteristics of a controlling financial interest are not met and (b) it does not meet specified exemption criteria. This guideline is effective for the Fund's first quarter commencing January 1, 2005. Adoption of ACG-15 is a change in accounting policy accounted for in accordance with Section 1506 - Accounting Changes and applied retroactively except that restatement of prior period financial statements is encouraged, but not required. The Fund has not yet determined the effect, if any, that the adoption of the new standard will have on its financial statements.

Risks and Uncertainties

The performance of the Fund is dependent upon the royalty Trade Marks receives from Food Services. The amount of the royalty is dependent upon the gross sales of the A&W restaurants in the royalty pool. 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. In addition, factors such as the availability of experienced management and hourly employees may also adversely affect the gross sales of the quick service restaurant industry in general and the gross sales by A&W restaurants in particular.

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 will be able to respond to various competitive factors affecting the franchise operations of Food Services in the quick service restaurant industry.

Any significant event that adversely affects consumption of hamburgers, chicken, fries and soft drinks, such as cost, changing tastes or health concerns, could adversely impact the gross sales of A&W restaurants and consequently, the amount of the royalty payable to Trade Marks.

The growth of the royalty is dependent upon 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. 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 availability of suitable sites, negotiations of acceptable lease or purchase terms for new locations, permits and government regulatory compliance, and the ability to meet construction schedules. 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 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

The overall growth and performance of the Fund is driven primarily by growth in same store sales and also by the expansion of the royalty pool when the royalties from new A&W restaurants are added.

A&W's strategy is to focus on attracting "baby boomers" who are the core customers for the restaurants. During 2004, key initiatives in menu, facilities and advertising and promotion were undertaken.

Ongoing Menu Innovation

A&W is committed to a strategy with a high level of innovation in the menu, focussed on appealing to the baby boomers and building three strong dayparts. The first menu innovation in 2004 was a major thrust to grow the breakfast daypart. A&W has historically enjoyed a strong business at breakfast, a daypart which has been growing in the overall industry. A strong television advertising campaign which was launched to build breakfast sales was very successful.

A second major menu initiative was the launch during the year of A&W Root Beer Floats in all restaurants. The A&W Root Beer Float was a "boomer favourite" back in the 50's, 60's and 70's when they were growing up. The A&W Root Beer Float was well received and achieved strong sales results in 2004, and A&W anticipates that the summer of 2005 will again show strong A&W Root Beer Float sales.

During 2005, A&W will continue a high level of menu innovation focussed on enhancing and broadening its appeal to baby boomers.

Advertising and Marketing Campaigns

A&W achieved superb results from its new advertising campaign which showcased the strong historical links between boomers and A&W. The new advertising campaign was supported at the restaurant level by the roll-out of Cruise Nights. At over 100 freestanding restaurants, A&W customers enjoyed a celebration of Classic Cars from the 50's, 60's and 70's. These events attracted a large number of A&W's baby boomer customers who had the opportunity to relive their fond memories of A&W in the drive-in days. In 2005, A&W plans to significantly strengthen and extend the Cruise Night program.

New advertising campaigns are planned for 2005 that will continue to build on the strength of 2004's advertising campaign to strengthen A&W's bond with baby boomers.

Restaurant Re-imaging

As part of a multi-year initiative, A&W is face lifting and modernizing its restaurants. The new "retro-modern" restaurant design harkens back to the era of the drive-ins and strengthens the connection with the baby boomer customers. At the same time the new colours and signage enhance the visibility and impact of each restaurant. Historically these upgrades have generated sales increases in excess of 5%. Continued strong progress was made with freestanding restaurants, as a further 49 restaurants were upgraded to the new designs. In total, over 170 freestanding restaurants have been completed. During 2004, 27 mall and convenience co-brand restaurants were also upgraded.

It is important to note that the cost of these upgrades is paid entirely by the franchised operator and therefore there is no cost impact on the Fund.

During 2005, there will continue to be a high level of focus on the re-image program in driving towards the strategic goal of completing 100% of the restaurants.

The Fund is confident that these initiatives by Food Services, together with the improving Canadian foodservice industry, will continue to result in positive same store sales growth.

The Fund will periodically review distribution levels and distribute all available cash in order to maximize returns to unitholders while maintaining uniformity of distributions.

Certain statements in this Management Discussion and Analysis and the annual report of the Fund may be forward-looking in nature. These include references to liquidity, subordinated dividends, earnings and anticipated earnings from growth in same store sales and new restaurant openings. Actual results may differ materially from those expressed or implied in these forward-looking statements. The forward-looking statements are based on assumptions that management considered reasonable at the time they were prepared. These forward-looking statements are subject to a number of risk factors, including the ability of A&W Food Services of Canada Inc. to implement its marketing strategies, the opening of new A&W restaurants, general economic and business conditions, financial and political instability, and other factors disclosed previously and from time to time in the Fund's public filings.

Additional information relating to the Fund is on SEDAR at www.sedar.com
and on the Fund's website at www.awincomefund.ca.

A&W Revenue Royalties Income Fund

2004

ANNUAL REPORT

Consolidated Financial Statements

Management's Statement of Responsibilities

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Directors and the Trustees. The consolidated financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements.

The Fund maintains appropriate systems of internal control, policies and procedures, which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors and the Trustees ensure that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and reports to the Trustees. The auditors have full and direct access to the Audit Committee.

The consolidated financial statements have been independently audited by PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing standards. Their report below expresses their opinion on the consolidated financial statements of the Fund.

Conrad A. Pinette

Trustee

Auditors' Report

To the Unitholders of
A&W Revenue Royalties Income Fund

We have audited the consolidated balance sheets of **A&W Revenue Royalties Income Fund** (the Fund) as at December 31, 2004 and 2003 and the consolidated statements of earnings, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia
January 25, 2005

Consolidated Balance Sheets

(in thousands of dollars)

	As at December 31, 2004	As at December 31, 2003
Assets		
Current assets		
Cash	$ 405	$ 534
Accounts receivable *(note 10)*	1,409	1,296
Corporate taxes recoverable	82	—
Prepaid interest	26	26
	1,922	1,856
Intangible assets *(note 3)*	131,074	125,864
Deferred financing fees	59	155
	$ 133,055	$ 127,875
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 143	$ 218
Corporate taxes payable	—	11
Distribution payable to Unitholders *(note 4)*	751	751
Dividends payable	390	291
	1,284	1,271
Term loan *(note 5)*	10,000	10,000
Future income taxes *(note 6(b))*	8,738	7,684
A&W Trade Marks Inc. shares *(note 7)*	38,453	33,716
	58,475	52,671
Unitholders' Equity	74,580	75,204
	$ 133,055	$ 127,875

Subsequent events *(note 11)*

Approved by the Trustees

John R. McLernon

Conrad A. Pinette

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Unitholders' Equity

(in thousands of dollars)

	Year ended December 31, 2004	Year ended December 31, 2003
Balance – beginning of year	$ 75,204	$ 76,352
Net earnings for the year	8,383	7,859
Distributions declared and accrued *(note 4)*	(9,007)	(9,007)
Balance – end of year	$ 74,580	$ 75,204

Consolidated Statements of Earnings

(in thousands of dollars except per unit amounts)

	Year ended December 31, 2004	Year Ended December 31, 2003
Gross sales reported by A&W restaurants in the Royalty Pool	$ 494,321	$ 455,971
Royalty income *(notes 3 and 10)*	$ 14,830	$ 13,679
Expenses		
General and administrative	405	502
Amortization of deferred financing fees	168	137
Interest expense		
Term loan	630	615
A&W Trade Marks Inc. share dividends *(note 7)*	4,026	3,485
	5,229	4,739
Earnings before income taxes	9,601	8,940
Provision for income taxes *(note 6(a))*		
Large corporations tax	164	261
Future income taxes	1,054	820
	1,218	1,081
Net earnings for the year	$ 8,383	$ 7,859
Basic and diluted earnings per Trust Unit (8,340,000 Units)	$ 1.005	$ 0.942

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands of dollars)

	Year ended December 31, 2004	Year ended December 31, 2003
Cash flows from operating activities		
Net earnings for the period	$ 8,383	$ 7,859
Items not affecting cash		
Amortization of deferred financing fees	168	137
Provision for future income taxes	1,054	820
Change in accrued dividends *(note 7)*	(473)	470
	9,132	9,286
Net changes in non-cash working capital	(182)	(235)
	8,950	9,051
Cash flows from financing activities		
Distributions paid to Unitholders *(note 4)*	(9,007)	(9,007)
Repayment of term loan	(10,000)	—
Proceeds of new term loan	10,000	—
Financing fees	(72)	—
	(9,079)	(9,007)
(Decrease) increase in cash for the year	(129)	44
Cash - Beginning of year	534	490
Cash – End of year	$ 405	$ 534
Supplementary cash flow information		
Non-cash financing activities		
Issuance of A&W Trade Marks Inc. Class B shares	$ 5,210	$ 5,108
Interest paid	$ 630	$ 641
Dividends paid	$ 4,400	$ 2,724

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2004 and 2003

(All figures in tables expressed in thousands of dollars, except per unit amounts)

1 Organization and nature of business

A&W Revenue Royalties Income Fund (the Fund) is a limited purpose trust established with an unlimited number of Trust Units (Units) under the laws of the Province of British Columbia pursuant to the Declaration of Trust on December 18, 2001. The Fund was established to invest in A&W Trade Marks Inc. (the Company), which owns the A&W trade-marks used in the A&W quick service restaurant business in Canada. Income tax obligations related to the distributions by the Fund are obligations of the Unitholders.

The business of the Company is the ownership of the A&W trade-marks and through the Licence and Royalty Agreement with A&W Food Services of Canada Inc. (Food Services), the taking of actions to exploit the use of the A&W trade-marks and the development of new A&W restaurants by Food Services, and the collection of the royalty payable under the Licence and Royalty Agreement. Food Services is a leading franchisor of hamburger quick service restaurants in Canada.

2 Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the Fund and its 69% (2003 - 72%) owned subsidiary A&W Trade Marks Inc. (the Company). Food Services holds the 31% (2003 - 28%) non controlling interest in the Company.

Revenue recognition

Revenue comprises royalty income equal to three per cent of sales from specific A&W restaurants in Canada (the Royalty Pool) and is recognized on an accrual basis.

Intangible assets

Intangible assets, which have an indefinite life, comprise the A&W trade-marks and are recorded at cost. Management reviews the carrying value of the intangible assets at least annually for impairment. Intangible assets are written down when declines in value are considered to be other than temporary based upon forecast future cash flows.

Deferred financing fees

Fees incurred in obtaining debt financing are deferred and amortized on a straight-line basis over the term of the debt.

Future income taxes

Future income taxes are calculated using the liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using the substantially enacted tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

Earnings per Unit

The earnings per Unit are based on the weighted average number of Units outstanding during the period. Diluted earnings per Unit are calculated to reflect the dilutive effect, if any, of Food Services exercising its right to exchange its Class A and Class B and common shares of the Company into Units of the Fund at the beginning of the period.

Distributions

The amount of cash to be distributed annually to Unitholders is determined with reference to distributable cash, which is calculated as net earnings adjusted for amortization, future income taxes, dividends on A&W Trade Marks Inc. shares and financing fees.

Distributions to Unitholders are intended to be made monthly in arrears based upon distributable cash less cash redemptions of Units, and subject to the Fund retaining such reasonable working capital reserves as may be considered appropriate by the Trustees of the Fund.

Dividends to Food Services comprise dividends on A&W Trade Marks Inc. shares.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Financial instruments and hedging relationships

The Fund's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, distribution payable to Unitholders, dividends payable, and term loan. Unless otherwise noted, it is management's opinion that the Fund is not exposed to significant interest or credit risks arising from these financial instruments. Management estimates that the fair values of these financial instruments approximate their carrying values, unless otherwise noted.

Effective January 1, 2004, the Fund adopted Canadian Institute of Chartered Accountants (CICA) Accounting Guideline – 13, "Hedging Relationships", (ACG-13).

The Company uses interest rate swap agreements to manage risks from fluctuations in interest rates. All such instruments are used only for risk management purposes. When the arrangement qualifies for hedge accounting, the net receipts or payments arising from financial instruments relating to the management of interest rate risks are recognized in interest expense over the term of the instrument. The adoption of ACG-13 had no impact on the Fund's results of operations or financial position.

3 Intangible assets

On February 15, 2002, the Company acquired the A&W trade-marks used in the A&W quick service restaurant business in Canada for $152,676,000, of which $84,876,000 was paid in cash, $27,800,000 was paid by the issuance of 2,779,975 Class A shares and 2,780,000 common shares of the Company, and the balance of the purchase price (the Balance) of $40,000,000 is due, without interest, on December 31, 2006.

Concurrently with the purchase of the A&W trade-marks, the Company granted Food Services a licence to use the A&W trade-marks in Canada for a term of 99 years, for which Food Services pays the Company a royalty of three per cent of the gross sales reported to Food Services by A&W restaurants in the Royalty Pool (the Licence and Royalty Agreement).

The Balance of the purchase price will be reduced by all amounts the Company is required to pay Food Services in respect of annual adjustments to the Royalty Pool up to December 31, 2006. If the total annual adjustments are less than the Balance, the obligation of the Fund to pay the remaining balance of the purchase price is extinguished. Accordingly, for accounting purposes, the Balance is being recognized in the periods such adjustments become payable. The annual adjustment to the Royalty Pool is as follows:

				Share Consideration			
	New Restaurants	Closed Restaurants	Royalty Pool	Common Shares	Class A Shares	Class B Shares	Amount
Initial consideration							
Cash	585	—	585	—	—	—	$ 84,876
Shares	—	—	—	2,780,000	2,779,975	—	27,800
Future income taxes	—	—	—	—	—	—	8,080
	585	—	585	2,780,000	2,779,975	—	120,756
2003 annual adjustment	27	(8)	19	452,469	—	452,469	5,108
2004 annual adjustment	28	(12)	16	495,681	—	495,681	5,210
	640	(20)	620	3,728,150	2,779,975	948,150	$ 131,074

The issuance of the shares subsequent to the acquisition comprises the payments of the Balance of the purchase price of the A&W trade-marks and is recorded as an additional cost of the A&W trade-marks (note 7).

4 Distributions

	2004	2003
Net earnings for the year	$ 8,383	$ 7,859
Add		
Amortization of deferred financing fees	168	137
Future income taxes	1,054	820
A&W Trade Marks Inc. share dividends	4,026	3,485
Less: Financing fees - new term loan	(72)	—
Distributable cash	$ 13,559	$ 12,301
Shortfall – Beginning of year	(257)	(66)
Distributable cash for Trust Units	(9,007)	(9,007)
Distributable cash for dividends	(4,026)	(3,485)
Surplus (shortfall) - End of year	$ 269	$ (257)

	2004		2003	
	Per Trust Unit	Aggregate	Per Unit	Aggregate
Distributions paid (8,340,000 Units)	$ 1.080	$ 9,007	$ 1.080	$ 9,007
Distributions accrued (8,340,000 Units)	$ 0.090	$ 751	$ 0.090	$ 751

The distribution declared on December 15, 2004 for $750,600 is payable on January 31, 2005. The Fund is taxed as a mutual fund trust for income tax purposes. Pursuant to the Declaration of Trust, all of the taxable income earned directly by the Fund in the period is distributable to Unitholders and such distributions are deductible for income tax purposes.

5 Term loan and operating bank line of credit

On April 1, 2004, the Company replaced its original $2,000,000 operating loan and $10,000,000 term loan with a credit facility from HSBC Bank Canada (HSBC). A general security agreement over the assets of the Company was provided as security for the new credit facility. The credit facility includes:

- a demand operating loan of up to $2,000,000 to fund working capital requirements and for general corporate purposes. The operating loan bears interest at the bank prime rate plus 0.5% and is repayable on demand. As at December 31, 2004, the full amount of the facility was available.
- a 48-month term loan in the amount of $10,000,000. The term loan is repayable on March 15, 2008 and bears interest at bank prime rate plus between 0% and 0.5% depending on specified financial ratios.

Interest only is payable monthly, providing trailing earnings before interest, taxes, depreciation and amortization (EBITDA) at any time is not less than $10,000,000. In the event that EBITDA is less than $10,000,000, the term loan will be fully amortized over the remaining term and repayment will be by way of blended monthly instalments of principal and interest.

An existing interest rate swap agreement maturing February 15, 2005 was assigned to HSBC. The interest rate swap fixes the interest rate at 6.18% per annum. A second interest rate swap agreement was entered into that fixes the interest rate at 5.81% for the period February 16, 2005 to February 18, 2008.

The remaining unamortized deferred financing fees of $125,000 relating to the former term loan were expensed in the current year. The cost of securing and documenting the HSBC term loan ($72,000) is being amortized over the term of the new loan, commencing April 1, 2004.

6 Income taxes

a) The Fund is not taxable on any income that is distributed to Unitholders. The Company is taxable on its income at Canadian statutory rates.

The provision for income taxes shown in the consolidated statements of earnings differs from the amount obtained by applying statutory tax rates to the earnings before income taxes for the following reasons:

	2004	2003
Statutory combined federal and provincial income tax rates on investment income	22.62%	22.62%
Provision for income taxes based on statutory income tax rates	$ 2,172	$ 2,022
Income distributed or accrued to Unitholders not subject to tax in the Fund	(2,039)	(2,023)
Large corporations tax	164	261
A&W Trade Marks Inc. share dividends not deductible	921	788
Rate change on future income taxes	—	33
Provision for income taxes	$ 1,218	$ 1,081

b) Future income taxes comprise the following:

	2004	2003
Long-term assets		
Share issue costs	$ 722	$ 1,083
Deferred financing fees	—	21
Non-capital losses	2,801	2,190
	3,523	3,294
Long-term liability		
Intangible assets	(12,261)	(10,978)
	$ (8,738)	$ (7,684)

At December 31, 2004, the Company has non-capital losses available to carry forward of approximately $12,290,000. Of these losses, $5,526,000 expire in 2009, $4,157,000 in 2010, and $2,607,000 in 2011.

7 A&W Trade Marks Inc. shares

The A&W Trade Marks Inc. shares are owned by Food Services and comprise:

	2004		2003	
	Number of Shares	Amount	Number of Shares	Amount
Common shares - at cost	3,728,150	$ —	3,232,469	$ —
Class A shares - at cost	2,779,975	27,800	2,779,975	27,800
Class B shares - at cost (note 3)	948,150	10,318	452,469	5,108
Accrued dividends on Class A and Class B shares		335		808
		$ 38,453		$ 33,716

During the year, the Company issued 495,681 (2003 - 452,469) Class B and common shares as consideration of $5,210,000 (2003 - $5,108,000) for the royalty stream from the 16 (2003 - 19) net restaurants added to the Royalty Pool (note 3).

The Class A and B shares entitle Food Services to a fixed cumulative preferential cash dividend at a rate of $1.075 per share per annum. The Class A and Class B shares may be redeemed at the option of Food Services into A&W Notes of the Company on the basis of $10 principal amount of A&W Notes for one Class A or Class B share and, in turn, one common share of the Company and a $10 A&W Note are exchangeable for a Unit in the Fund. Accordingly, the Class A and B shares are classified as liabilities of the Fund and the cumulative dividends are classified as interest expense in the consolidated statements of earnings.

8 Trust Units

The Declaration of Trust provides that an unlimited number of Units may be issued. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions of the Fund and in the net assets of the Fund. All Units have equal rights and privileges. Each Unit entitles the holder thereof to participate equally in allocations and distributions and to one vote at all meetings of Unitholders for each whole Unit held. The Units issued are not subject to future calls or assessments.

Units are redeemable at any time at the option of the holder at amounts related to market prices at the time, subject to a maximum of $50,000 in cash redemptions by the Fund in any one month. The limitation may be waived at the discretion of the Trustees of the Fund. Redemption in excess of these amounts, assuming no waiving of the limitation, shall be paid by way of distribution in specie of a pro rata number of securities of the Company held by the Fund. On February 15, 2002, the Fund issued 8,340,000 Units at $10.00 per Unit pursuant to a public underwriting.

9 Administration agreement

The Fund has entered into an administration agreement with the Company whereby the Company at its expense will provide or arrange for the provision of services required in the administration of the Fund. In turn, the Company has arranged for certain of these services to be provided by Food Services until 2011.

10 Related party transactions and balances

During the year, royalty income of $14,830,000 (2003 - $13,679,000) was earned from Food Services, of which $1,409,000 (2003 - $1,267,000) is receivable at December 31, 2004.

Other related party transactions and balances are referred to elsewhere in these consolidated financial statements.

11 Subsequent events

a) 2005 adjustment to the Royalty Pool

On January 5, 2005, the number of A&W restaurants for which royalties are paid to the Company was increased by 27 new restaurants less 9 restaurants that permanently closed during 2004. The Company paid Food Services $6,293,000, by issuance of 519,209 Class B and common shares, as initial consideration for the estimated royalty stream from the 18 net restaurants added to the Royalty Pool. A final adjustment to the share consideration will be made in December 2005 based upon the actual annual gross sales reported by the new restaurants. Until then, 20% of the shares will be held in escrow.

The shares comprise the third payment of the Balance of the purchase price on the acquisition of the A&W trade marks and will be recorded as an additional cost of the A&W trade marks (note 3).

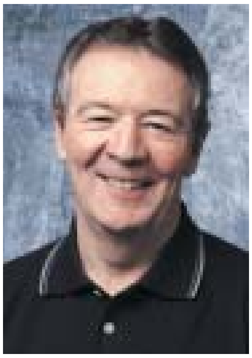
b) Declaration of dividends in respect of 2004

On January 17, 2005, the Company declared a dividend on Class A and Class B shares of $335,000, payable on January 31, 2005. This dividend is in respect of the accrued dividends on Class A and Class B shares at December 31, 2004 (note 7).

Board of Trustees

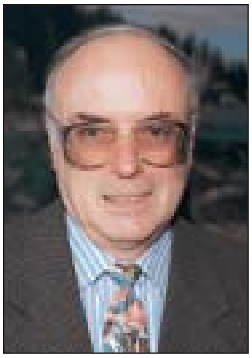
John McLernon - Chairman

John McLernon is Honorary Chairman and Co-Founder of the Colliers Macaulay Nicolls Group of Companies, the largest partner of Colliers International, a global real estate organization with offices in 210 cities in 54 countries. Mr. McLernon was CEO and Chairman of the company for 25 years. He has been active in the real estate industry since 1968. Mr. McLernon attended Bishops College School and received his Bachelor of Arts from McGill University. Mr. McLernon sits on the Board of three other Canadian companies, including two public companies, one of which he sits on the Audit Committee. In the past, he has also been a Board member and Audit Committee member of other Canadian companies.



Don James - President

Don James is founder, principal shareholder, Chairman and CEO of Deeley Harley-Davidson Canada, the exclusive Canadian distributor of Harley-Davidson motorcycles, motor parts, accessories and motor clothes. Mr. James attended the University of Alberta prior to enrolling at Simon Fraser University. He is a graduate of Harvard University's Owner/Presidents Management Program. He is Past Chairman of the Young Presidents' Organization. Mr. James was a recipient of the Canadian Business Entrepreneur of the Year for the Pacific Region award in 1995. Since 2001, Mr. James has also served on the Board of another public company.



Conrad Pinette - Secretary/Treasurer

Conrad Pinette is the Executive Vice President of Riverside Forest Products Limited, one of British Columbia's largest forest products companies. Mr. Pinette attended the University of British Columbia where he specialized in forestry. He was owner, manager and President of a family lumber business until its sale in 1980 and President and Chief Operating Officer of Lignum Limited, a private forest product company until its sale in 2004. As Chairman of Pinetree Developments Ltd., he continues to be responsible for another established family business. He is a director of Finning International and was appointed Chairman of the Board of Finning in 2000. He has also served as a director of a number of public resource companies and has participated on various audit committees. He currently serves on the Boards of two other public companies. He was an active member of the Young Presidents' Organization and is now a member of the World Presidents' Organization.

Unitholder Information

Corporate Head Office

A&W Trade Marks Inc.
c/o 26th Floor
Toronto-Dominion Bank Tower
700 West Georgia Street
Vancouver, BC
Canada V7Y 1B3

Mailing Address

A&W Revenue Royalties
Income Fund
300 - 171 West Esplanade
North Vancouver, BC
Canada V7M 3K9

A & W Revenue Royalties Income Fund Board of Trustees

A & W Trade Marks Inc. Board of Directors

Committees of the Board

(1) Audit Committee
(2) Governance Committee

Registrar and Transfer Agent

Computershare Trust Company
of Canada

Auditors

PricewaterhouseCoopers LLP

Market Information

Units Listed:

Toronto Stock Exchange

Symbol: **AW.UN**

Investor Enquiries

Don Leslie
Chief Financial Officer
A & W Food Services of
Canada Inc.

Tel: 604-988-2141
Fax: 604-988-5531

Email: investorrelations@aw.ca

Website: www.awincomefund.ca

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