

A&W Revenue Royalties Income Fund

Q1

First Quarter Report to Unitholders
for the period ended
March 27, 2011

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To our Unitholders

On behalf of the Trustees of the A&W Revenue Royalties Income Fund (the Fund), I am pleased to report the results of the first quarter, ended March 27, 2011. The Fund, through its investment in A&W Trade Marks Inc. (Trade Marks), owns the A&W trade-marks and licenses them to A&W Food Services of Canada Inc. (A&W Food Services), in exchange for a royalty of 3% of sales reported by the A&W restaurants in the Royalty Pool.

The first quarter of the year is often the most challenging because of weather and competitive factors. While January and February sales were generally comparable to 2010, March same store sales results were the most challenging in many years for the A&W business. As a result, same store sales during the quarter declined by 3.0%, the first decrease in over 30 consecutive quarters. There were several factors which led to these results. The first was an unusually long and severe winter in Canada. Poor weather negatively impacts the sales in freestanding quick service restaurants, as customers stay home and in some instances restaurants are forced to close or sharply reduce hours. The second major impact was the HST in British Columbia. Since it was introduced in July 2010, the HST, which led to a 7% increase in the price of food purchased in restaurants in BC, has reduced customer spending in our restaurants.

Against this context, A&W Food Services is responding both strategically and tactically. Early in the second quarter, the Prime Rib Grandma Burger was launched. This is the first hamburger in the Canadian marketplace that features a beef patty made from 100% prime rib, one of the most premium cuts of beef. This is in keeping with A&W's strategic focus on the growing "premium burger" market, and the initial response from customers has been very positive. On a tactical basis, A&W Food Services and its franchised operators have responded to a more cautious customer with more enticing promotional programs and activities, especially in the BC market.

Total sales of restaurants in the Royalty Pool decreased by 2.6% in the first quarter as a result of the same store sales decline, offset by the growth in sales associated with the increase in the number of restaurants in the Royalty Pool from 700 to 715 effective January 5, 2011. Distributable cash per unit decreased by 3.1 cents per unit to 28.5 cents per unit, primarily due to income taxes payable which were 3.4 cents per unit.

Since its inception in 2002, the Fund has focused on enhancing distributions to unitholders and maximizing the return on their investment in the Fund. While the new SIFT tax on income trusts in January 2011 had a significant impact on all income trusts, we undertook several important initiatives last year to mitigate the impact on the Fund and our unitholders:

- we retained the trust structure, because with some minor modifications it offers the most tax effective structure for unitholders;
- the Fund bought back 2,500,000 of its units with proceeds from a new loan, resulting in increased distributable cash per unit.

In summary, we are pleased that as a result of these initiatives, we were able to increase the annual distribution rate to \$1.404 per unit, while other trusts were cutting distributions due to the impact of the new SIFT tax. The distributions for the first quarter were 11.7 cents per unit per month, an increase of 1.1 cents per unit per month from the first quarter of 2010.

A handwritten signature in black ink, appearing to read "John R. McLernon", followed by a period.

John R. McLernon
Chairman, A&W Revenue Royalties Income Fund
On behalf of the Board of Trustees

A&W Revenue Royalties Income Fund Management Discussion and Analysis

This Management Discussion and Analysis (MD&A) covers the first quarter period from January 1, 2011 to March 27, 2011, and is dated May 31, 2011. This report should be read in conjunction with the interim unaudited consolidated financial statements of A&W Revenue Royalties Income Fund (the Fund) for the quarter ended March 27, 2011, the annual audited financial statements of the Fund for the year ended December 31, 2010 and the annual audited consolidated financial statements of A&W Trade Marks Inc. (Trade Marks) for the year ended December 31, 2010. A copy of this report and additional information about the Fund, including the Fund's Annual Information Form, is available at www.sedar.com or www.awincomefund.ca.

The financial results reported in this MD&A are reported in accordance with International Financial Reporting Standards (IFRS) and as a result are not directly comparable to those figures contained in the Fund's historical financial statements or MD&A's that were prepared in accordance with Canadian Generally Accepted Accounting Principles (CGAAP). The Fund's transition to IFRS has resulted in the Fund now consolidating the accounts of Trade Marks (including the A&W Trade Marks Limited Partnership (the Partnership)), rather than accounting for its investment in Trade Marks using the equity method. The Fund, Trade Marks and the Partnership are together referred to as the Group. A discussion of how the transition to IFRS has impacted the presentation of certain key financial metrics of the Group is provided below (see "Transition to IFRS").

Readers are advised that the Group's transition to IFRS had no impact on the operations of the Group's business, the amount of cash that is generated and available to distribute to unitholders, or the contractual obligations between the Fund, Trade Marks, the Partnership, A&W Food Services of Canada Inc. (A&W or Food Services) or any third parties.

In addition to the impact of IFRS, readers should also be aware that 2011 results are not directly comparable to 2010 due to the following:

- The Fund and Trade Marks undertook a recapitalization and reorganization during the fourth quarter of 2010, resulting in a more efficient overall capital structure and an increase to the Fund's annual distribution rate in 2011. The recapitalization included an increase in Trade Marks' term debt and consequently higher interest expense in the first quarter of 2011 compared to the prior year. It also resulted in a 2,500,000 decrease in the number of equivalent units outstanding (see "Recapitalization and Reorganization");
- The Fund and Food Services completed a secondary bought deal offering of units on March 2, 2011 under which Food Services sold 2,997,000 units of the Fund, resulting in Food Services' indirect interest in the Fund decreasing to 10% (see "Secondary Offering");
- the number of restaurants in the Royalty Pool increased from 700 during 2010 to 715 effective January 5, 2011;
- Trade Marks has income taxes payable for the first time since the inception of the Fund in 2002;

- the first quarters of 2011 and 2010 are not directly comparable as there were 86 days in Q1, 2011 compared to 87 days in Q1, 2010. Same store sales growth is based on an equal number of days in each quarter.
- the monthly distribution rate increased to 11.7¢ per unit from 10.6¢ per unit effective with the distribution for the month of January 2011 and payable as and from February 28, 2011.

OVERALL PERFORMANCE

After a January and February where sales were similar to last year, March 2011 proved to be one of the most challenging months that the A&W business has faced in many years. There were several factors which impacted same store sales. The first was an unusually long and severe winter in Canada which negatively impacted the sales in freestanding restaurants. The second major impact was the Harmonized Sales Tax (HST) in British Columbia. Since it was introduced in July 2010, the HST, which increased the amount of tax on restaurant meals by 7%, has reduced customer spending in restaurants in BC. As a result of the difficult operating environment in March, same store sales for the quarter declined by 3%, the first negative same store sales in 30 consecutive quarters.

Total sales reported by restaurants in the Royalty Pool during the quarter decreased by 2.6% to \$167.2 million compared to \$171.7 million in the same quarter of 2010. The increase in sales resulting from the increase in the number of restaurants in the Royalty Pool from 700 to 715 was offset by the negative same store sales growth.

Royalty income for the quarter was \$5,017,000, representing a slight decrease of \$133,000 or 2.6% compared to the same quarter in 2010. This decrease in royalty income was driven by the negative same store sales growth, offset by the impact of the increase in the number of restaurants in the Royalty Pool to 715 in 2011 from 700 in 2010.

Cash expenses, interest and taxes increased by \$931,000 due to the increase in Trade Marks' term loan, and income taxes payable at 18%.

Distributable cash generated to pay distributions to unitholders and dividends to A&W Food Services decreased to \$3,581,000 compared to \$4,645,000 for the first quarter of 2010. The substantial issuer bid in December 2010 under which the Fund purchased for cancellation 2,500,000 units, resulted in the number of equivalent units decreasing from 14,722,913 units to 12,222,913 units after the substantial issuer bid. Distributable cash per equivalent unit decreased to 28.5¢ from 31.6¢, primarily due to the income taxes payable for the first quarter which were 3.4¢ per unit.

The monthly distribution rate was increased to 11.7¢ per unit from 10.6¢ per unit effective with the distribution for the month of January 2011 which was paid on February 28, 2011. Total distributions of 23.4¢ per unit were declared in the quarter. The new monthly distribution rate of 11.7¢ per unit translates into an annualized distribution of \$1.404 per unit. The cumulative surplus of distributable cash at the end of the quarter was \$2,353,000, compared to a cumulative surplus of \$2,971,000 at the end of 2010.

FINANCIAL HIGHLIGHTS

The following table sets out selected information from the interim unaudited consolidated financial statements of the Fund prepared in accordance with IFRS.

The Fund's net income under IFRS contains many non-cash items that do not affect the Fund's ability to pay distributions. Therefore, non-IFRS measures of same store sales growth, distributable cash and distributable cash per unit are provided to provide more meaningful information and identify the amount of actual cash available to pay distributions to unitholders and dividends to Food Services.

(dollars in thousands except per unit amounts)	Q1 2011	Q1 2010
Same store sales growth ⁽¹⁾	-3.0%	6.1%
Number of restaurants in the Royalty Pool	715	700
Sales reported by the restaurants in the Royalty Pool	\$167,226	\$171,658
Royalty income	\$5,017	\$5,150
General and administrative expenses	301	261
Recapitalization and reorganization costs	-	100
Net third party interest expense	708	139
Current income taxes	425	-
Partnership distributions to Food Services	2	5
Total distributable cash generated for distributions and dividends ⁽²⁾	\$3,581	\$4,645
Distributable cash ⁽²⁾ per weighted average equivalent unit (2011 – 12,571,435 ⁽³⁾ units; 2010 – 14,705,897 units)	\$0.285	\$0.316
Distributions and dividends declared per equivalent unit	\$0.234	\$0.212
The Fund's net earnings (loss) ⁽⁴⁾	\$(1,531)	\$(2,878)

⁽¹⁾ Same store sales growth is not an earnings measure recognized by IFRS and therefore may not be comparable to similar measures presented by other issuers. This information is provided as it is a key driver of growth in the Fund. See "Same Store Sales Growth".

⁽²⁾ Distributable cash is not an earnings measure recognized by IFRS and therefore may not be comparable to similar measures presented by other issuers. This information is provided as it identifies the amount of actual cash available to pay distributions to unitholders and dividends to Food Services. See "Distributable Cash".

⁽³⁾ The number of equivalent units and distributable cash per weighted average equivalent unit in Q1, 2011 includes the 69,704 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2011 adjustment to the Royalty Pool which is held back until December 2011 when the actual annual sales are reported by the new restaurants.

⁽⁴⁾ The net loss resulted from non-cash changes to the fair value of the Fund units in accordance with IFRS (see "IFRS – Classification of Unitholders' Equity").

OVERVIEW

The Fund is a limited purpose trust established in 2001 with an unlimited number of Trust Units under the laws of the Province of British Columbia pursuant to the Declaration of Trust. The units of the Fund trade on the Toronto Stock Exchange under the symbol AW.UN. The Fund was created to acquire, indirectly through Trade Marks, the A&W trade-marks used in the A&W quick service restaurant business in Canada. The trade-marks comprise some of the best-known brand names in the Canadian foodservice industry.

Trade Marks acquired the A&W trade-marks from Food Services in 2002 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 preferred

shares and 2,780,000 common shares, and \$40,000,000 was paid by amounts Trade Marks paid Food Services in respect of annual adjustments to the Royalty Pool up to January 5, 2010.

On January 21, 2009, the A&W trade-marks owned by Trade Marks were transferred to the Partnership in exchange for the general partnership interest held by Trade Marks.

Concurrent with the purchase of the A&W trade-marks, Trade Marks 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 Trade Marks a royalty of 3% of the sales reported to Food Services by A&W restaurants in the Royalty Pool (the Licence and Royalty Agreement). In the event that a restaurant in the Royalty Pool closes, Food Services pays the royalties that would have been paid if the restaurant had not closed, until the next annual adjustment to the Royalty Pool (see "Expansion of the Royalty Pool").

The Licence and Royalty Agreement was assumed by the Partnership in 2009 with the result that the royalty is now paid by Food Services to the Partnership. The Partnership in turn pays partnership distributions to Trade Marks.

Trade Marks distributes its remaining available cash after satisfaction of its debt service and income tax obligations, provisions for administrative expenses of Trade Marks and the Fund, and retention of reasonable working capital reserves, by way of dividends on its common shares held by the Fund and Food Services. Trade Marks' general and administrative expenses include the expenses of the Fund as the Fund has entered into an administration agreement with Trade Marks whereby Trade Marks, at its expense, provides or arranges for the provision of services required in the administration of the Fund. Trade Marks' taxable income is taxed at 18% effective January 1, 2011.

The Fund is not currently taxed on its income as it receives dividends from Trade Marks which are not subject to the new tax on Special Investment Flow-Through Trusts (SIFT) which includes income trusts such as the Fund. All of the Fund's available cash is distributed to unitholders.

A key attribute of the Fund is that the distributable cash available to make distributions to unitholders is based on the sales of the restaurants in the Royalty Pool, with only minimal operating expenses associated with operating the Fund. The Fund is a top-line fund, meaning it is not subject to variability of earnings or expenses associated with an operating business.

Another important aspect of the Fund is that Food Services owns the equivalent of 10% of the units of the Fund through its ownership of common shares of Trade Marks. As a result, interests of Food Services are closely aligned with the interests of unitholders.

Growth in the Fund is achieved in two ways: first, and most importantly, by increasing the same store sales of the restaurants in the Royalty Pool, and second by adding new restaurants to the Royalty Pool each year.

EXPANSION OF THE ROYALTY POOL

The Royalty Pool is adjusted annually to reflect sales from new A&W restaurants added to the Royalty Pool, net of the sales of any A&W restaurants that have permanently closed. Food Services is paid for the additional royalty stream related to the sales of the net new restaurants, based on a formula set out in

the Licence and Royalty Agreement. The formula provides for a payment to Food Services based on 92.5% of the amount of estimated sales from the net new restaurants and the current yield on the units of the Fund. Prior to the creation of the Partnership, Trade Marks paid Food Services by issuing common and preferred shares of Trade Marks which were the economic equivalent of units of the Fund. Effective 2010, additional limited partnership units (LP units) are issued to Food Services to reflect the annual adjustment. Food Services' additional LP units are exchangeable for additional shares of Trade Marks which are exchangeable for units of the Fund.

Under the Reorganization, the remaining preferred shares of Trade Marks held by Food Services after the substantial issuer bid were exchanged for non-voting common shares of Trade Marks (see "Reorganization and Recapitalization").

The ninth adjustment to the Royalty Pool took place on January 5, 2011. The number of A&W restaurants in the Royalty Pool was increased by 20 new restaurants less five restaurants which permanently closed during 2010. The estimated annual sales of the 20 new A&W restaurants are \$20,160,000 and annual sales for the five permanently closed restaurants were \$1,673,000. The net sales of \$18,487,000 translate into estimated additional annual royalty payments to the Partnership of \$555,000 on the basis of the royalty of 3% of sales. The initial consideration for this estimated additional royalty stream is \$6,859,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the units of the Fund for the 20 trading days ending November 1, 2010. The Partnership paid Food Services \$5,487,000 by issuance of 278,818 LP units to Food Services, representing 80% of the initial consideration. The additional LP units were exchanged for 557,636 non-voting common shares of Trade Marks. The remaining 20% of the consideration and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be made in December 2011 by issuance of additional LP units which may be exchanged for non-voting common shares of Trade Marks.

After the January 5, 2011 adjustment to the Royalty Pool, the number of restaurants in the Royalty Pool increased to 715.

RECAPITALIZATION AND REORGANIZATION

In the fourth quarter of 2010, the Fund and Trade Marks implemented two important changes to the structure of the Fund in order to maximize ongoing distributable cash available for unitholders. These changes were a successful substantial issuer bid which reduced the number of units outstanding by approximately 17%, and a reorganization of the capital structure of Trade Marks to minimize the impact of the new SIFT tax on income trusts.

(a) The Fund's offer to purchase units

On November 10, 2010, the Fund announced its intention to make a substantial issuer bid (the Offer) to purchase for cancellation 2,500,000 of its units at a price of \$20 per unit. The Offer was financed by a new loan to Trade Marks in the amount of \$50,000,000. As a result of the purchase of units under the Offer and the new loan, distributable cash available for distributions to unitholders is expected to increase by approximately 10.1¢ (8%) per unit per annum over the amount of distributable cash had the Offer and new loan not occurred. Therefore, on November 10, 2010, the Trustees of the Fund approved a 10% increase in monthly distributions to unitholders to 11.7¢ per unit per month, from 10.6¢ per unit per month. The new monthly distribution rate was effective January 1, 2011 and payable as and from February 28, 2011.

A total of 2,588,663 units were deposited under the Offer, including 2,500,000 securities of Trade Marks held by Food Services exchangeable for a total of 2,500,000 units. As the aggregate number of units deposited under the Offer exceeded the 2,500,000 units for which the Offer was made, units were taken up under the Offer on a pro-rata basis, resulting in 85,627 units being purchased from unitholders other than Food Services and 2,414,373 units being purchased from Food Services.

(b) Exchange of securities

On December 22, 2010, prior to the completion of the Offer, Food Services exchanged 2,414,373 Class A shares of Trade Marks with a book value of \$24,549,000, for \$24,144,000 principal amount of A&W notes. Food Services and Trade Marks recorded the additional A&W notes at a book value of \$24,549,000. Subsequently, Food Services exchanged the \$24,144,000 principal amount of A&W notes and 2,414,373 common shares of Trade Marks (comprising 303,790 non-voting common shares and 2,110,583 voting common shares) for 2,414,373 units of the Fund. The Fund recorded an increase in its investment in Trade Marks through the acquisition of the new A&W notes at the principal amount of \$24,144,000, and the acquisition of the 2,414,373 common shares at \$10 per share or \$24,144,000. Food Services recorded its investment in units of the Fund at \$20 per unit or \$48,288,000, and recognized a gain on the exchange of \$21,552,000, represented by the excess of Food Services' \$48,288,000 investment in the Fund over Food Services' carrying value of the 2,414,373 common shares of Trade Marks of \$2,187,000 and the A&W notes of Trade Marks of \$24,549,000.

(c) Completion of the Offer

The completion of the Offer also took place on December 22, 2010. The Fund's carrying value of the 2,500,000 units under IFRS was \$50,084,000 (under CGAAP - \$49,080,000), and the excess of the carrying value over the \$50,000,000 cost of acquisition, or \$84,000, was credited to the Fund's accumulated earnings (under CGAAP - \$920,000 was charged to accumulated earnings). Food Services recorded its \$48,288,000 proceeds from its sale of 2,414,373 units of the Fund reducing its direct investment in the Fund to \$nil.

The units purchased under the Offer represented approximately 17% of the units outstanding on a fully diluted basis. After the completion of the purchase of the units, 8,254,373 units, and securities exchangeable for a further 3,968,540 units remained outstanding. After the 2,414,373 units were purchased from Food Services, Food Services' indirect interest in the Fund decreased from approximately 43.4% to approximately 32.5% on a fully diluted basis.

(d) Recapitalization and new loan

The Fund financed the amount paid for the units by repayment by Trade Marks of \$50,000,000 of A&W notes of Trade Marks held by the Fund, prior to which the Fund and Trade Marks agreed to amend the A&W notes to allow early repayment. Trade Marks financed the \$50,000,000 repayment of A&W notes by increasing its \$10,000,000 term loan with HSBC Bank Canada to \$60,000,000.

(e) Reorganization

Also on December 22, 2010, subsequent to Food Services' exchange of securities of Trade Marks, and the completion of the Offer, the reorganization (the Reorganization) of the capital structure of Trade Marks took place. The Reorganization was approved by unitholders of the Fund at the

Annual General Meeting held May 4, 2010 and was initiated to minimize the impact of the new SIFT tax on income trusts announced by the federal government in October 2006. The SIFT tax was effective January 1, 2011 and treats an income trust like a corporation, requiring it to pay tax on its taxable income. The Trustees of the Fund examined the alternatives available to maximize unitholder value in the face of this new tax, and proposed this Reorganization to minimize the impact of the new SIFT tax and maximize amounts available for distribution to unitholders in light of the SIFT tax.

As a result of the Reorganization, the Fund will receive dividends paid by Trade Marks rather than interest paid on the A&W notes. These dividends are not subject to the SIFT Tax. Trade Marks' earnings (representing the royalty paid by Food Services less general and administrative expenses and interest on its term loan) will therefore be taxed at an effective rate of 18% versus an approximate tax rate of 25% if the reorganization had not been implemented. In effect this leaves 82% of Trade Mark's net income before income taxes available to be paid as dividends, instead of 75% if the reorganization had not been implemented.

Commencing in 2011 distributions to unitholders will be taxed as non-eligible dividends, rather than "other" income. Investors who are entitled to dividend tax credits will be able to enhance their after-tax yield and reduce the after-tax impact of the reduction in distributions. The total amount of tax paid in 2011 by the Fund and an individual unitholder taxed in Canada at the highest marginal rate on distributions by the Fund, and the tax that would be paid by the unitholder on distributions by the Fund had the SIFT tax not been implemented, is approximately the same.

The following is a summary of the Reorganization:

- i. Trade Marks continued as a company under the British Columbia Business Corporations Act.
- ii. The \$57,543,000 remaining A&W notes held by the Fund were exchanged for 5,754,298 new non-voting common shares with \$10 par value having an aggregate value of \$57,543,000. The excess of Trade Marks' carrying value of the A&W notes of \$57,948,000 over the value of the new non-voting common shares of \$57,543,000, or \$405,000, was credited to Trade Marks' contributed surplus.
- iii. The 3,868,368 voting common shares and 100,185 non-voting common shares of Trade Marks held by Food Services were exchanged for 3,968,553 voting common shares without par value with a value of \$2,652,000.
- iv. The 10,754,373 voting common shares of Trade Marks held by the Fund were exchanged for 10,754,373 voting common shares without par value with a value of \$2,187,000.
- v. The 769,577 Class A preferred shares of Trade Marks held by Food Services were exchanged for 769,577 non-voting common shares without par value with a value of \$7,826,000.
- vi. The 3,198,951 Class B preferred shares of Trade Marks held by Food Services were exchanged for 3,198,951 new non-voting common shares with \$10 par value with a value of \$36,363,000.

(f) Exchange rights

The common shares of Trade Marks held by Food Services may be exchanged at the option of Food Services into units of the Fund on the basis of two common shares for one unit of the Fund, except that Food Services may not exchange non-voting common shares for units of the Fund if it would result in Food Services having a voting interest in Trade Marks greater than its economic interest.

Therefore, after the Offer and Reorganization, Food Services held, indirectly, the equivalent of 32.5% of the units of the Fund on a fully-diluted basis, on the basis of two common shares being the economic equivalent of one unit of the Fund. Food Services will continue to be entitled to additional LP units of the Partnership on the annual adjustment of the restaurants in the Royalty Pool. The additional LP units are exchangeable for non-voting common shares of Trade Marks on the basis of one LP unit for two non-voting common shares of Trade Marks.

All of the voting and non-voting common shares held by the Fund and Food Services are entitled to the same dividends per share.

(g) Costs

The costs of the Offer and the Reorganization were \$775,000 and were expensed. In addition, financing fees of \$449,000 were incurred by Trade Marks for the additional \$50,000,000 term loan. The financing fees are amortized over the term of the loan.

After the completion of the Offer and the Reorganization, there were no outstanding Class A or Class B preferred shares of Trade Marks and no A&W notes of Trade Marks held by the Fund.

SECONDARY OFFERING

The Fund and Food Services announced on February 9, 2011 that they had entered into an agreement with CIBC and National Bank Financial Inc. and a syndicate of underwriters (collectively, the Underwriters) to complete a secondary bought deal offering of units of the Fund. The offering was made pursuant to a short form prospectus filed with securities regulators in each of the provinces of Canada, and closed on March 2, 2011. The Underwriters purchased 2,997,000 units at a purchase price of \$23.35 per unit for gross proceeds of \$69,980,000. The units were sold by Food Services and the Fund did not receive any proceeds from the offering. The costs of the offering were paid by Food Services. Prior to the closing, 5,994,000 common shares of Trade Marks held by Food Services were exchanged for 2,997,000 units of the Fund which were sold by Food Services pursuant to the offering. Following the closing of the offering, Food Services now owns common shares of Trade Marks exchangeable for 1,250,358 units, or approximately a 10% indirect interest in the Fund.

There was no change in the total number of equivalent units outstanding and no change in the amount of cash available to pay distributions as a result of this offering. The regular monthly distribution remains at 11.7¢ per month per unit. The first distribution that purchasers of the units acquired under this offering were entitled to receive was the distribution paid on March 31, 2011 to unitholders of record on March 15, 2011.

Units outstanding after completion of the Offer and Secondary Offering are:

	#
Balance as at December 31, 2009	8,340,000
Units issued in exchange for common shares and A&W notes of Trade Marks	2,414,373
Purchase and cancellation of units	(2,500,000)
Balance as at December 31, 2010	8,254,373
Units issued in exchange for common shares of Trade Marks	2,997,000

(See “Transition to IFRS – Classification of Unitholders’ Equity”.)

COMMON SHARES OF TRADE MARKS

The common shares of Trade Marks are owned by the Fund and Food Services as follows:

	The Fund			Food Services			Total	
	#	\$	%	#	\$	%	#	\$
Balance as at December 31, 2009	8,340,000	1	58.4%	5,950,018	3,552	41.6%	14,290,018	3,553
January 5, 2010 adjustment to the Royalty Pool			-1.8%	432,908	1,287	1.8%	432,908	1,287
December 22, 2010 exchange of Class A shares for A&W notes and A&W notes and common shares for units of the Fund	2,414,373	2,187	16.4%	(2,414,373)	(2,187)	-16.4%	-	-
December 22, 2010 exchange of A&W notes for non-voting common shares with \$10 par value	5,754,298	57,543	7.6%			-7.6%	5,754,298	57,543
December 22, 2010 exchange of Class A shares for non-voting common shares without par value			-2.9%	769,577	7,826	2.9%	769,577	7,826
December 22, 2010 exchange of Class B shares for non-voting common shares with \$10 par value			-10.2%	3,198,951	36,363	10.2%	3,198,951	36,363
Balance as at December 31, 2010	16,508,671	59,731	67.5%	7,937,081	46,841	32.5%	24,445,752	106,572
January 5, 2011 adjustment to the Royalty Pool			-1.5%	557,636	5,487	1.5%	557,636	5,487
March 2, 2011 exchange of common shares for units of the Fund	5,994,000	37,279	24.0%	(5,994,000)	(37,279)	-24.0%	-	-
Balance as at March 27, 2011	22,502,671	97,010	90.0%	2,500,717	15,049	10.0%	25,003,388	112,059

OWNERSHIP OF THE FUND

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

	March 27, 2011 ⁽²⁾		March 27, 2011 ⁽¹⁾		December 31, 2010	
	#	%	#	%	#	%
Fund units held by public unitholders	11,251,373	89.5	11,251,373	90.0	8,254,373	67.5
Securities of Trade Marks' held by Food Services exchangeable for Fund units ⁽³⁾	1,320,062	10.5	1,250,358	10.0	3,968,540	32.5
Total equivalent units	12,571,435	100.0	12,501,731	100.0	12,222,913	100.0

(1) Information is current as at May 31, 2011

(2) Includes the 69,704 LP units exchangeable for 139,408 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2011 adjustment to the Royalty Pool which is held back until December 2010 when the actual annual sales are reported by the new restaurants

(3) 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.

TRANSITION TO IFRS

The Fund adopted IFRS on January 1, 2011 and the financial results disclosed in this MD&A for all periods commencing on or after January 1, 2010 (the Transition Date) have been prepared in accordance with IFRS, including International Accounting Standard (IAS) 34 – “Interim Financial Reporting” and IFRS 1 – “First Time Adoption of IFRS”.

Basis of Consolidation

In 2005, the Fund, Trade Marks, the Partnership and Food Services adopted the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 15 “Consolidation of Variable Interest Entities” (AcG-15). The Fund and Food Services determined that Trade Marks was a VIE and that Food Services was the “primary beneficiary” of Trade Marks. As a result of that guideline, Food Services previously consolidated Trade Marks, and the Fund accounted for its investment in Trade Marks using the equity method.

Under IAS 27 “Consolidated and Separate Financial Statements”, consolidation is based on control, which is the power to govern the financial and operating policies of an entity to obtain economic benefits from its activities, and the ability to exercise that control. As the Fund controls Trade Marks, under IFRS the Fund consolidates Trade Marks rather than accounting for its investment in Trade Marks using the equity method. The consolidated financial statements of the Fund now include the actual royalty revenue, general and administrative, interest and tax expenses, assets and liabilities of Trade Marks (which includes the Partnership), rather than equity income from Trade Marks. The comparative financial results contained in this MD&A have been restated to conform to IFRS and this basis of consolidation. The Fund’s financial results for periods ending on or before December 31, 2009 have been prepared in accordance with CGAAP and therefore are not directly comparable to the financial results of the Fund reported in accordance with IFRS from January 1, 2010 onwards.

Basis of transition to IFRS

The Fund’s financial statements for the year ended December 31, 2011 will be its first annual financial statements that comply with IFRS. The Fund prepared its opening IFRS balance sheet as at its Transition Date of January 1, 2010. In preparing its opening IFRS balance sheet and comparative information for the quarter ended March 28, 2010 the Fund has adjusted amounts reported previously in financial statements prepared in accordance with CGAAP.

Upon transition to IFRS, the general principle is that the financial statements must be prepared on a retrospective basis as if IFRS had always been applied. However, in addition to exempting entities from the requirement to restate comparatives for particular standards, IFRS 1 provides certain mandatory exceptions and grants certain optional exemptions from full retrospective application of IFRS.

In preparing these condensed consolidated interim financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

The Group has applied the following mandatory exceptions from full retrospective application:

Estimates

The requirement is for estimates made under IFRS at January 1, 2010 to be consistent with estimates made for the same date under Canadian GAAP, unless there is evidence that those estimates were in error. The Group's estimates under IFRS as at January 1, 2010 are consistent with estimates under Canadian GAAP for the same date. Therefore, this exception had no impact on the Fund's IFRS financial statements.

Hedge accounting

The requirement is for the Group to fair value all derivatives and eliminate all deferred losses and gains arising on derivatives that were reported in accordance with Canadian GAAP as if they were assets or liabilities made under IFRS at January 1, 2010. The Group has always measured all derivatives at fair value, and no deferred gains or losses have been recognized as assets or liabilities. Therefore, this exception had no impact on the Fund's IFRS financial statements.

The Group has elected to apply the following optional exemptions from full retrospective application:

a) Business combinations

IFRS 1 provides the option to apply IFRS 3 (revised), "Business Combinations" (IFRS 3), retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Group elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to January 1, 2010.

b) Fair value measurement of financial assets and liabilities on initial recognition

The Group has applied this exemption offered by IAS 39 on the initial recognition of financial instruments measured at fair value through profit or loss. The Group had no financial instruments where the most recent transaction price was not representative of fair value.

Classification of Unitholders' Equity

Under CGAAP, the units were classified as equity. Under IFRS, an instrument is classified as a financial liability if it contains a contractual obligation to transfer cash or other financial assets. A mandatory requirement to distribute taxable income, such as the automatic distribution provisions set out in section 5.4(b) of the Declaration of Trust of the Fund, results in the units being considered a liability under IFRS. As a financial liability, the units have been transferred from equity to liabilities on the balance sheet and distributions have been classified as financing expense on the income statement instead of a reduction in unitholders' equity. The financial liability is recorded at fair value (the number of units outstanding multiplied by the closing price of the units on the balance sheet date). Changes in the fair value of the units are reported on the Fund's statement of income.

The Trustees of the Fund believe that this treatment of the units on the IFRS financial statements may be confusing to unitholders. Accordingly, the Trustees proposed an amendment to the Declaration of Trust to delete section 5.4(b) which will remove the mandatory distribution requirements, notwithstanding that the Trustees' current approach to setting distribution levels has not changed. The Trustees also proposed to amend section 11.1(b)(iv) of the Declaration of Trust to permit the Trustees to make amendments resulting from changes in accounting standards without the requirement to obtain unitholder approval. The Declaration of Trust special resolution was approved at the annual general meeting of unitholders held on May 3, 2011.

As a result of this amendment to the Declaration of Trust, units and distributions will, under IFRS, be presented as equity from and after May 3, 2011. However on the March 27, 2011 financial statements, the units are presented as a financial liability and distributions as financing expense. After May 3, 2011, comparative figures for the periods prior to May 3, 2011 will continue to show the units as a financial liability and distributions as financing expense.

The financial results in the following table show the results as reported under IFRS, and proforma results assuming that units were classified as equity rather than a financial liability under IFRS and assuming that distributions were classified as distributions rather than financing expense under IFRS. These results are for information purposes only.

(dollars in thousands except per unit amounts)	Q1 2011 IFRS	Q1 2011 <i>Proforma</i>	Q1 2010 IFRS	Q1 2010 <i>Proforma</i>
Same store sales growth ⁽¹⁾	-3.0%	-3.0%	6.1%	6.1%
Number of restaurants in the Royalty Pool	715	715	700	700
Sales reported by the restaurants in the Royalty Pool	\$167,226	\$167,226	\$171,658	\$171,658
Royalty income	\$5,017	\$5,017	\$5,150	\$5,150
General and administrative expenses	301	301	261	261
Recapitalization and reorganization costs	-	-	100	100
Increase in fair value of Fund units	2,520	-	3,753	-
Financing expenses	2,282	-	1,768	-
Term loan and other interest	708	708	139	139
Amortization of deferred financing fees	19	19	2	2
Class A and Class B preferred share dividends	-	-	1,631	1,631
Current income taxes	425	425	-	-
Deferred income taxes	293	293	374	374
The Fund's net earnings	\$(1,531)	\$3,271	\$(2,878)	\$2,643
Partnership distributions to Food Services	2	2	5	5
Total distributable cash generated for distributions and dividends ⁽²⁾	\$3,581	\$3,581	\$4,645	\$4,645
Distributable cash ⁽²⁾ per weighted average equivalent unit (2011 – 12,571,435 ⁽³⁾ units; 2010 – 14,705,897 units)	\$0.285	\$0.285	\$0.316	\$0.316
Distributions and dividends declared per equivalent unit	\$0.234	\$0.234	\$0.212	\$0.212

⁽¹⁾ Same store sales growth is not an earnings measure recognized by IFRS and therefore may not be comparable to similar measures presented by other issuers. This information is provided as it is a key driver of growth in the Fund. See "Same Store Sales Growth".

⁽²⁾ Distributable cash is not an earnings measure recognized by IFRS and therefore may not be comparable to similar measures presented by other issuers. This information is provided as it identifies the amount of actual cash available to pay distributions to unitholders and dividends to Food Services. See "Distributable Cash".

⁽³⁾ The number of equivalent units and distributable cash per weighted average equivalent unit in Q1, 2011 includes the 69,704 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2011 adjustment to the Royalty Pool which is held back until December 2011 when the actual annual sales are reported by the new restaurants.

Summary of Impact of IFRS

The following table is a summary of how the Fund's transition to IFRS has impacted the Fund's financial statements and key measures.

Measure	Summary of Impact on the Fund's Financial Statements
Same store sales growth	<ul style="list-style-type: none"> No change
Revenue	<ul style="list-style-type: none"> The Fund now consolidates the accounts of Trade Marks, so royalty income of Trade Marks (through the Partnership) is reported as royalty income of the Fund. IAS 18 "Revenue" is substantially the same as CGAAP and there is no impact on the amount of royalty income received by Trade Marks (through the Partnership).
General and administrative expenses	<ul style="list-style-type: none"> The Fund now consolidates the accounts of Trade Marks, so G&A expenses of Trade Marks are now reported as expenses of the Fund.
Financing expenses	<ul style="list-style-type: none"> Under IAS 32 "Financial Instruments: Presentation", units are classified as a financial liability rather than equity, and distributions paid to unitholders are classified as financing expenses. Effective May 3, 2011, units and distributions will be re-classified as equity as a result of the Special Resolution passed at the annual general meeting of the Fund on May 3, 2011 (see "Transition to IFRS – Classification of Unitholders' Equity").
Increase in the fair value of Fund units	<ul style="list-style-type: none"> Under IAS 32, units are classified as a financial liability rather than equity, at fair value (the number of units outstanding multiplied by the closing price of the units on the balance sheet date). Changes in the fair value of the units are reported on the Fund's statement of income. Effective May 3, 2011, units and distributions will be re-classified as equity as a result of the Special Resolution passed at the annual general meeting of the Fund on May 3, 2011 (see "Transition to IFRS – Classification of Unitholders' Equity").
Interest expense	<ul style="list-style-type: none"> The Fund now consolidates the accounts of Trade Marks, so interest expense of Trade Marks is now reported as interest expense of the Fund.
Income tax	<ul style="list-style-type: none"> Current and deferred income tax expense, payable and recoverable of Trade Marks is now reported as income taxes of the Fund. Under IAS 12 "Income Taxes", current and long-term future income tax liabilities under CGAAP are presented as non-current deferred income taxes under IFRS. A timing difference was eliminated under IFRS resulting in a \$2 million reduction in deferred income tax liability with a corresponding reduction in the intangible asset.
Net income	<ul style="list-style-type: none"> The combined effects of the consolidation of Trade Marks and the changes in the fair value of the Fund's units had a significant impact on the Fund's net income under IFRS.

Comprehensive Income	<ul style="list-style-type: none"> Other comprehensive income comprises the change in the value of Trade Marks' interest rate swap, less Food Services' share. The Fund's other comprehensive income under CGAAP comprised the Fund's share of the change in the value of Trade Marks' interest rate swap.
Distributions	<ul style="list-style-type: none"> For periods and comparative periods up to May 3, 2011, amounts paid to unitholders are classified as financing expense rather than distributions.
Equity	<ul style="list-style-type: none"> For periods and comparative periods up to May 3, 2011, under IAS 32 "Financial Instruments: Presentation", units are classified as a financial liability rather than equity. Accumulated earnings were significantly impacted by the fair value adjustments of the Fund's units and the differences between the Fund's and Trade Marks' carrying values of common shares of Trade Marks held by the Fund. The non-controlling interest comprises Food Services' non-controlling interest in Trade Marks.
Royalty Pool Amendments	<ul style="list-style-type: none"> No change
Units Outstanding	<ul style="list-style-type: none"> No change
Cash and cash equivalents	<ul style="list-style-type: none"> The Fund now consolidates the accounts of Trade Marks, so Trade Mark's cash is reported along with the cash of the Fund.
Accounts receivable	<ul style="list-style-type: none"> The Fund now consolidates the accounts of Trade Marks, so the Partnership's royalty receivable from Food Services is reported as a current asset of the Fund.
Prepaid interest	<ul style="list-style-type: none"> Trade Marks' prepaid interest expense on its term loan is reported as a current asset of the Fund.
Intangible assets	<ul style="list-style-type: none"> The Partnership's intangible assets (the A&W trade-marks) are reported as an asset of the Fund, and are carried at cost. The Fund has applied IAS 38 "Intangible Assets" prospectively. The carrying value is tested for impairment at each balance sheet date as required by IAS 36 "Impairment of Assets" (see "Critical Accounting Estimates").
Term loan and interest rate swap	<ul style="list-style-type: none"> Trade Marks' term loan and interest rate swap are reported on the Fund's consolidated balance sheet. Changes in the fair value, to the extent the hedge is effective, are recorded in other comprehensive income (loss) and are only recognized in earnings when the hedged item is realized. Any ineffectiveness in the hedging relationship is recognized in earnings immediately. The hedge is tested each reporting period for effectiveness under IFRS.
Class A and B preferred shares	<ul style="list-style-type: none"> Trade Marks' Class A and B preferred shares are reported on the Fund's January 1, 2010 balance sheet. There are no Class A and B shares outstanding as at December 31, 2010 and March 27, 2011 (see "Recapitalization and Reorganization").
Non-controlling interest	<ul style="list-style-type: none"> As the Fund consolidates Trade Marks under IFRS, Food Services' non-controlling interest in Trade Marks is reflected under equity on the Fund's consolidated balance sheet and income statement.
Cash flows	<ul style="list-style-type: none"> The transition to IFRS had no impact on the Fund's or Trade Marks' cash flows and no significant impact on the statement of cash flows.

The IFRS standards applied in the condensed consolidated interim financial statements and this MD&A for the quarter ended March 27, 2011 are based on IFRS issued and outstanding as at May 31, 2011. The IASB currently has projects underway that are expected to result in new pronouncements, therefore any subsequent changes to IFRS that are given effect in the Fund’s consolidated annual financial statements for the year ending December 31, 2011 could result in a restatement of the condensed consolidated interim financial statements as at March 27, 2011.

Readers are advised that the Group’s transition to IFRS had no impact on the operations of the Group’s business, the amount of cash that is generated and available to distribute to unitholders, or the contractual obligations between the Fund, Trade Marks, the Partnership, Food Services or any third parties.

RESULTS OF OPERATIONS

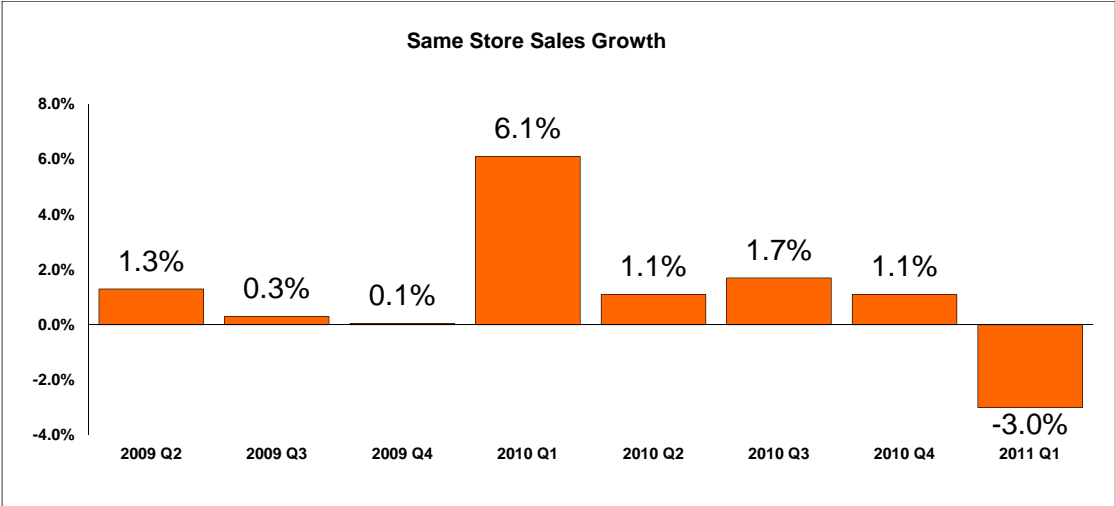
SAME STORE SALES GROWTH

The source of revenue for the Fund is through the royalty income that the Partnership receives from Food Services. Royalty income is equal to 3% of sales of the A&W restaurants in the Royalty Pool. Therefore, same store sales growth by A&W restaurants is a key performance indicator for the Fund.

Same store sales growth is the change in sales of A&W restaurants in the Royalty Pool that operated during the entire 26 4-week periods ending March 27, 2011.

Same store sales during the first quarter of 2011 declined by 3.0% compared to the same quarter of 2010. This was the first decrease in same store sales in over 30 consecutive quarters. The primary cause of this decline was particularly weak sales in March this year, as compared to a year ago. Poor weather was a significant factor. The second major impact was the HST in British Columbia. Since it was introduced in July 2010, the HST, which led to a 7% increase in the price of food purchased in restaurants in BC, has reduced customer spending in our restaurants.

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



INCOME

Royalty income for the first quarter of 2011 was \$5,017,000 based on sales of \$167,226,000, a decrease of 2.6% over royalty income of \$5,150,000 and sales of \$171,658,000 for the first quarter of 2010. The increase in sales resulting from the increase in the number of restaurants in the Royalty Pool was offset by the same store sales decrease of 3.0%.

Impact of IFRS

The Fund's transition to IFRS resulted in the Fund consolidating Trade Marks and the Partnership. Therefore, the Fund now reports the royalty income of the Partnership. The transition to IFRS had no impact on the amount of royalty income.

EXPENSES AND TAXES

The Fund's expenses for the period were as follows:

(dollars in thousands)	Q1 2011	Q1 2010
General and administrative	\$301	\$261
Recapitalization and reorganization costs	-	100
Interest on term loan and other	708	139
Amortization of deferred financing fees	19	2
Dividends on Class A&B preferred shares ⁽¹⁾	-	1,631
Increase in fair value of the Fund units	2,520	3,753
Financing expenses (distributions declared)	2,282	1,768
Current income taxes	425	-
Provision for deferred income taxes	293	374

⁽¹⁾ As required by CGAAP and IFRS, the dividends were classified as interest expense. As at December 22, 2010, there are no outstanding Class A and Class B preferred shares (see "Recapitalization and Reorganization").

General and administrative expenses for the first quarter of 2011 increased by \$40,000 to \$301,000, compared to \$261,000 for the first quarter of 2010. Costs of \$100,000 were incurred in the first quarter of 2010 for the reorganization of the capital structure of Trade Marks.

Interest expense on the term loan for the first quarter of 2011 was \$708,000 compared to \$139,000 for the first quarter of 2010. The increase in term loan interest was due to the increase in the amount of the term loan by \$50,000,000 to \$60,000,000 effective December 22, 2010 (see "Recapitalization and Reorganization").

The Class A and Class B preferred shares entitled Food Services to a fixed cumulative preferential cash dividend at a rate of \$1.075 per share per annum. In accordance with CGAAP and IFRS, the cumulative dividends were treated for accounting purposes by Trade Marks as interest expense and, as such, were deducted to arrive at net earnings. There were no Class A and Class B preferred share dividends in the first quarter of 2011 (see "Recapitalization and Reorganization"). Class A and Class B preferred share dividends were \$1,631,000 for the first quarter of 2010.

Under IFRS, the Fund units are a financial liability and are recorded at fair value. The fair value adjustment on the Fund units was \$2,520,000 for the first quarter of 2011 compared to \$3,753,000 for the first quarter of 2010. Distributions of \$2,282,000 were declared in the first quarter of 2011

compared to \$1,768,000 in the first quarter of 2010. Distributions are recorded as financing expenses under IFRS.

Trade Marks' taxable income is taxable at 18% resulting in current income tax expense of \$425,000 for the first quarter of 2011. There were no current income taxes for 2010. Deferred income taxes, a non-cash expense, were \$293,000 for the first quarter of 2011 compared to \$374,000 for the first quarter of 2010.

Impact of IFRS

The Fund's transition to IFRS resulted in the Fund consolidating Trade Marks and the Partnership. Therefore, the Fund now reports the general and administrative, interest and income tax expenses of Trade Marks. In addition, under IFRS, the Fund units are recorded as a financial liability and as a result, the Fund recorded a loss on the fair value adjustment of the units of the Fund and financing expenses equal to the distributions declared in the quarter (see "Transition to IFRS – Classification of Unitholders' Equity"). None of the IFRS items that impacted expenses had any impact on the amount of distributable cash.

NET INCOME

The net loss for the first quarter of 2011 was \$1,531,000 of which a loss of \$1,860,000 is attributable to unitholders of the Fund and earnings of \$329,000 are attributable to Food Services' non-controlling interest in the earnings of Trade Marks. The earnings of Trade Marks exclude the fair value adjustment of the units of the Fund. The net loss for the first quarter of 2010 was \$2,878,000 of which a loss of \$3,096,000 was attributable to unitholders of the Fund and earnings of \$218,000 were attributable to Food Services' non-controlling interest in the earnings of Trade Marks. The decrease in the loss was due to there being no Class A and Class B preferred share dividends in 2011.

Impact of IFRS

The Fund's transition to reporting its financial results in accordance with IFRS has had significant impacts on how the Fund reports net income. See the "Income" and "Expenses" sections above for a discussion of these impacts.

While net income is the measurement of the Fund's earnings under IFRS, of more interest to unitholders is the calculation of distributable cash (See "Distributable Cash"). Net income under IFRS contains many non-cash items which do not affect the Fund's ability to pay distributions. These non-cash items include the fair value adjustment and financing expenses on the Fund's units.

OTHER COMPREHENSIVE INCOME

Other comprehensive income was \$313,000 for the first quarter of 2011 and \$51,000 for the first quarter of 2010, representing the change in the fair value of the interest rate swap agreement, net of tax. The comprehensive loss for the first quarter of 2011 was \$1,218,000 of which a loss of \$1,525,000 is attributable to unitholders of the Fund and earnings of \$307,000 are attributable to Food Services' non-controlling interest in the comprehensive income of Trade Marks. The comprehensive loss for the first quarter of 2010 was \$2,827,000 of which a loss of \$3,062,000 was attributable to unitholders of the Fund and earnings of \$235,000 were attributable to Food Services' non-controlling interest in the comprehensive income of Trade Marks.

Impact of IFRS

The transition to IFRS had no impact on other comprehensive income. The transition to IFRS had a significant impact on total comprehensive income (loss). See the “Income”, “Expenses” and “Net Income” sections above for a discussion of these impacts.

EQUITY

Accumulated losses as at March 27, 2011 were \$159,173,000 compared to accumulated losses of \$124,612,000 as at December 31, 2010 and \$57,490,000 as at January 1, 2010. These accumulated losses under IFRS are primarily non-cash and have no impact on the Fund’s ability to pay distributions.

Impact of IFRS

The transition to IFRS had a significant impact on the non-controlling interests and accumulated losses components of equity. Under IFRS, non-controlling interests are recorded in equity rather than as a non-current liability under CGAAP. Accumulated losses were impacted by a \$133 million fair value adjustment to the Fund units as at January 1, 2010, as the Fund units are recorded as a financial liability under IFRS and adjusted to their fair value using the trading price as at the last day of the reporting period. There was a further fair value adjustment of \$57 million for the year ended December 31, 2010. Other non-cash items in accumulated earnings include a \$22 million difference in the Fund’s and Trade Marks’ carrying value of common shares as at December 31, 2010 related to the Reorganization, and a \$33 million difference in the Fund’s and Trade Marks’ carrying value of common shares as at March 27, 2011 related to the Secondary Offering.

The following table is a reconciliation of accumulated earnings as reported under CGAAP as at January 1, 2010, March 28, 2010 and December 31, 2010, to accumulated earnings as reported under IFRS.

	December 31, 2010	March 28, 2010	January 1, 2010
Accumulated earnings as reported under CGAAP	89,619	81,580	78,557
IFRS adjustment increase(decrease):			
Impact of consolidation of Trade Marks	(3,461)	(3,307)	(2,709)
Fair value adjustment on Fund units liability	(190,222)	(138,859)	(133,338)
Difference on the exchange of common shares and A&W notes	(21,552)	-	-
Fair value adjustment to loss on purchase and cancellation of units	1,004	-	-
Accumulated earnings as reported under IFRS	(124,612)	(60,586)	(57,490)

DISTRIBUTABLE CASH

Over the last 9 years since its inception, the Fund has focused on providing unitholders with a strong return with increasing distributions. When the Fund was launched in 2002, distributions were set at \$1.08 per unit per year. With the growth in same store sales, these distributions have grown steadily. The imposition of the SIFT tax on income trusts in January 2011 had a significant impact on all income trusts. Consistent with the Fund’s intention to maximize unitholder value, several important initiatives were undertaken last year to mitigate the impact on the Fund and its unitholders. First, the decision was made to retain the trust structure because with some minor modifications it offered the most tax effective structure for unitholders. Second, debt was added to the balance sheet of the Fund’s subsidiary to buy back units of the Fund under the substantial issuer bid, creating a more efficient overall capital structure

and further enhancing distributions to unitholders. As a result of these changes, the Trustees of the Fund were able to increase the annual distribution rate to \$1.404 per unit.

The distributable cash and payout ratio measures are provided as they identify the amount of actual cash available to pay distributions to unitholders and dividends to Food Services and provide information regarding the extent to which the Fund distributes cash. The distributable cash and payout ratios are not earnings measures recognized by IFRS and therefore may not be comparable to similar measures presented by other issuers.

Distributable cash is calculated as the operating cash flows of the Fund, adjusted for fair value adjustments, financing expenses, dividends on Trade Marks' Class A and Class B preferred shares, the Partnership's distributions to Food Services, financing fees and changes in non-cash working capital. Financing expenses and dividends on Trade Marks' Class A and Class B preferred shares are added back in order to show the total distributable cash available to pay distributions to unitholders and dividends to Food Services on a fully-diluted basis. Changes in non-cash working capital are excluded as the Fund's working capital requirements are not permanent and are primarily due to the timing of payments between related parties. No deduction is made for capital expenditures as the Fund has no capital expenditures. There are no restrictions on distributions arising from compliance with financial covenants. The payout ratio is calculated by dividing the distributions declared per unit by distributable cash per unit.

The chart below reconciles distributable cash to the most directly comparable measure calculated in accordance with IFRS, net cash generated from operating activities including net changes in items of working capital.

(dollars in thousands except per unit amounts)	Q1 2011	Q1 2010
Cash flow from operating activities	\$1,908	\$2,127
Add: Changes in accrued Class A and Class B preferred share dividends	-	(490)
Dividends on Class A & Class B preferred shares	-	1,631
Changes in non-cash working capital	(607)	(386)
Financing expenses	2,282	1,768
Partnership distributions paid to Food Services	(2)	(5)
Distributable cash	3,581	4,645
Cumulative surplus – beginning of period	2,971	3,706
Distributable cash paid to unitholders at current annual distribution rate (2011 - \$1.404 per unit, 2010 - \$1.272 per unit)	(3,429)	(2,529)
Distributable cash paid to Food Services at current annual distribution rate (2011 - \$1.404 per share, 2010 - \$1.272 per share)	(770)	(1,930)
Cumulative surplus – end of period	\$2,353	\$3,892
Distributable cash per equivalent unit	\$0.285	\$0.316
Number of equivalent units ⁽¹⁾	12,571,435	14,705,897
Monthly distributions declared per unit	\$0.234	\$0.212
Payout ratio	82.1%	67.1%

⁽¹⁾ The number of equivalent units and distributable cash per weighted average equivalent unit in Q1, 2011 includes the 69,704 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2011 adjustment to the Royalty Pool which is held back until December 2011 when the actual annual sales are reported by the new restaurants.

Distributable cash generated to pay distributions to unitholders and dividends to Food Services decreased to \$3,581,000 compared to \$4,645,000 for the first quarter of 2010. The number of equivalent units decreased from 14,705,897 units in the first quarter of 2010 to 12,571,435 units in the first quarter of 2011, due to the substantial issuer bid in December 2010 which resulted in the Fund purchasing for cancellation 2,500,000 units (see “Recapitalization and Reorganization”). Distributable cash per equivalent unit decreased by 3.1¢ per unit from 31.6¢ per unit for the first quarter of 2010 to 28.5¢ per unit for the first quarter of 2011. The decrease in distributable cash per unit was a result of Trade Marks’ earnings becoming taxable in 2011. The income taxes payable for the first quarter were 3.4¢ per unit.

The monthly distribution rate was increased to 11.7¢ per unit from 10.6¢ per unit effective with the distribution for the month of January 2011 which was paid on February 28, 2011. Total distributions of 23.4¢ per unit were declared in the quarter. The new monthly distribution rate of 11.7¢ per unit translates into an annualized distribution of \$1.404 per unit.

The cumulative surplus of distributable cash at the end of the quarter was \$2,353,000, compared to a cumulative surplus of \$2,971,000 at the end of 2010. The cumulative surplus at the end of 2010 was reduced by the payment of one-time financing fees and transaction costs of \$1,224,000 (see “Recapitalization and Reorganization”). Before payment of these costs, the cumulative surplus of distributable cash at the end of the 2010 was \$4,195,000.

Impact of IFRS

The Fund’s transition to IFRS had no impact on the distributable cash generated by the Fund, Trade Marks and the Partnership.

DISTRIBUTIONS TO UNITHOLDERS

Distributions during the quarter ended March 27, 2011 were as follows:

(dollars in thousands except per unit amounts)	Record date	Amount	Per unit
January 2011 distribution	February 15, 2011	\$ 966	\$0.117
February 2011 distribution	March 15, 2011	1,316	0.117
		\$2,282	\$0.234

The February 2011 distribution was paid on March 31, 2011 and is recorded as a current liability of the Fund as at March 27, 2011. On April 4, 2011, the Fund declared the March 2011 monthly distribution to unitholders of 11.7¢ per unit or \$1,316,000, payable on April 29, 2011. On May 2, 2011, the Fund declared the April 2011 monthly distribution to unitholders of 11.7¢ per unit or \$1,316,000, payable on May 31, 2011. On June 1, 2011, the Fund declared the May 2011 monthly distribution to unitholders of 11.7¢ per unit or \$1,316,000, payable on June 30, 2011.

Impact of IFRS

The Fund’s transition to IFRS had no impact on distributable cash or distributions paid to unitholders in the quarter.

TAX TREATMENT OF DISTRIBUTIONS

Of the 23.4¢ per unit in distributions declared year to date, 100% is designated as non-eligible dividends.

DIVIDENDS ON TRADE MARKS' COMMON SHARES

During the quarter, Trade Marks declared dividends on its common shares of \$2,926,000 or 11.7¢ per share. The \$1,462,000 dividend declared on March 2, 2011 was paid to the Fund and Food Services on March 31, 2011 and Food Services' share is reported as a current liability as at March 27, 2011.

On April 4, 2011, Trade Marks declared the March 2011 common share dividend of 5.85¢ per share or \$1,462,000, payable to Food Services and the Fund on April 29, 2011. On May 2, 2011, Trade Marks declared the April 2011 common share dividend of 5.85¢ per share or \$1,463,000, payable on May 31, 2011. On June 1, 2011, Trade Marks declared the May 2011 common share dividend of 5.85¢ per share or \$1,463,000, payable to Food Services and the Fund on June 30, 2011.

SUMMARY OF QUARTERLY RESULTS

The following selected quarterly results, other than "Distributable cash" and "Distributable cash per equivalent unit", have been prepared in accordance with IFRS and all dollar amounts are reported in Canadian currency.

(dollars in thousands except per unit amounts)	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Number of restaurants in the Royalty Pool	715	700	700	700	700
Royalty income	\$5,017	\$7,167	\$5,654	\$5,330	\$5,150
General and administrative expenses	301	237	52	51	261
Recapitalization and reorganization costs ⁽¹⁾	-	661	-	14	100
Increase in fair value of Fund units ⁽²⁾	2,520	20,264	12,427	8,173	3,753
Financing expenses ⁽³⁾	2,282	4,361	2,652	3,486	1,768
Term loan and other interest expense	708	269	130	132	139
Amortization of deferred financing fees	19	6	2	2	2
Class A and B deferred share dividends ⁽⁴⁾	-	1,911	1,575	1,575	1,631
Current income tax expense	425	-	-	-	-
Deferred income tax expense	293	563	631	567	374
Net loss	\$(1,531)	\$(21,105)	\$(11,815)	\$(8,670)	\$(2,878)
Distributable cash ⁽⁵⁾	\$3,581	\$5,544	\$5,466	\$5,128	\$4,645
Number of equivalent units ⁽⁶⁾	12,571,435	12,222,913	14,705,897	14,705,897	14,705,897
Distributable cash per weighted average equivalent unit ⁽⁵⁾⁽⁶⁾	\$0.285	\$0.382	\$0.372	\$0.349	\$0.316
Monthly distributions declared per unit ⁽⁷⁾	\$0.234	\$0.424	\$0.318	\$0.318	\$0.212
Special distribution declared per unit	-	\$0.100	-	\$0.100	-
Number of days in the quarter	86	110	84	84	87

The following selected quarterly results, other than “Distributable cash” and “Distributable cash per equivalent unit”, have been prepared in accordance with CGAAP and all dollar amounts are reported in Canadian currency. The financial results reported in the table below are not directly comparable to those figures contained in the table above which are reported in accordance with IFRS.

(dollars in thousands except per unit amounts)	Q4 2009	Q3 2009	Q2 2009
Number of restaurants in the Royalty Pool	685	685	685
Trade Marks' royalty income	\$7,181	\$5,408	\$5,115
Trade Marks' general and administrative expenses	167	57	85
Trade Marks' recapitalization and reorganization costs	-	-	-
Trade Marks' term loan and other interest expense	183	133	131
Trade Marks' amortization of deferred financing fees	3	2	2
Trade Marks' interest expense on A&W notes	2,849	2,063	2,063
Trade Marks' Class A and B deferred share dividends ⁽⁴⁾	2,050	1,466	1,466
Trade Marks' current income tax expense	-	-	-
Trade Marks' future income tax expense	(40)	595	538
Food Services' non-controlling interest in earnings of the Partnership	7	6	5
Trade Marks' earnings	\$1,962	\$1,086	\$825
The Fund's interest income on A&W notes	\$2,849	\$2,063	\$2,063
The Fund's equity in earnings of Trade Marks	1,144	635	483
The Fund's dilution gain	17	-	-
The Fund's net earnings	\$4,010	\$2,698	\$2,546
Basic and diluted earnings per unit	\$0.481	\$0.324	\$0.305
Distributable cash ⁽⁵⁾	\$6,831	\$5,218	\$4,899
Number of equivalent units ⁽⁶⁾	14,289,993	14,289,993	14,289,993
Distributable cash per weighted average equivalent unit ⁽⁵⁾⁽⁶⁾	\$0.478	\$0.365	\$0.343
Monthly distributions declared per unit ⁽⁷⁾	\$0.424	\$0.318	\$0.318
Special distribution declared per unit	\$0.100	-	\$0.100
Number of days in the quarter	116	84	84

(1) See “Recapitalization and Reorganization”.

(2) Units of the Fund are classified as a financial liability under IFRS and the Fund is required under IFRS to fair value that liability at the end of each period and adjust for any increase or decrease in the fair value of that liability as compared to the fair value of that liability at the end of the immediately preceding period. From and after May 3, 2011, units of the Fund will be classified as equity. See “Transition to IFRS – Classification of Unitholders' Equity”. This adjustment has no impact on the Fund's distributable cash.

(3) Units of the Fund are classified as a financial liability under IFRS and as a result, the amounts paid by the Fund to unitholders are classified as financing expenses of the Fund and not distributions. From and after May 3, 2011, units of the Fund will be classified as equity and amounts paid by the Fund to unitholders will be classified as distributions. See “Transition to IFRS – Classification of Unitholders' Equity”.

(4) Under CGAAP and IFRS, dividends on the Class A and Class B shares were classified as interest expense. After the Recapitalization and Reorganization, there are no Class A and Class B shares.

(5) Distributable cash is not an earnings measure recognized by IFRS and therefore may not be comparable to similar measures presented by other issuers. This information is provided as it identifies the amount of actual cash available to pay distributions to unitholders and dividends to Food Services. See “Distributable Cash”.

(6) The number of equivalent units and distributable cash per weighted average equivalent unit in Q1, 2011 includes the 69,704 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2011 adjustment to the Royalty Pool which is held back until December 2011 when the actual annual sales are reported by the new restaurants. The number of equivalent units and distributable cash per weighted average equivalent unit in Q1, Q2 and Q3 2010 includes the 83,181 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2010 adjustment to the Royalty Pool which was held back until December 2010 when the actual annual sales were reported by the new restaurants. The actual additional consideration was 100,185 common shares based on the actual annual sales.

⁽⁷⁾ The distribution for December of each year, which is paid on January 31 of the following year, is declared and recorded in the year in which it is earned. Therefore, four monthly distributions are declared in the fourth quarter of each year, and two monthly distributions are declared in the first quarter of each year.

SEASONALITY

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

LIQUIDITY AND CAPITAL RESOURCES

The Fund expects to have sufficient financial resources to pay ongoing future distributions as it receives income by way of dividends on its common shares of Trade Marks.

The Fund's transition to IFRS resulted in the Fund consolidating the accounts of Trade Marks. Therefore, the Fund reports Trade Marks' term loan in its consolidated balance sheet. Trade Marks has a \$2,000,000 demand operating loan facility with HSBC Bank Canada (the Bank) to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at bank prime rate plus 0.5% and are repayable on demand. As at May 31, 2011, March 27, 2011, December 31, 2010 and January 1, 2010, the full amount of the facility was available.

Trade Marks has a \$60,000,000 term loan with the Bank. The term loan is repayable on December 22, 2015 and bears interest at bank prime rate plus 1% depending on specified financial ratios. Interest only is payable monthly, provided that Trade Marks' earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA), tested quarterly on a trailing four quarters basis, in arrears, are not less than specified amounts. In the event that EBITDA is less than these specified amounts, the term loan will be fully amortized over the greater of three years or the remaining term and repayment will be by way of blended monthly instalments of principal and interest.

The term loan contains a number of covenants including the requirement for Trade Marks to meet certain EBITDA levels and debt to EBITDA ratios during each trailing four quarters period. Trade Marks was in compliance with all of its financial covenants as at May 31, 2011, March 27, 2011, December 31, 2010 and January 1, 2010.

Trade Marks uses an interest rate swap agreement to manage risks from fluctuations in interest rates. As a result, the term loan bears interest at 5.03% per annum, of which 2.53% per annum is fixed under an interest rate swap agreement that matures December 22, 2015 and 2.50% per annum is subject to annual review by the Bank. The interest rate swap agreement is considered to be a cash flow hedge and qualifies for hedge accounting. Changes in the fair value of the interest rate swap agreement, to the extent it is an effective hedge, are recorded in other comprehensive income (loss) and are only recognized in earnings when the hedged item is realized. Any ineffectiveness in the hedging relationship is recognized in earnings immediately.

The fair value of the interest rate swap as at March 27, 2011 is \$681,000 favourable (December 31, 2010 - \$299,000 favourable) and the change in fair value is recorded in other comprehensive income, net of income taxes.

Prepaid interest on the term loan was \$541,000 as at March 27, 2011 (December 31, 2010 - \$500,000) as a portion of the interest on the \$60,000,000 term loan was paid in advance in accordance with the terms of the interest rate swap.

A general security agreement over the assets of Trade Marks was provided as collateral for the demand operating loan facility and term loan. The Partnership has provided its guarantee in favour of the Bank of all of the indebtedness, covenants and obligations of Trade Marks to the Bank.

Payments due by period (dollars in thousands)	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Term loan	\$60,000	\$0	\$0	\$60,000	\$0

The Fund and Trade Marks have no other contractual or purchase obligations except as described under the section Related Party Transactions and Balances. The Fund and Trade Marks do not have any capital expenditures; their 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 and Trade Marks have no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS AND BALANCES

Royalty income of \$5,017,000 (2010 - \$5,150,000) was earned by Trade Marks from Food Services, of which \$1,696,000 (December 31, 2010 - \$1,720,000) is receivable by Trade Marks at March 27, 2011.

Related party transactions described in this section are recorded at the exchange amounts which are the amounts agreed to by both parties.

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

CRITICAL ACCOUNTING ESTIMATES

The Group's intangible assets consist of the A&W trade-marks and are recorded at cost. Management tests the intangible assets annually for impairment or more frequently if events or changes in circumstances indicate that the assets might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in income for the excess, if any. Management believes that there has been no impairment of the intangible assets during the period ended March 27, 2011.

Other significant areas requiring the use of management estimates are current and deferred income taxes and the fair value of the interest rate swap. Current tax is the expected tax payable on Trade Marks' taxable income for the period, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled.

FINANCIAL INSTRUMENTS

The Group's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, dividends payable, distribution payable, the term loan, the interest rate swap, Fund units, other liabilities and Class A and Class B preferred shares. The Group classifies its financial instruments as follows:

- Cash and cash equivalents are measured at fair value through profit or loss
- Accounts receivable as loans and receivables, which are initially measured at fair value and subsequently at amortized cost
- Accounts payable, dividends payable, distributions payable, the term loan, the Fund units, other liabilities and Class A and Class B preferred shares as other financial liabilities, which are measured at amortized cost
- The interest rate swap is designated as a hedging instrument and initially measured at fair value with changes in fair value recorded in other comprehensive income (loss). Any hedge ineffectiveness is recognized immediately in the consolidated statement of income (loss).

Management estimates that the fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and distributions payable approximate their carrying values given the short term to maturity of these instruments. The fair value of the term loan approximates its carrying value. The fair value of the interest rate swap is \$681,000 favourable (2010 - \$299,000 favourable).

The Fund's Trustees have oversight responsibilities for risk management policies. The Fund's Trustees closely monitor the cash position and internal controls, along with the level of distributions of the Fund. The Fund, through dividends from Trade Marks, is expected to have sufficient financial resources to pay future distributions.

The Group's exposure to credit risk is as indicated by the carrying amount of its accounts receivable which is royalties receivable from Food Services.

The primary sources of liquidity risk are the monthly distributions to unitholders and dividends to Food Services. The Group's primary source of funds to pay distributions and dividends is the 3% royalty income it receives from Food Services. Additionally, the Group manages liquidity risk by actively monitoring forecast and actual cash flows.

The term loan bears a floating rate of interest as disclosed previously. Trade Marks has used an interest rate swap to fix the rate of interest on the term loan. Cash and cash equivalents earn interest at market rates. All of the company's other financial instruments are non-interest bearing.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Fund's financial reporting and the preparation of its financial statements for external purposes in accordance with the Fund's financial reporting framework.

Management conducted an evaluation of the effectiveness of its controls over financial reporting on a risk based approach using the elements of the framework in “Internal Control – Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and COSO’s guidance on how to apply the framework to smaller companies. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Based on management’s assessment, the Fund concluded that its internal control over financial reporting was effective as at March 27, 2011. There have been no material changes to the internal controls during the period covered by this Management Discussion and Analysis that have had a material effect on the Fund’s internal control over financial reporting.

RISKS AND UNCERTAINTIES

The Restaurant Industry

The net earnings and distributable cash generated by the Fund are directly dependent upon the interest income and dividends it receives from Trade Marks, and the amount of its income tax obligations. The net earnings and distributable cash generated by Trade Marks are entirely dependent on the royalty the Partnership receives from Food Services, its operating costs, and Trade Marks’ income tax obligations. 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.

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 hamburgers, chicken, fries and soft drinks, such as, increased food and labour costs, changing tastes or health concerns, publicity from any food borne illness, the availability of experienced management and hourly employees, and government regulations concerning smoking bans, 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.

The harmonization of GST with provincial sales taxes in British Columbia effective July 1, 2010 effectively added a new 7% tax on restaurant meals in this province. While not announced, the potential future harmonization in Saskatchewan would also effectively add a new tax on restaurant meals in Saskatchewan. The harmonization of GST with provincial sales taxes in Ontario and British Columbia and the increase in the harmonized sales tax in Nova Scotia from 13% to 15% could adversely affect disposable consumer income and consequently consumer visits to restaurants in general and the sales of A&W restaurants in particular, and the amount of royalty payable to the Partnership.

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.

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, availability of financing 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.

Income Tax Matters

Legislation implementing changes to the income tax treatment of SIFTs (other than certain real estate investment trusts) and the distributions and allocations, as the case may be, from these entities to their investors, was enacted on June 22, 2007 and became effective January 1, 2011. Under the new legislation, certain income earned by these entities is taxed in a manner similar to income earned by a corporation and distributions or allocations of such income made by these entities to investors is taxed in a manner similar to dividends from taxable Canadian corporations. The deemed dividend is eligible for the enhanced dividend tax credit if paid or allocated to a resident of Canada.

The Fund is considered a SIFT and, as a result, the Fund and its unitholders would be subject to the SIFT tax effective in the Fund's 2011 taxation year. However, as a result of the Reorganization of the Fund which was initiated to minimize the impact of the SIFT tax and approved by unitholders of the Fund at the Annual General Meeting held May 4, 2010, the Fund will receive dividends paid by Trade Marks rather than interest paid on the A&W notes. These dividends are not subject to the SIFT Tax. Trade Marks' taxable income is taxed at an effective rate of 18% versus an approximate tax rate of 25% if the reorganization were not implemented. See "Recapitalization and Reorganization".

There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts and SIFTS will not be further changed in a manner which adversely affects the Fund and its unitholders.

OUTLOOK

The HST in British Columbia and continued unsettled economic conditions are expected to continue to impact restaurant sales for some time to come. In response, A&W has moved to respond aggressively with promotional programs and activities, while at the same time focusing on the key strategic priorities which build long term competitive advantage.

A&W's strategic focus is on the growing "premium burger" market, its most powerful differentiator from the competition. Building on innovations like the Sirloin Uncle Burger, the Mini Sirloin Twins and the Spicy Mama Burger, A&W recently introduced its newest member of the Burger Family, the Prime Rib Grandma Burger.

Another strategic initiative underway is A&W's "next generation" re-image program, to modernize and enhance the appeal of A&W restaurants. Twenty-four restaurants have re-imaged to this new design to date. Costs of re-imaging restaurants are borne by the franchisees and there is no cost to the Fund.

A&W's strategy also includes accelerating the pace of growth of new restaurants, particularly in the key Ontario market. A&W has now entered into Multi-Site Development Agreements for a total of 145 new restaurants to be built over the coming years. A&W opened 5 new restaurants in the first quarter of 2011.

A&W is a strategy driven company whose mission is "to make A&W the number one national burger choice for baby boomers and the fastest growing and most successful burger businesses in Canada." A&W plans to continue to focus on building the A&W brand through successful advertising and marketing campaigns, menu innovation, facilities design and expanding to serve customers in new markets.

FORWARD LOOKING INFORMATION

Certain statements in this Management Discussion and Analysis 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 Management Discussion and Analysis includes, but is not limited to: the addition of 15 net new restaurants to the Royalty Pool on January 5, 2011; Food Services' strategy and Mission "to make A&W the number one burger choice for baby boomers and the fastest growing and most successful burger businesses in Canada"; Food Services' plans to respond tactically to market conditions; Food Services' plans to build the A&W brand through advertising and marketing campaigns, menu innovation, facilities design and expanding to serve customers in new markets; Food Services' plans to modernize and enhance the appeal of A&W restaurants; Food Services' plans to expand the brand by building new restaurants in 2011 with emphasis on Ontario; the Fund expects to have sufficient financial resources to pay ongoing future distributions; Trade Marks expects to have sufficient financial resources to fund its working capital requirements and to meet its cash flow needs including ongoing common share dividends; and, the operating and administrative expenses of the Fund and Trade Marks are expected to be stable and reasonably predictable.

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 smoking bans, menu labelling and disclosure and drive-thru restrictions; no publicity from any food borne illness; no changes in competition; no changes in the retail hamburger 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; no closures of A&W restaurants that materially affect the amount of the Royalty; franchisees duly pay franchise fees and other amounts; no impact on sales from harmonization of sales taxes in British Columbia and Ontario; no harmonization of sales taxes in Saskatchewan; no new or increased sales taxes; continued availability of key personnel; no material litigation from guests alleging food-related illness, injuries suffered on the premises or other food quality, health or

operations concerns; continued ability to preserve intellectual property; 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; Food Services continues to pay the Royalty; Trade Marks continues to pay dividends on the common shares and the Partnership continues to make distributions on its units; Trade Marks can continue to comply with its obligations under its credit arrangements; 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 smoking bans, menu labelling and disclosure and drive-thru restrictions; publicity from any food-borne illness; competition; changes in the retail hamburger 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; the closure of A&W restaurants may affect the amount of the Royalty; dependence on A&W franchisees' ability to pay franchise fees and other amounts; the impact of new or increased or harmonization of sales taxes upon gross sales; dependence on key personnel; material litigation from guests alleging food-related illness, injuries suffered on the premises or other food quality, health or operations concerns; dependence on intellectual property; 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; 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; changes in investment eligibility and penalties for foreign property; and changes to the Canadian federal income tax treatment of publicly listed trusts and other income tax matters, all as more particularly described in this Management Discussion and Analysis 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 Management Discussion and Analysis is qualified in its entirety by this cautionary statement and, except as required by law, the Fund undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

A&W Revenue Royalties Income Fund

Condensed Consolidated Interim Statement of Income (Loss)
(Unaudited)

(in thousands of dollars)

	Note	Period from January 1 to March 27, 2011 \$	Period from January 1 to March 28, 2010 \$
Gross sales reported by A&W restaurants in the Royalty Pool		167,226	171,658
Royalty income		5,017	5,150
Expenses			
General and administrative		301	261
Recapitalization and reorganization costs	6	-	100
Interest expense			
Term loan and other		708	139
Amortization of financing fee	9	19	2
Class A and Class B preferred share dividends		-	1,631
		1,028	2,133
Income before the following		3,989	3,017
Increase in the value of the Fund Units	11	2,520	3,753
Financing expenses (distributions declared)	10	2,282	1,768
Net loss before income taxes		(813)	(2,504)
Provision for income taxes			
Current		425	-
Deferred		293	374
		718	374
Net loss for the period		(1,531)	(2,878)
Net income (loss) attributable to			
Unitholders of A&W Revenue Royalties Income Fund		(1,860)	(3,096)
A&W Food Services of Canada Inc.'s non-controlling interest in A&W Trade Marks Inc.		329	218
		(1,531)	(2,878)

The accompanying notes form an integral part of these financial statements.

A&W Revenue Royalties Income Fund

Condensed Consolidated Interim Statement of Comprehensive Income (Loss)
(Unaudited)

(in thousands of dollars)

	Period from January 1 to March 27, 2011 \$	Period from January 1 to March 28, 2010 \$
Net loss	(1,531)	(2,878)
Other comprehensive income		
Changes in fair value of interest rate swap - net of tax of \$69 (March 28, 2010 - \$14)	313	51
Comprehensive loss	<u>(1,218)</u>	<u>(2,827)</u>
Comprehensive income (loss) attributable to:		
Unitholders of A&W Revenue Royalties Income Fund	(1,525)	(3,062)
A&W Food Services of Canada Inc.'s non-controlling interest in A&W Trade Marks Inc.	<u>307</u>	<u>235</u>
	<u>(1,218)</u>	<u>(2,827)</u>

The accompanying notes form an integral part of these financial statements.

A&W Revenue Royalties Income Fund

Condensed Consolidated Interim Balance Sheets

(Unaudited)

(in thousands of dollars)

		March 27, 2011	December 31, 2010	As at January 1, 2010
	Note	\$	\$	\$
Assets				
Current assets				
Cash and cash equivalents		3,395	1,987	3,179
Accounts receivable	13	1,696	1,720	1,992
Prepaid interest		541	500	-
Income taxes recoverable		-	-	56
		<u>5,632</u>	<u>4,207</u>	<u>5,227</u>
Non-current assets				
Intangible asset	7	172,933	165,004	157,912
Fair value of interest rate swap	8	681	299	-
		<u>179,246</u>	<u>169,510</u>	<u>163,139</u>
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		146	388	131
Dividends payable to A&W Food Services of Canada Inc.		146	-	533
Distributions payable to Unitholders		1,316	875	884
Income taxes payable		425	-	-
		<u>2,033</u>	<u>1,263</u>	<u>1,548</u>
Non-current liabilities				
Term loan	8	59,572	59,553	9,990
Fair value of interest rate swap		-	-	370
Deferred income tax liabilities		17,995	16,563	13,402
Fund Units	11	245,842	173,342	130,521
Other liabilities	7	1,372	-	-
Class A and Class B preferred shares		-	-	63,835
		<u>326,814</u>	<u>250,721</u>	<u>219,666</u>
Other components of equity (deficiency)				
Accumulated deficit		(159,173)	(124,612)	(57,490)
Accumulated other comprehensive income (loss)		500	165	(175)
		<u>(158,673)</u>	<u>(124,447)</u>	<u>(57,665)</u>
Non-controlling interest		<u>11,105</u>	<u>43,236</u>	<u>1,138</u>
Total deficiency		<u>(147,568)</u>	<u>(81,211)</u>	<u>(56,527)</u>
Total liabilities and deficiency		<u>179,246</u>	<u>169,510</u>	<u>163,139</u>
Subsequent events	16			

The accompanying notes form an integral part of these financial statements.

A&W Revenue Royalties Income Fund

Condensed Consolidated Interim Statement of Other Components of Equity (Unaudited)

(in thousands of dollars)

	Note	Accumulated other comprehensive income (loss) \$	Accumulated deficit \$	Total \$	Non- controlling interest \$	Total equity \$
Balance - January 1, 2010		(175)	(57,490)	(57,665)	1,138	(56,527)
Net income (loss) for the period		-	(3,096)	(3,096)	218	(2,878)
Fair value of interest rate swap - net of tax		34	-	34	17	51
Dividends on common shares		-	-	-	(211)	(211)
Issue of common shares		-	-	-	989	989
Balance - March 28, 2010		(141)	(60,586)	(60,727)	2,151	(58,576)
Net income (loss) for the period		-	(42,558)	(42,558)	968	(41,590)
Fair value of interest rate swap - net of tax		306	-	306	188	494
Differences on the exchange of common shares and A&W notes	5	-	(21,552)	(21,552)	(2,187)	(23,739)
Gain on purchase and cancellation of Units		-	84	84	-	84
Dividends on common shares		-	-	-	(2,371)	(2,371)
Issue of common shares	7	-	-	-	298	298
Exchange of preferred shares for common shares	6	-	-	-	44,189	44,189
Balance - December 31, 2010		165	(124,612)	(124,447)	43,236	(81,211)
Net income (loss) for the period		-	(1,860)	(1,860)	329	(1,531)
Fair value of interest rate swap - net of tax		335	-	335	(22)	313
Difference on the exchange of common shares	6	-	(32,701)	(32,701)	-	(32,701)
Common shares exchanged for Units of the Fund	6	-	-	-	(37,279)	(37,279)
Dividends on common shares		-	-	-	(646)	(646)
Issue of common shares	7	-	-	-	5,487	5,487
Balance - March 27, 2011		500	(159,173)	(158,673)	11,105	(147,568)

The accompanying notes form an integral part of these financial statements.

A&W Revenue Royalties Income Fund

Condensed Consolidated Interim Statement of Cash Flows

(Unaudited)

(in thousands of dollars)

	Note	Period from January 1 to March 27, 2011 \$	Period from January 1 to March 28, 2010 \$
Operating activities			
Net loss for the period		(1,531)	(2,878)
Adjustments for:			
Deferred income tax		293	374
Unrealized net losses arising from the changes in value of Fund Units		2,520	3,753
Amortization of financing fees		19	2
Change in accrued Class A and Class B preferred share dividends		-	490
Net changes in items of working capital		607	386
Net cash generated from operating activities		<u>1,908</u>	<u>2,127</u>
Financing activities			
Dividends paid to non-controlling interest		(498)	(103)
Partnership distributions paid to non-controlling interest		(2)	(5)
Net cash used in financing activities		<u>(500)</u>	<u>(108)</u>
Increase in cash and cash equivalents		1,408	2,019
Cash and cash equivalents - Beginning of period		<u>1,987</u>	<u>3,179</u>
Cash and cash equivalents - End of period		<u>3,395</u>	<u>5,198</u>
Cash paid for income taxes		<u>-</u>	<u>-</u>
Interest paid		<u>(749)</u>	<u>(146)</u>
Dividends paid on Class A and Class B preferred shares		<u>-</u>	<u>(1,096)</u>

The accompanying notes form an integral part of these financial statements.

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

1 General information

A&W Revenue Royalties Income Fund (the Fund) is a limited purpose trust established on December 18, 2001 with an unlimited number of Trust Units (Units) under the laws of the Province of British Columbia pursuant to the Declaration of Trust. The Fund was established to invest in A&W Trade Marks Inc. (Trade Marks), which through its ownership interest in A&W Trade Marks Limited Partnership (the Partnership) owns the A&W trade-marks used in the A&W quick service restaurant business in Canada.

The business of the Partnership 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 exploitation of the A&W trade-marks including the development of new A&W restaurants by Food Services, and the collection of the royalty of 3% of sales reported to Food Services by specific A&W restaurants (the Royalty Pool). Food Services is a leading franchisor of hamburger quick service restaurants in Canada.

The Fund, Trade Marks and the Partnership are together referred to as the Group.

2 Basis of preparation and adoption of IFRS

In 2010, Canadian generally accepted accounting principles (GAAP) as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA) were revised to incorporate International Financial Reporting Standards (IFRS) and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Fund has commenced reporting on this basis in these consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These condensed consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standards (IAS) 34 and IFRS 1. Subject to certain transition elections disclosed in note 5, the Fund has consistently applied the same accounting policies in its opening IFRS balance sheet as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the reported equity, comprehensive income (loss) and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's consolidated financial statements for the year ended December 31, 2010.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of May 31, 2011, the date the Audit Committee approved the statements. Any subsequent changes to IFRS that are given effect in the Group's annual consolidated financial statements for the year ending December 31, 2011 could result in a restatement of these condensed consolidated interim financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed consolidated interim financial statements should be read in conjunction with the Fund's and Trade Marks' Canadian GAAP financial statements for the year ended December 31, 2010. Throughout these condensed consolidated interim financial statements, additional disclosures relating to the year ended

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

December 31, 2010 are provided in accordance with IFRS where material to an understanding of these condensed consolidated interim financial statements.

3 Significant accounting policies, judgments and estimation uncertainty

Significant accounting policies

The significant accounting policies used in the preparation of these condensed consolidated interim financial statements are described below.

Basis of measurement

The condensed consolidated interim financial statements have been prepared under the historical cost convention, except for the valuation of certain financial assets and financial liabilities to fair value, including derivative instruments.

Consolidation

The financial statements include the accounts of the Fund and its 90% interest in Trade Marks and its subsidiary, the Partnership. Changes in the Fund's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Non-controlling interests

The non-controlling interests represent an equity interest in Trade Marks owned by Food Services. The share of net assets of its subsidiary attributable to non-controlling interests is presented as a component of equity. Changes in the Fund's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Fund's functional currency.

Use of 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 the Fund's financial position. Significant areas requiring the use of management estimates are impairment of intangible assets, current and deferred income taxes and the fair value of the interest rate swap.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and short-term investments with an original maturity date of three months or less.

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

Accounts receivable

Accounts receivable are amounts due from Food Services for services performed in the ordinary course of business. These amounts are classified as current because collection is expected in one year or less (or in the normal operating cycle of the business if longer). Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Intangible assets - trade-marks

The intangible asset is the A&W trade-marks which have an indefinite useful life that was originally recorded at fair value at the date of acquisition. The asset is subject to an annual impairment test at each balance sheet date as required by *IAS 36, Impairment of Assets* or earlier when such indication exists. An impairment loss is recognized whenever the carrying amount of the intangible assets exceeds its recoverable amount. Impairment losses are recognized in the consolidated statement of income (loss).

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Impairment of financial assets

Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of income (loss). If, in a subsequent period, the amount of the impairment loss decreases then the previously recognized impairment loss is reversed and recognized in the consolidated statement of income (loss).

Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The rate used to discount provisions reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

Distributions

Distributions on Units are recognized as a financial liability in the financial statements in the period in which the distributions are approved by the Board of Trustees of the Fund. In accordance with the classification of the Fund Units as liabilities, the distributions are recorded as financing expense in the consolidated statement of income (loss).

Hedging instruments

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. These agreements are considered to be cash flow hedges; as a result, changes in the fair value, to the extent they are effective, are recorded in other comprehensive income (loss) and are only recognized in the consolidated statement of income (loss) when the hedged item is realized. Any ineffectiveness in the hedging relationship is recognized in income (loss) immediately.

Trade Marks held an interest rate swap at the Transition Date as a hedge of cash flow risk related to Trade Marks' term loan. The interest rate swap continues to be accounted for as a hedge. Changes in its fair value were initially recognized in other comprehensive income (loss) and transferred to the consolidated statement of income (loss) as the variable interest expense was recognized on the debt instrument.

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of income (loss) except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are presented as non-current.

Income taxes in interim periods are accrued using the tax rate that would be applicable to total taxable income on an annual basis.

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

Revenue recognition

Revenue income is recognized on an accrual basis in accordance with the relevant agreements. It comprises royalty income equal to 3% of reported sales from specific A&W restaurants in Canada that are in the Royalty Pool.

Interest

Cash flows relating to interest have been classified as operating activities in the statement of cash flows.

Financial instruments

Financial assets and liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognized when the rights to receive or pay cash flows from the assets or liabilities have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

At initial recognition, the Group classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- a) **Financial assets and liabilities at fair value through profit or loss:** A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category. The Group classifies its cash and cash equivalents in this category.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of income (loss). Gains and losses arising from changes in fair value are presented in the consolidated statement of income (loss) within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or settled beyond the normal operating cycle as at the balance sheet date, which is classified as non-current.

- b) **Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and receivables comprise accounts receivable which is included in current assets due to its short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

- c) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable, dividends payable, distributions payable, other liabilities, term loan, Class A and Class B preferred shares and Fund Units. Accounts payable are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable are measured at amortized cost using the effective interest method. Dividends and distributions payable and other liabilities are recognized at the amount required to be paid. The term loan is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. Class A and Class B preferred shares are initially recognized at fair value and subsequently measured at amortized cost. The Fund Units are recorded at amortized cost which approximates fair value (Units outstanding multiplied by the closing price of Units on the balance sheet date) with changes in amortized cost recorded in the consolidated statement of income (loss).

Financial liabilities are classified as current liabilities if the Group expects to settle these amounts in the normal operating cycle. Otherwise, they are presented as non-current liabilities.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

- d) Derivative financial instruments designated as hedges: The Group utilizes derivative financial instruments in the normal course of its operations as a means to manage risks from fluctuations in interest rates. For example, from time to time, it purchases interest rate swap contracts to hedge its exposure to fluctuating interest rates on its term loan. The Group records all derivatives at fair value through other comprehensive income (loss) and its policy is not to utilize derivative financial instruments for trading or speculative purposes.

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

Standards issued but not yet effective

IFRS 9 - Financial instruments - classification and measurement

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. The standard was updated to include guidance on financial liabilities and de-recognition of financial instruments. The standard is required to be applied for accounting periods beginning or after January 1, 2013 with early adoption permitted. The Group is currently assessing the impact of this standard on the consolidated financial statements.

4 Transition to International Financial Reporting Standards

Basis of transition to IFRS

The Fund's financial statements for the year ended December 31, 2011 will be its first annual financial statements that comply with IFRS. The Fund's transition date is January 1, 2010 (the Transition Date), and the Fund prepared its opening IFRS balance sheet as at that date. In preparing its opening IFRS balance sheet and comparative information for the quarter ended March 28, 2010 the Fund has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP.

Upon transition to IFRS, the general principle is that the financial statements must be prepared on a retrospective basis as if IFRS had always been applied. However, in addition to exempting entities from the requirement to restate comparatives for particular standards, IFRS 1 provides certain mandatory exceptions and grants certain optional exemptions from full retrospective application of IFRS.

In preparing these condensed consolidated interim financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

Mandatory exceptions from full retrospective application followed by the Group

The Group has applied the following mandatory exceptions from full retrospective application:

a) Estimates

The requirement is for estimates made under IFRS at January 1, 2010 to be consistent with estimates made for the same date under Canadian GAAP, unless there is evidence that those estimates were in error. The Group's estimates under IFRS as at January 1, 2010 are consistent with estimates under Canadian GAAP for the same date. Therefore, this exception had no impact on the Fund's IFRS financial statements.

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

b) Hedge accounting

The requirement is for the Group to fair value all derivatives and eliminate all deferred losses and gains arising on derivatives that were reported in accordance with Canadian GAAP as if they were assets or liabilities made under IFRS at January 1, 2010. The Group has always measured all derivatives at fair value, and no deferred gains or losses have been recognized as assets or liabilities. Therefore, this exception had no impact on the Fund's IFRS financial statements.

Optional exemptions from full retrospective application elected by the Group

The Group has elected to apply the following optional exemptions from full retrospective application:

a) Business combinations

IFRS 1 provides the option to apply IFRS 3 (revised), *Business Combinations* (IFRS 3), retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Group elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to January 1, 2010.

b) Fair value measurement of financial assets and liabilities on initial recognition

The Group has applied this exemption offered by IAS 39 on the initial recognition of financial instruments measured at fair value through profit or loss. The Group had no financial instruments where the most recent transaction price was not representative of fair value.

5 Reconciliation from IFRS to GAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS:

- a) Reconciliation of opening and closing equity previously reported under Canadian GAAP to IFRS
- b) Reconciliation of comprehensive income (loss)

Each reconciliation is followed by a series of notes which describe the material impact of IFRS on the Fund's financial statements compared to Canadian GAAP.

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

a) Reconciliation of equity

	Note	December 31, 2010 \$	March 28, 2010 \$	January 1, 2010 \$
Equity as reported under Canadian GAAP		73,908	76,854	75,565
Impact of consolidation of Trade Marks		(3,461)	(3,307)	(2,709)
Reclassification of Fund Units to financial liability		16,880	4,585	2,817
Change in value of Fund Units		(190,222)	(138,859)	(133,338)
Differences on the exchange of common shares and A&W notes	6	(21,552)	-	-
Food Services' non-controlling interest in Trade Marks		43,236	2,151	1,138
		<u>(81,211)</u>	<u>(58,576)</u>	<u>(56,527)</u>

b) Reconciliation of comprehensive income (loss)

	Note	December 31, 2010 \$	March 28, 2010 \$
As reported under Canadian GAAP		12,322	3,057
Impact of consolidation of Trade Marks	6	434	(380)
Change in value of Fund Units	6	(56,884)	(5,521)
Food Services' share of other comprehensive income	6	205	17
		<u>(43,923)</u>	<u>(2,827)</u>

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

Notes to the Reconciliations

c) IAS 27 Impact of consolidation of Trade Marks

Under Canadian GAAP, Trade Marks was consolidated with Food Services based on CICA Accounting Guideline 15, "Consolidation of Variable Interest Entities" (AcG-15). However on the transition to IFRS and guidelines under IAS 27 - *Consolidated and Separate Financial Statements* (IAS 27) there was a change in the consolidation because under IFRS a more qualitative assessment of control is used compared to the guidelines under Canadian GAAP, which require a more quantitative analysis of benefits obtained. IAS 27 defines control as having the power to govern the financial and operating policies and the ability to exercise this control. As a result of the Fund's interest in Trade Marks and the assessment of the Fund's ability to exercise control over the financial and operating policies, the Fund now consolidates Trade Marks and Food Services' interest in Trade Marks is recorded as non-controlling interest within equity.

d) IAS 32 Fund Units classification

Under the terms of the trust indenture, Unitholders' have a puttable option, whereby the Fund is required to redeem Fund Units at the request of the Unitholders, and the Fund is required to distribute all of the taxable income received from the Partnership.

Under Canadian GAAP the Fund Units were classified as equity. IAS 32 requires that the Fund Units be classified as a financial liability and the Fund's distributions be classified as a financing expense recorded in the consolidated statement of income (loss). The financial liability is recorded at amortized cost which approximates fair value (Units outstanding multiplied by the closing price of Units on the balance sheet date) with changes recorded in the consolidated statement of income (loss).

e) IAS 12 Classification of deferred income tax assets and liabilities

Under Canadian GAAP deferred income taxes were classified as current and non-current based on the classification of the underlying assets and liabilities to which they relate or based on the expected reversal of the temporary difference. However, under IFRS all deferred tax assets and liabilities are classified as non-current.

f) Adjustments to the statement of cash flows

The transition from Canadian GAAP to IFRS had no impact on cash flows of the Group and no significant impact on the presentation of the statement of cash flows.

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

6 Recapitalization and Reorganization

a) The Fund's offer to purchase Units

On November 10, 2010, the Fund announced its intention to make a substantial issuer bid (the Offer) to purchase for cancellation 2,500,000 of its Units at a price of \$20 per Unit. A total of 2,588,663 Units were deposited under the Offer, including 2,500,000 securities of Trade Marks held by Food Services exchangeable for a total of 2,500,000 Units. As the aggregate number of Units deposited under the Offer exceeded the 2,500,000 Units for which the Offer was made, Units were taken up under the Offer on a pro-rata basis, resulting in 85,627 Units being purchased from Unitholders other than Food Services and 2,414,373 Units being purchased from Food Services.

b) Exchange of securities

On December 22, 2010, prior to the completion of the Offer, Food Services exchanged 2,414,373 Class A shares of Trade Marks with a book value of \$24,549,000 for \$24,144,000 principal amount of A&W notes. Food Services and Trade Marks recorded the A&W notes at a book value of \$24,549,000. Subsequently, Food Services exchanged the \$24,144,000 principal amount of A&W notes and 2,414,373 common shares of Trade Marks (comprising 303,790 non-voting common shares and 2,110,583 voting common shares) for 2,414,373 Units of the Fund. The Fund recorded an increase in its interest in Trade Marks through the acquisition of the A&W notes at the principal amount of \$24,144,000, and the acquisition of the 2,414,373 common shares at \$10 per share or \$24,144,000. Food Services recorded its investment in Units of the Fund at \$20 per Unit or \$48,288,000, and recognized a gain on the exchange of \$21,552,000, represented by the excess of Food Services' \$48,288,000 investment in the Fund over Food Services' carrying value of the 2,414,373 common shares of Trade Marks of \$2,187,000 and the A&W notes of Trade Marks of \$24,549,000.

c) Completion of the Offer

The completion of the Offer also took place on December 22, 2010. The Fund's carrying value of the 2,500,000 Units was \$50,084,000 and the excess of the carrying value over the \$50,000,000 cost of acquisition or \$84,000, was credited to the Fund's accumulated earnings. Food Services recorded its \$48,288,000 proceeds from its sale of 2,414,373 Units of the Fund reducing its direct investment in the Fund to \$nil.

d) Recapitalization and new loan

The Fund financed the amount paid for the Units by repayment by Trade Marks of \$50,000,000 of A&W notes of Trade Marks held by the Fund. Trade Marks financed the \$50,000,000 repayment of A&W notes by increasing its \$10,000,000 term loan with HSBC Bank Canada to \$60,000,000.

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

e) Reorganization

Also on December 22, 2010, subsequent to Food Services' exchange of securities of Trade Marks, and the completion of the Offer, the reorganization (the Reorganization) of the capital structure of Trade Marks took place. The Reorganization was approved by Unitholders of the Fund at the Annual General Meeting held May 4, 2010 and was initiated to minimize the impact of the new SIFT tax on income trusts announced by the federal government in October 2006. The SIFT tax is effective January 1, 2011 and treats an income trust like a corporation, requiring it to pay tax on its taxable income. The Trustees of the Fund examined the alternatives available to maximize Unitholders value in the face of this new tax, and proposed this Reorganization to minimize the impact of the new SIFT tax and maximize amounts available for distribution to Unitholders in light of the SIFT tax.

The following is a summary of the Reorganization:

- i) Trade Marks continued as a company under the British Columbia Business Corporations Act.
- ii) The \$57,543,000 remaining A&W notes held by the Fund were exchanged for 5,754,298 new non-voting common shares with \$10 par value having an aggregate value of \$57,543,000. The excess of Trade Marks' carrying value of the A&W notes of \$57,948,000 over the value of the new non-voting common shares of \$57,543,000, or \$405,000, was credited to Trade Marks' contributed surplus.
- iii) The 3,868,368 voting common shares and 100,185 non-voting common shares of Trade Marks held by Food Services were exchanged for 3,968,553 voting common shares without par value with a value of \$2,652,000.
- iv) The 10,754,373 voting common shares of Trade Marks held by the Fund were exchanged for 10,754,373 voting common shares without par value with a value of \$2,187,000.
- v) The 769,577 Class A preferred shares of Trade Marks held by Food Services were exchanged for 769,577 non-voting common shares without par value with a value of \$7,826,000.
- vi) The 3,198,951 Class B preferred shares of Trade Marks held by Food Services were exchanged for 3,198,951 new non-voting common shares with \$10 par value with a value of \$36,363,000.

As a result of the Reorganization, there are no Class A and Class B shares outstanding at December 31, 2010.

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

f) Exchange rights

The common shares of Trade Marks held by Food Services may be exchanged at the option of Food Services into Units of the Fund on the basis of two common shares for one Unit of the Fund, except that Food Services may not exchange non-voting common shares for Units of the Fund if it would result in Food Services having a voting interest in Trade Marks greater than its economic interest. Therefore, after the Offer and Reorganization, Food Services held, indirectly, the equivalent of 32.5% of the Units of the Fund on a fully diluted basis, on the basis of two common shares being the economic equivalent of one Unit of the Fund. Food Services will continue to be entitled to additional limited partnership Units (LP Units) of the Partnership on the annual adjustment of the restaurants in the Royalty Pool. The additional LP Units are exchangeable for non-voting common shares of Trade Marks on the basis of one LP unit for two non-voting common shares of Trade Marks.

All of the voting and non-voting common shares held by the Fund and Food Services are entitled to the same dividends per share.

g) Costs

The costs of the Offer and the Reorganization were \$775,000 and were expensed. In addition, financing fees of \$449,000 were incurred by Trade Marks for the additional \$50,000,000 term loan. The financing fees are amortized over the term of the loan.

h) The Fund's secondary offering

On March 2, 2011, Food Services exchanged 5,994,000 common shares of Trade Marks for 2,997,000 Units of the Fund, which were then sold at a price of \$23.35 as part of a secondary offering pursuant to a Short Form Prospectus filed by the Fund on February 23, 2011. The Fund did not receive any proceeds of the offering and the costs of the offering were paid by Food Services. As a result of the offering, the Fund's interest in Trade Marks increased to 90%.

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

The common shares of Trade Marks are owned by the Fund and Food Services as follows:

	The Fund			Food Services			Total	
	Number of shares	Amount \$	%	Number of shares	Amount \$	%	Number of shares	Amount \$
Balance as at January 1, 2010	8,340,000	1	58.4	5,950,018	3,552	41.6	14,290,018	3,553
January 5, 2010 adjustment to the Royalty Pool	-	-	(1.8)	432,908	1,287	1.8	432,908	1,287
December 22, 2010 exchange of Class A shares for A&W notes and A&W notes and common shares for Units of the Fund	2,414,373	2,187	16.4	(2,414,373)	(2,187)	(16.4)	-	-
December 22, 2010 exchange of A&W notes for non-voting common shares with \$10 par value	5,754,298	57,543	7.6	-	-	(7.6)	5,754,298	57,543
December 22, 2010 exchange of Class A shares for non-voting common shares without par value	-	-	(2.9)	769,577	7,826	2.9	769,577	7,826
December 22, 2010 exchange of Class B shares for new non-voting common shares with \$10 par value	-	-	(10.2)	3,198,951	36,363	10.2	3,198,951	36,363
Balance as at December 31, 2010	16,508,671	59,731	67.5	7,937,081	46,841	32.5	24,445,752	106,572
January 5, 2011 adjustment to the Royalty Pool	-	-	(1.5)	557,636	5,487	1.5	557,636	5,487
February 23, 2011 Exchange of common shares for Units of the Fund	5,994,000	37,279	24.0	(5,994,000)	(37,279)	(24.0)	-	-
March 27, 2011	22,502,671	97,010	90.0	2,500,717	15,049	10.0	25,003,388	112,059

The above transactions were all with related parties.

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

During the quarter, Trade Marks declared dividends on its common shares totalling \$2,926,000 or \$0.117 per share. The \$1,462,000 dividend declared on March 2, 2011 was paid to the Fund and Food Services on March 31, 2011 and Food Services' share, or \$146,000, is reported as a current liability as at March 27, 2011.

7 Intangible asset

	New restaurants	Closed restaurants	Royalty Pool	Amount \$
Initial consideration				
Cash	585	-	585	84,876
Shares	-	-	-	27,800
Deferred income taxes	-	-	-	5,649
	585	-	585	118,325
Adjustments				
January 5, 2003	27	(8)	19	5,108
January 5, 2004	28	(12)	16	5,210
January 5, 2005	27	(9)	18	6,197
January 5, 2006	27	(11)	16	6,915
December 31, 2006	19	(13)	6	5,908
January 5, 2008	23	(7)	16	6,467
January 5, 2009	17	(8)	9	3,782
January 5, 2010	23	(8)	15	6,190
January 5, 2011	20	(5)	15	6,859
Deferred income taxes	-	-	-	1,972
	796	(81)	715	172,933

In 2002, Trade Marks 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 preferred shares and 2,780,000 voting common shares of Trade Marks, and \$40,000,000 was paid by amounts Trade Marks paid Food Services in respect of annual adjustments to the Royalty Pool up to January 5, 2010.

On January 21, 2009, the A&W trade-marks owned by Trade Marks were transferred to the Partnership in exchange for the general partnership interest held by Trade Marks.

The Royalty Pool is adjusted annually to reflect sales from new A&W restaurants, net of the sales of any A&W restaurants that have permanently closed. Food Services is paid for the additional royalty stream related to the sales of the net new restaurants, based on a formula set out in the Licence and Royalty Agreement. The formula provides for a payment to Food Services based on 92.5% of the amount of estimated sales from the net new restaurants and the current yield on the Units of the Fund.

Prior to the creation of the Partnership, Trade Marks paid Food Services by issuing common and preferred shares of Trade Marks which were the economic equivalent of Units of the Fund. Under the Reorganization, the

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

remaining preferred shares of Trade Marks held by Food Services after the substantial issuer bid and secondary bought deal offering, were exchanged for non-voting common shares of Trade Marks. Effective 2010, additional partnership units (LP units) are issued to Food Services to reflect the annual adjustment. Food Services additional LP units are exchangeable for additional shares of Trade Marks which are exchangeable for Units of the Fund. The issuance of the shares subsequent to the acquisition is recorded as an increase in the value of the A&W trade-marks. Adjustments to the Royalty Pool increase the value of the trade-marks and as a result deferred income tax liability arises.

The ninth adjustment to the Royalty Pool took place on January 5, 2011. The number of A&W restaurants in the Royalty Pool was increased by 20 new restaurants less five restaurants which permanently closed during 2010. The Partnership paid Food Services \$5,487,000 by issuance of 278,818 LP Units to Food Services, representing 80% of the initial consideration based on the estimated annual sales of the net new restaurants. The LP Units were exchanged for 557,636 non-voting common shares valued at \$5,487,000.

The remaining 20% consideration and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be made in December 2011 by issuance of additional LP Units which may be exchanged for non-voting common shares of Trade Marks. The remaining consideration is estimated and recorded in other liabilities.

8 Term loan and operating loan facility

Trade Marks has a \$2,000,000 demand operating loan facility with HSBC Bank Canada (the Bank) to fund 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. As at March 27, 2011, December 31, 2010 and January 1, 2010 the full amount of the facility was available.

Trade Marks has a \$60,000,000 term loan with the Bank. The term loan is repayable on December 22, 2015 and bears interest at bank prime rate plus 1%. Interest only is payable monthly, providing that Trade Marks' earnings before interest, taxes, depreciation, amortization and non-cash charges/income (EBITDA), tested quarterly on a trailing four quarters basis, in arrears, is not less than specified amounts. In the event that EBITDA is less than these specified amounts, the term loan will be fully amortized over the greater of three years and the remaining term and repayment will be by way of blended monthly instalments of principal and interest. The new loan contains a number of covenants including the requirement to meet certain EBITDA levels and debt to EBITDA ratios during each trailing four quarter period. Trade Marks was in compliance with all of its financial covenants as at March 27, 2011, December 31, 2010 and January 1, 2010.

Trade Marks uses an interest rate swap agreement to manage risks from fluctuations in interest rates. Under the interest rate swap, the term loan bears interest at 5.03% per annum, of which 2.53% per annum is fixed under the swap maturing December 22, 2015 and 2.50% per annum is subject to annual review by the Bank. The fair value of the interest rate swap as at March 27, 2011 is \$681,000 favourable (December 31, 2010 - \$299,000 favourable) and the change in fair value is recorded in other comprehensive income (loss), net of income taxes.

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

A general security agreement over the assets of Trade Marks has been provided as collateral for the demand operating loan facility and term loan. The Partnership has provided its guarantee in favour of the Bank of all the indebtedness, covenants and obligations of Trade Marks to the Bank.

The term loan comprises:

	March 27, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Term loan	60,000	60,000	10,000
Financing fees	(428)	(447)	(10)
	<hr/>	<hr/>	<hr/>
	59,572	59,553	9,990

9 Term loan and other interest

	March 27, 2011 \$	March 28, 2010 \$
Interest expense	712	139
Interest income	(4)	-
	<hr/>	<hr/>
	708	139

10 Distributions

During the period ended March 27, 2011, the Fund declared distributions to its Unitholders of \$2,282,000 or \$0.234 per Unit. The record dates and amounts of these distributions are as follows:

	Amount \$	Per unit \$
February 15, 2011	966	0.117
March 15, 2011	1,316	0.117
	<hr/>	<hr/>
	2,282	0.234

The distribution declared March 2, 2011 with a record date of March 15, 2011 was paid on March 31, 2011 and is reported as a current liability as at March 27, 2011.

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

11 Fund 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.

The Fund was required to record the Units as liabilities based on the automatic distribution provisions in the Fund's Declaration of Trust. The Units were initially recorded at fair value at the IFRS Transition Date and subsequently re-measured at amortized cost at each reporting date. Amortized cost approximates fair value.

On May 3, 2011, the Fund's Declaration of Trust was amended to remove the obligation of the Fund to distribute all of its taxable income to Unitholders. As a result of this amendment, Units will be reclassified from financial liability to equity effective May 3, 2011, and distributions after May 3, 2011 will be treated as distributions rather than financing expense.

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 total 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 limitation, shall be paid by way of distribution in specie of a pro rata number of securities of Trade Marks held by the Fund. On February 15, 2002, the Fund issued 8,340,000 Units at \$10 per Unit pursuant to a public underwriting.

	Note	Number of Units	Amount \$
Balance - January 1, 2010		8,340,000	130,521
Units issued in exchange for common shares and A&W notes	6	2,414,373	48,288
Purchase and cancellation of Units	6	(2,500,000)	(50,084)
Distributions		-	(12,267)
Change in value of Units		-	56,884
Balance - December 31, 2010		8,254,373	173,342
Units issued in exchange for common shares	6	2,997,000	69,980
Distributions	10	-	(2,282)
Change in value of Units		-	4,802
Balance - March 27, 2011		11,251,373	245,842

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

12 Compensation to key management

Key management personnel are the Trustees of the Fund. Aggregate details of their remuneration are set out in the table below with further information about the remuneration of individual Trustees provided in the Fund's Annual Information Form:

	March 27, 2011 \$	March 28, 2010 \$
Remuneration paid to Trustees	33	25

13 Related party transactions and balances

The Fund's transactions with related parties are consistent with the transactions described in the Fund's December 31, 2010 audited financial statements and Trade Marks' December 31, 2010 audited consolidated financial statements, and are based on agreed upon amounts between the parties, and are summarized below:

During the quarter, royalty income of \$5,017,000 was earned from Food Services of which \$1,696,000 (December 31, 2010 - \$1,720,000) is receivable at March 27, 2011.

Other related party transactions and balances are referred to elsewhere in these notes.

14 Financial instruments and financial risk management

The Group's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, dividends payable, distributions payable, the term loan, the interest rate swap, Fund Units, other liabilities, and Class A and Class B preferred shares.

The Group classifies its financial instruments as follows:

- cash and cash equivalents are measured at fair value through profit or loss
- accounts receivable as loans and receivables, which are initially measured at fair value and subsequently at amortized cost.
- accounts payable, dividends payable, distributions payable, the term loan, the Fund Units, other liabilities and Class A and Class B preferred shares as other financial liabilities, which are measured at amortized cost.
- the interest rate swap is designated as a hedging instrument and initially measured at fair value with changes in fair value recorded in other comprehensive income (loss). Any hedge ineffectiveness is recognized immediately in the consolidated statement of income (loss).

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

Fair values

Management estimates that the fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and distributions payable approximate their carrying values given the short term to maturity of these instruments. The fair value of the term loan approximates its carrying value. The fair value of the interest rate swap is \$681,000 favourable (2010 - \$299,000 favourable).

Credit risk

The Group's exposure to credit risk is as indicated by the carrying amount of its accounts receivable which is royalties due from Food Services.

Liquidity risk

The primary sources of liquidity risk are the monthly distributions to Unitholders and dividends to Food Services. The Group's primary source of funds to pay distributions and dividends is the 3% royalty income it receives from Food Services. Additionally, the Group manages liquidity risk by actively monitoring forecast and actual cash flows.

Interest rate risk

The term loan bears a floating rate of interest as disclosed in note 8. Trade Marks has used an interest rate swap to fix the rate of interest on the term loan. Cash and cash equivalents earn interest at market rates. All of the Group's other financial instruments are non-interest bearing.

15 Capital disclosures

The Group's capital consists of other components of equity, Fund Units and the term loan. The Group's capital management objectives are to have sufficient cash and cash equivalents to pay Unitholders, after satisfaction of its debt service and income tax obligations; provisions for administration expenses; and retention of reasonable working capital reserves. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Fund may adjust the amount of its distributions paid to Unitholders.

A&W Revenue Royalties Income Fund

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

March 27, 2011

(in thousands of dollars)

16 Subsequent events

On April 4, 2011, the Fund declared a distribution to Unitholders of \$0.117 per unit or \$1,316,000, payable on April 29, 2011 to Unitholders of record as at April 15, 2011.

On May 2, 2011, the Fund declared a distribution to Unitholders of \$0.117 per unit or \$1,316,000, payable on May 31, 2011 to Unitholders of record as at May 15, 2011.

On June 1, 2011, the Fund declared a distribution to Unitholders of \$0.117 per unit or \$1,316,000 payable on June 30, 2011 to Unitholders of record as at June 15, 2011.

On April 4, 2011, Trade Marks declared a common share dividend of \$1,462,000 or \$0.0585 per share, payable to Food Services and the Fund on April 29, 2011.

On May 2, 2011, Trade Marks declared a common share dividend of \$1,463,000 or \$0.0585 per share, payable to Food Services and the Fund on May 31, 2011.

On June 1, 2011, Trade Marks declared a common share dividend of \$1,463,000 or \$0.0585 per share, payable to Food Services and the Fund on June 30, 2011.

Unitholder Information

Corporate Head Office

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

Mailing Address

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

A&W Revenue Royalties Income Fund Board of Trustees

John R. McLernon ⁽¹⁾
Carl P. Vanderspek ⁽¹⁾
Hugh R. Smythe ⁽¹⁾

A&W Trade Marks Inc. Board of Directors

John R. McLernon ⁽²⁾
Chairman
Carl P. Vanderspek ⁽²⁾
Hugh R. Smythe ⁽²⁾
Jefferson J. Mooney
David A. Mindell

Committees of the Board

⁽¹⁾ Audit Committee and

⁽²⁾ Governance Committee

Market Information

Units Listed: Toronto Stock Exchange
Symbol: AW.UN

Registrar and Transfer Agent

Computershare Investor Services Inc.

Investor Enquiries

Don Leslie
Chief Financial Officer

Tel: 604-988-2141

Fax: 64-988-5531

E-mail: investorrelations@aw.ca

Website: www.awincomefund.ca



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

www.awincomefund.ca



A&W Food Services of Canada Inc.

Q1/2011

**Consolidated Financial
Statements**

For the first quarter ended
March 27, 2011

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



A&W Food Services of Canada Inc.

Report to Unitholders of A&W Revenue Royalties Income Fund January 3, 2011 to March 27, 2011

This report covers the 12 week period ended March 27, 2011 and is dated June 8, 2011. This report and the condensed consolidated interim financial statements of A&W Food Services of Canada Inc. for the first quarter ended March 27, 2011 are provided as a supplement to the condensed consolidated interim financial statements and Management Discussion and Analysis of the A&W Revenue Royalties Income Fund for the quarter ended March 27, 2011. A copy of this report and additional information about the Fund and Food Services is 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	Financial results of 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 2010 year was 52 weeks and ended January 2, 2011 (2009 – 53 weeks ended January 3, 2010). Food Services' first quarter ends 12 weeks after its fiscal year end.

The financial results in this report are in accordance with International Financial Reporting Standards (IFRS) and as a result are not directly comparable to those figures

contained in Food Services' historical financial statements or Reports to Unitholders that were prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP or CGAAP). Food Services' transition to IFRS has resulted in Food Services no longer consolidating Trade Marks in its financial statements, and instead accounting for its investment in Trade Marks using the equity method (see "Transition to IFRS – Basis of Consolidation").

Readers are advised that Food Services' transition to IFRS had no impact on the operations of its business, the amount of cash that is generated, or the contractual obligations between Food Services, Trade Marks, the Partnership, the Fund or any third parties. A discussion of how the transition to IFRS has impacted the presentation of certain key financial metrics of Food Services is provided below.

Same Store Sales

After a January and February where sales were similar to last year, March 2011 proved to be one of the most challenging months that the A&W business has faced in many years. There were several factors which impacted same store sales. The first was an unusually long and severe winter in Canada which negatively impacted the sales in freestanding restaurants. The second major impact was the Harmonized Sales Tax (HST) in British Columbia. Since it was introduced in July 2010, the HST, which increased the amount of tax on restaurant meals by 7%, has reduced customer spending in restaurants in BC. As a result of the difficult operating environment in March, same store sales for the quarter declined by 3%, the first negative same store sales in 30 consecutive quarters.

System Sales

System sales for all A&W restaurants in Canada for the 12 weeks ended March 27, 2011 were \$169,785,000, a decrease of 0.4% from the 12 weeks ended March 28, 2010. The decrease was due to the decline in same store sales.

New Restaurant Development and Restaurant Closures

Food Services opened five new A&W restaurants and closed one restaurant in the first quarter of 2011, compared to two new restaurants and one closure in the first quarter of 2010. As at March 27, 2011, there were 734 A&W restaurants in Canada, of which 724 were operated by franchisees and ten were corporately owned and operated in the Ottawa region. Subsequent to March 27, 2011, four additional new restaurants were opened and as at June 8, 2011, there are 738 A&W restaurants in Canada.

Financial Highlights

(dollars in thousands)	12 week period ended Mar 27, 2011	12 week period ended Mar 28, 2010
System sales	\$169,785	\$170,401
System sales growth	-0.4%	9.5%
Same store sales growth ⁽¹⁾	-3.0%	6.1%
New restaurants opened	5	2
Restaurants closed	1	1
Number of restaurants	734	711
Franchising & corporate restaurant revenue	\$19,184	\$15,443
Direct costs and administrative expenses	8,841	5,546
Employee benefit costs	3,952	3,706
Royalty expense	4,939	4,990
Earnings before gain on sale of Fund units, interest, amortization, depreciation and taxes	\$1,781	\$1,419
Net income	\$27,524	\$3,121

(1) Same store sales growth is not an earnings measure recognized by IFRS and therefore may not be comparable to similar measures presented by other companies. Same store sales growth is the change in sales of A&W restaurants that operated during the entire 26 4-week periods ending March 27, 2011.

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 granting multi-site development areas, 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' direct costs and administrative expenses 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. In addition, direct costs include costs of sales and other expenses of the 10 restaurants operated corporately by Food Services. Employee benefit costs include salaries and benefits associated with providing services to the franchised A&W restaurants, establishing new A&W restaurants and operating corporate restaurants. Royalty expense is the royalty payable to the Partnership under the Licence and Royalty Agreement.

Sale of A&W Trade-marks and Licence and Royalty Agreement

In 2002, Food Services sold the A&W trade-marks used in the A&W quick service restaurant business in Canada to Trade Marks 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 preferred shares and 2,780,000 voting common shares of Trade Marks, and \$40,000,000 was paid by amounts Trade Marks paid Food Services in respect of annual adjustments to the Royalty Pool up to January 5, 2010.

On January 21, 2009, the A&W trade-marks owned by Trade Marks were transferred to the Partnership in exchange for the general partnership interest held by Trade Marks.

Concurrent with the purchase of the trade-marks, Trade Marks 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 Trade Marks a royalty of 3% of the sales reported to Food Services by A&W restaurants in the Royalty Pool (the Licence and Royalty Agreement). In the event a restaurant in the Royalty Pool closes, Food Services pays the royalties that would have been paid to Trade Marks if the restaurant had not closed, until the next adjustment to the Royalty Pool.

The Licence and Royalty Agreement between Trade Marks and Food Services was assumed by the Partnership in 2009 with the result that the royalty paid by Food Services for the use of the A&W trade-marks is paid to the Partnership rather than Trade Marks. The Partnership in turn pays partnership distributions to Trade Marks, who distributes its remaining available cash after satisfaction of its debt service and income tax obligations, provisions for administrative expenses of Trade Marks and the Fund, and retention of reasonable working capital reserves, by way of dividends on its common shares held by the Fund and Food Services. All of the Fund's available cash is distributed to unitholders.

Expansion of the Royalty Pool

The Royalty Pool is adjusted annually to reflect sales from new A&W restaurants, net of the sales of any A&W restaurants that have permanently closed. Food Services is paid for the additional royalty stream related to the sales of the net new restaurants, based on a formula set out in the Licence and Royalty Agreement. The formula provides for a payment to Food Services based on 92.5% of the amount of estimated sales from the net new restaurants and the current yield on the units of the Fund. Prior to the creation of the Partnership, Trade Marks paid Food Services for the additional royalty stream by issuing common and preferred shares of Trade Marks which were the economic equivalent of units of the Fund. Effective 2010, additional limited partnership units (LP units) are issued to Food Services to reflect the annual adjustments. Food Services' additional LP units are exchangeable for additional shares of Trade Marks which are exchangeable for units of the Fund.

Under the Reorganization, the remaining preferred shares of Trade Marks held by Food Services after the substantial issuer bid, were exchanged for non-voting common shares of Trade Marks (see "Reorganization and Recapitalization").

The ninth adjustment to the Royalty Pool took place on January 5, 2011. The number of A&W restaurants in the Royalty Pool was increased by 20 new restaurants less five restaurants which permanently closed during 2010. The estimated annual sales of the 20 new A&W restaurants are \$20,160,000 and annual sales for the five permanently closed restaurants were \$1,673,000. The net sales of \$18,487,000 translate into estimated additional annual royalty payments to the Partnership of \$555,000 on the basis of the royalty of 3% of sales. The initial consideration for this estimated additional royalty stream is \$6,859,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the units of the Fund for the 20 trading days ending November 1, 2010. The Partnership paid Food Services \$5,487,000 by issuance of 278,818 LP units to Food Services, representing 80% of the initial consideration. The additional LP units were exchanged for 557,636 non-voting common shares of Trade Marks. The remaining 20% of the consideration and a final adjustment to the consideration based on the actual annual sales reported by the new restaurants will be made in December 2011 by issuance of additional LP units which may be exchanged for non-voting common shares of Trade Marks.

After the January 5, 2011 adjustment to the Royalty Pool, the number of restaurants in the Royalty Pool increased to 715.

Recapitalization and Reorganization

In the fourth quarter of 2010, the Fund and Trade Marks implemented two important changes to the structure of the Fund in order to maximize ongoing distributable cash available for unitholders. These changes were a successful substantial issuer bid which reduced the number of units outstanding by 17%, and a reorganization of the capital structure of Trade Marks to minimize the impact of the new tax on Specified Investment Flow-through Trusts (SIFT) which include income trusts such as the Fund.

(a) A&W Revenue Royalties Income Fund's offer to purchase units

On November 10, 2010, the Fund announced its intention to make a substantial issuer bid (the Offer) to purchase for cancellation 2,500,000 of its units at a price of \$20 per unit. The Offer was financed by a new loan to Trade Marks in the amount of \$50,000,000. As a result of the purchase of the units under the Offer and the new loan, distributable cash available for distributions to unitholders is expected to increase by approximately 10.1 cents (8%) per unit per annum over the amount of distributable cash had the Offer and new loan not occurred. Therefore, the Trustees of the Fund approved a 10% increase in monthly distributions to unitholders to 11.7 cents per unit per month, from the current rate of 10.6 cents per unit per month. The new monthly distribution rate was effective January 1, 2011 and payable as and from February 28, 2011.

A total of 2,588,663 units were deposited under the Offer, including 2,500,000 securities of Trade Marks held by Food Services exchangeable for a total of 2,500,000 units. As the aggregate number of units deposited under the Offer exceeded the 2,500,000 units for which the Offer was made, units were taken up

under the Offer on a pro-rata basis, resulting in 85,627 units being purchased from unitholders other than Food Services and 2,414,373 units being purchased from Food Services.

(b) Exchange of securities

On December 22, 2010, prior to the completion of the Offer, Food Services exchanged 2,414,373 Class A shares of Trade Marks with a book value of \$24,549,000, for \$24,144,000 principal amount of A&W notes. Food Services and Trade Marks recorded the additional A&W notes at a book value of \$24,549,000. Subsequently, Food Services exchanged the \$24,144,000 principal amount of A&W notes and 2,414,373 common shares of Trade Marks (comprising 303,790 non-voting common shares and 2,110,583 voting common shares) for 2,414,373 units of the Fund. The Fund recorded an increase in its investment in Trade Marks through the acquisition of the new A&W notes at the principal amount of \$24,144,000, and the acquisition of the 2,414,373 common shares at \$10 per share or \$24,144,000. Food Services recorded its investment in units of the Fund at \$20 per unit or \$48,288,000, and recognized a gain on the exchange of \$21,552,000, represented by the excess of Food Services' \$48,288,000 investment in the Fund over Food Services' carrying value of the 2,414,373 common shares of Trade Marks of \$2,187,000 and the A&W notes of Trade Marks of \$24,549,000.

(c) Completion of the Offer

The completion of the Offer also took place on December 22, 2010. The Fund's carrying value of the 2,500,000 units was \$50,084,000, and the excess of the carrying value over the \$50,000,000 cost of acquisition, or \$84,000, was credited to the Fund's accumulated earnings as at December 31, 2010. Food Services recorded its \$48,288,000 proceeds from its sale of 2,414,373 units of the Fund reducing its direct investment in the Fund to \$nil.

The units purchased under the Offer represented approximately 17% of the units outstanding on a fully diluted basis. After the completion of the purchase of the units, 8,254,373 units, and securities exchangeable for a further 3,968,540 units remained outstanding. After the 2,414,373 units were purchased from Food Services, Food Services' indirect interest in the Fund decreased from approximately 43.4% to approximately 32.5% on a fully diluted basis.

(d) Recapitalization and new loan

The Fund financed the amount paid for the units by repayment by Trade Marks of \$50,000,000 of A&W notes of Trade Marks held by the Fund, prior to which the Fund and Trade Marks agreed to amend the A&W notes to allow early repayment. Trade Marks financed the \$50,000,000 repayment of A&W notes by increasing its \$10,000,000 term loan with HSBC Bank Canada to \$60,000,000.

(e) Reorganization

Also on December 22, 2010, subsequent to Food Services' exchange of securities of Trade Marks, and the completion of the Offer, the reorganization (the Reorganization) of the capital structure of Trade Marks took place. The Reorganization was approved by unitholders of the Fund at the Annual General Meeting held May 4, 2010 and was initiated to minimize the impact of the new SIFT tax on income trusts announced by the federal government in October 2006. The SIFT tax is effective January 1, 2011 and treats an income trust like a corporation, requiring it to pay tax on its taxable income. The Trustees of the Fund examined the alternatives available to maximize unitholder value in the face of this new tax, and proposed this Reorganization to minimize the impact of the new SIFT tax and maximize amounts available for distribution to unitholders in light of the SIFT tax.

As a result of the Reorganization, the Fund will receive dividends paid by Trade Marks rather than interest paid on the A&W notes. These dividends are not subject to the SIFT Tax. Trade Marks' earnings (representing the royalty paid by Food Services less general and administrative expenses and interest on its term loan) will therefore be taxed at an effective rate of 18% versus an approximate tax rate of 25% if the Reorganization had not been implemented. In effect this leaves 82% of Trade Mark's net income before income taxes available to be paid as dividends, instead of 75% if the Reorganization had not been implemented.

Commencing in 2011, the Fund's distributions to unitholders will be taxed as non-eligible dividends, rather than "other" income. Investors who are entitled to dividend tax credits will be able to enhance their after-tax yield and reduce the after-tax impact of the reduction in distributions. The total amount of tax paid in 2011 by the Fund and an individual unitholder taxed in Canada at the highest marginal rate on distributions by the Fund, and the tax that would be paid by the unitholder on distributions by the Fund had the SIFT tax not been implemented, is approximately the same.

The following is a summary of the Reorganization:

- i. Trade Marks continued as a company under the British Columbia Business Corporations Act.
- ii. The \$57,543,000 remaining A&W notes held by the Fund were exchanged for 5,754,298 new non-voting common shares with \$10 par value having an aggregate value of \$57,543,000. The excess of Trade Marks' carrying value of the A&W notes of \$57,948,000 over the value of the new non-voting common shares of \$57,543,000, or \$405,000, was credited to Trade Marks' contributed surplus.
- iii. The 3,868,368 voting common shares and 100,185 non-voting common shares of Trade Marks held by Food Services were exchanged for

3,968,553 voting common shares without par value with a value of \$2,652,000.

- iv. The 10,754,373 voting common shares of Trade Marks held by the Fund were exchanged for 10,754,373 voting common shares without par value with a value of \$2,187,000.
- v. The 769,577 Class A preferred shares of Trade Marks held by Food Services were exchanged for 769,577 non-voting common shares without par value with a value of \$7,826,000.
- vi. The 3,198,951 Class B preferred shares of Trade Marks held by Food Services were exchanged for 3,198,951 new non-voting common shares with \$10 par value with a value of \$36,363,000.

(f) Exchange rights

The common shares of Trade Marks held by Food Services may be exchanged at the option of Food Services into units of the Fund on the basis of two common shares for one unit of the Fund, except that Food Services may not exchange non-voting common shares for units of the Fund if it would result in Food Services having a voting interest in Trade Marks greater than its economic interest. Therefore, after the Offer and Reorganization, Food Services held, indirectly, the equivalent of 32.5% of the units of the Fund on a fully-diluted basis, on the basis of two common shares being the economic equivalent of one unit of the Fund. Food Services will continue to be entitled to additional LP units of the Partnership on the annual adjustment of the restaurants in the Royalty Pool. The additional LP units are exchangeable for non-voting common shares of Trade Marks on the basis of one LP unit for two non-voting common shares of Trade Marks.

All of the voting and non-voting common shares held by the Fund and Food Services are entitled to the same dividends per share.

(g) Costs

The costs of the Offer and the Reorganization were \$775,000 and were expensed during the year by Trade Marks under an administration agreement with the Fund whereby Trade Marks, at its expense, provides or arranges for the provision of services required in the administration of the Fund. In addition, financing fees of \$449,000 were incurred by Trade Marks for the additional \$50,000,000 term loan.

After the completion of the Offer and the Reorganization, there were no outstanding Class A or Class B preferred shares of Trade Marks.

Secondary Offering

The Fund and Food Services announced on February 9, 2011 that they had entered into an agreement with CIBC and National Bank Financial Inc. and a syndicate of underwriters (collectively, the Underwriters) to complete a secondary bought deal offering of units of the Fund. The offering was made pursuant to a short form prospectus filed with securities regulators in each of the provinces of Canada, and closed on March 2, 2011. The Underwriters purchased 2,997,000 units at a purchase price of \$23.35 per unit for gross proceeds of \$69,980,000. The units were sold by Food Services and the Fund did not receive any proceeds from the offering. The costs of the offering were paid by Food Services. Prior to the closing, 5,994,000 common shares of Trade Marks held by Food Services with a carrying value of \$37,279,000 were exchanged for 2,997,000 units of the Fund which were sold by Food Services pursuant to the offering. Food Services recognized a gain at fair value on the exchange of \$29,101,000, net of transaction costs.

Following the closing of the offering, Food Services owns common shares of Trade Marks exchangeable for 1,250,358 units, or approximately a 10% indirect interest in the Fund.

Ownership of the Fund

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

	March 27, 2011 ⁽²⁾		March 27, 2011 ⁽¹⁾		January 2, 2011	
	#	%	#	%	#	%
Fund units held by public unitholders	11,251,373	89.5	11,251,373	90.0	8,254,373	67.5
Securities of Trade Marks' held by Food Services exchangeable for Fund units ⁽³⁾	1,320,062	10.5	1,250,358	10.0	3,968,540	32.5
Total equivalent units	12,571,435	100.0	12,501,731	100.0	12,222,913	100.0

(1) Information is current as at June 8, 2011

(2) Includes the 69,704 LP units exchangeable for 139,408 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2011 adjustment to the Royalty Pool which is held back until December 2010 when the actual annual sales are reported by the new restaurants

(3) 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 Fund is a limited purpose trust established in 2001 with an unlimited number of Trust Units under the laws of the Province of British Columbia pursuant to the Declaration of Trust. The units of the Fund trade on the Toronto Stock Exchange under the symbol AW.UN. The Fund was created to acquire, indirectly through Trade Marks, the A&W trade-marks used in the A&W quick service restaurant business in Canada. The trade-marks comprise some of the best-known brand names in the Canadian foodservice industry.

A key attribute of the Fund is that the distributable cash available to make distributions to unitholders is based on the sales of the restaurants in the Royalty Pool, with only minimal operating expenses associated with operating the Fund. The Fund is a top-line fund,

meaning it is not subject to variability of earnings or expenses associated with an operating business.

Another important aspect of the Fund is that Food Services owns the equivalent of 10% of the units of the Fund through its ownership of common shares of Trade Marks. As a result, interests of Food Services are closely aligned with the interests of unitholders.

Common shares of Trade Marks

The common shares of Trade Marks are owned by the Fund and Food Services as follows:

	The Fund			Food Services			Total	
	#	\$	%	#	\$	%	#	\$
Balance as at January 3, 2010	8,340,000	1	58.4%	5,950,018	3,552	41.6%	14,290,018	3,553
January 5, 2010 adjustment to the Royalty Pool	-	-	-1.8%	432,908	1,287	1.8%	432,908	1,287
December 22, 2010 exchange of Class A shares for A&W notes and A&W notes and common shares for units of the Fund	2,414,373	2,187	16.4%	(2,414,373)	(2,187)	-16.4%	-	-
December 22, 2010 exchange of A&W notes for non-voting common shares with \$10 par value	5,754,298	57,543	7.6%	-	-	-7.6%	5,754,298	57,543
December 22, 2010 exchange of Class A shares for non-voting common shares without par value	-	-	-2.9%	769,577	7,826	2.9%	769,577	7,826
December 22, 2010 exchange of Class B shares for non-voting common shares with \$10 par value	-	-	-10.2%	3,198,951	36,363	10.2%	3,198,951	36,363
Balance as at January 2, 2011	16,508,671	59,731	67.5%	7,937,081	46,841	32.5%	24,445,752	106,572
January 5, 2011 adjustment to the Royalty Pool	-	-	-1.5%	557,636	5,487	1.5%	557,636	5,487
March 2, 2011 exchange of common shares for units of the Fund	5,994,000	37,279	24.0%	(5,994,000)	(37,279)	-24.0%	-	-
Balance as at March 27, 2011	22,502,671	97,010	90.0%	2,500,717	15,049	10.0%	25,003,388	112,059

Transition to IFRS

Food Services adopted IFRS on January 3, 2011 and the financial results disclosed in this report for all periods commencing on or after January 4, 2010 (the Transition Date) have been prepared in accordance with IFRS, including International Accounting Standard (IAS) 34 – “Interim Financial Reporting” and IFRS 1 – “First Time Adoption of IFRS”.

Basis of transition to IFRS

Food Services’ financial statements for the year ended January 1, 2012 will be its first annual financial statements that comply with IFRS. Food Services prepared its opening IFRS balance sheet as at its Transition Date of January 4, 2010. In preparing its opening IFRS balance sheet and comparative information for the 12 week period ended March 28, 2010, Food Services has adjusted amounts reported previously in financial statements prepared in accordance with CGAAP.

Upon transition to IFRS, the general principle is that the financial statements must be prepared on a retrospective basis as if IFRS had always been applied. However, in addition to exempting entities from the requirement to restate comparatives for particular standards, IFRS 1 provides certain mandatory exceptions and grants certain optional exemptions from full retrospective application of IFRS.

In preparing these condensed consolidated interim financial statements in accordance with IFRS 1, Food Services has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

Food Services has applied the following mandatory exceptions from full retrospective application:

a) Estimates

The requirement is for estimates made under IFRS at January 4, 2010 to be consistent with estimates made for the same date under Canadian GAAP, unless there is evidence that those estimates were in error. Food Services’ estimates under IFRS as at January 4, 2010 are consistent with estimates under Canadian GAAP for the same date. Therefore, this exception had no impact on Food Services’ IFRS financial statements.

b) Non-controlling interest

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interest is presented as a component of equity. Changes in the parent company’s ownership interest in its subsidiary that do not result in a loss of control are accounted for as equity transactions. As a result, Food Services records changes in its equity interest of its subsidiary within equity.

Food Services has elected to apply the following optional exemptions from full retrospective application:

- a) Business combinations
IFRS 1 provides the option to apply IFRS 3 (revised), “Business Combinations” (IFRS 3), retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. Food Services elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to January 4, 2010.
- b) Leases
IFRS 1 provides the option to determine when an arrangement contains a lease at the Transition Date based on the facts and circumstances and the nature of the leases that the company enters into. Food Services has elected to apply this exemption.
- c) Supplementary retirement benefit plan
Actuarial gains and losses result from differences between the actuarial liabilities and the amounts recorded in the financial statements. IFRS 1 allows for an optional exemption on first time adoption of IFRS to recognize all previously recorded unamortized actuarial gains and losses immediately to retained earnings on the Transition Date. If this exemption is not taken, actuarial gains and losses would have to be calculated under IFRS from the inception of the supplementary retirement benefit plan. Food Services has elected to take this exemption and thus, has recognized cumulative unamortized actuarial losses into accumulated deficit for the supplementary retirement benefit plan on transition to IFRS. This reduced equity under IFRS by \$153,000 on January 4, 2010.

Basis of Consolidation

In 2005, Food Services, the Fund, Trade Marks and the Partnership adopted the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 15 “Consolidation of Variable Interest Entities” (AcG-15). The Fund and Food Services determined that Trade Marks was a VIE and that Food Services was the “primary beneficiary” of Trade Marks. As a result of that guideline, Food Services previously consolidated Trade Marks, and the Fund accounted for its investment in Trade Marks using the equity method.

Under AcG-15, all intercompany accounts and transactions between Food Services, Trade Marks and the Partnership were eliminated in Food Services’ consolidated financial statements. The trade-marks were recorded on the consolidated balance sheet at their historical book value. Food Services’ investments in Trade Marks and the Partnership, its deferred gain on the sale of the trade-marks, and Trade Marks’ intangible assets and Class A and Class B preferred shares and common shares held by Food Services were all eliminated upon consolidation.

Under IAS 27 “Consolidated and Separate Financial Statements”, consolidation is based on control, which is the power to govern the financial and operating policies of an entity to obtain economic benefits from its activities, and the ability to exercise that control. As the Fund controls Trade Marks, under IFRS the Fund consolidates Trade Marks and Food Services accounts for its investment in Trade Marks using the equity method. Food Services’ consolidated financial statements now include the actual royalty expense paid to the Partnership, Food Services’ deferred gain on the sale of the trade-marks, and its investment in Trade Marks, and equity in Trade Marks’ earnings.

The comparative financial results contained in this report have been restated to conform to IFRS and this basis of consolidation. Food Services' financial results for periods ending on or before January 3, 2010 have been prepared in accordance with CGAAP and therefore are not directly comparable to the financial results of Food Services reported in accordance with IFRS from January 4, 2010 onwards.

Leases

Food Services has a number of leasing arrangements which under Canadian GAAP were classified as capital or operating depending upon the terms and conditions of the contract. All leases were reviewed and it was determined that the transition to IFRS did not result in any changes to the classification of leases. Under IFRS, capital leases are now referred to as finance leases.

Provisions, Contingent Liabilities and Contingent Assets

Food Services has no material provisions under Canadian GAAP and determined that no additional provisions should be recognized under IFRS.

Deferred Income Tax Assets and Liabilities

Under Canadian GAAP, deferred income taxes were classified as current and non-current based on the classification of the underlying assets and liabilities to which they relate or based on the expected reversal of the temporary difference. Under IFRS, all deferred tax assets and liabilities are classified as non-current.

Related Party Transactions

IFRS requires more extensive disclosure of related party transactions and balances between related parties, which include the Fund, Trade Marks and the Partnership. The notes to Food Services' condensed consolidated interim financial statements include disclosure of relationships with parent companies and subsidiaries whether or not there have been transactions between those related parties, and compensation of key management personnel which is defined as persons with authority and responsibility for planning, directing and controlling the activities of the entity.

The IFRS standards applied in the condensed consolidated interim financial statements and this report for the quarter ended March 27, 2011 are based on IFRS issued and outstanding as at June 8, 2011. The IASB currently has projects underway that are expected to result in new pronouncements, therefore any subsequent changes to IFRS that are given effect in Food Services' consolidated annual financial statements for the year ending January 1, 2012 could result in a restatement of the condensed consolidated interim financial statements as at March 27, 2011.

Readers are advised that Food Services' transition to IFRS had no impact on the operations of Food Services' business, the amount of cash that is generated, or the contractual obligations between the Fund, Trade Marks, the Partnership, Food Services or any third parties.

Summary of Impact of IFRS

Measure	Summary of Impact on Food Services' financial statements
Same store sales growth	<ul style="list-style-type: none"> • No change
System sales	<ul style="list-style-type: none"> • No change
Seasonality	<ul style="list-style-type: none"> • No change
New restaurant openings and closures	<ul style="list-style-type: none"> • No change
Revenue	<ul style="list-style-type: none"> • No change
Direct costs and administrative expenses	<ul style="list-style-type: none"> • Food Services no longer consolidates the accounts of Trade Marks but instead records its investment in Trade Marks using the equity method • Therefore, direct costs and administrative expenses no longer include the general and administrative expenses of Trade Marks • Direct costs and administrative expenses no longer include Food Services' employee benefit costs which are recorded on a separate line
Employee benefit costs	<ul style="list-style-type: none"> • Food Services' employee benefit costs include salaries and benefits associated with providing services to the franchised A&W restaurants, establishing new A&W restaurants and operating corporate restaurants. These expenses were previously included in Direct costs and administrative expenses.
Royalty expense	<ul style="list-style-type: none"> • The royalty that Food Services pays to the Partnership equal to 3% of sales of A&W restaurants in the Royalty Pool is now shown as Royalty expense on Food Services' statement of income. Under CGAAP, royalty expense was not shown in Food Services' statement of income as it was eliminated on consolidation of Trade Marks with Food Services.
Share of income of A&W Trade Marks Inc.	<ul style="list-style-type: none"> • Food Services now records its investment in Trade Marks using the equity method, so records its share of Trade Marks' earnings on the statement of income.
Finance income (expense)	<ul style="list-style-type: none"> • Under IFRS, dividends on Trade Marks' Class A and Class B preferred shares held by Food Services are classified as interest income and are included in finance income for 2010. • Under IFRS, finance expense includes accretion of the supplementary retirement benefit plan. Under Canadian GAAP, this was included in Direct costs and administrative expenses. • As Food Services no longer consolidates Trade Marks, Trade Marks' interest expense on its term loan and the A&W notes is no longer recorded on Food Services' statement of income
Amortization of deferred gain	<ul style="list-style-type: none"> • As Food Services no longer consolidates Trade Marks, Food Services' deferred gain on the sale of the trade-marks and the related amortization are recorded on Food Services' balance sheet and statement of income respectively. These accounts were previously eliminated upon consolidation of Trade Marks with Food Services.
Income taxes	<ul style="list-style-type: none"> • There was no impact on how Food Services calculates or records provisions for current or deferred income taxes.

	<ul style="list-style-type: none"> • As Food Services no longer consolidates Trade Marks, provisions for deferred income taxes no longer include Trade Marks' provisions for deferred income taxes. • All deferred income taxes on the balance sheet are now included in non-current assets.
Non-controlling interest	<ul style="list-style-type: none"> • Unilever Canada Inc.'s 40% non-controlling interest of Beverages is recorded as a separate component of equity under IFRS.
Other comprehensive income (loss)	<ul style="list-style-type: none"> • Under IFRS, other comprehensive income includes Food Services' share of Trade Marks' other comprehensive income, comprised of the change in fair value of Trade Marks' interest rate swap, net of tax. Under Canadian GAAP, Food Services' other comprehensive income was comprised of Trade Marks' change in the fair value of the interest rate swap, net of tax and the Fund's share. • Under IFRS, actuarial losses on Food Services' supplementary retirement benefit plan, which can arise from changes in actuarial assumptions used to determine the accrued benefit obligation, are recognized immediately through other comprehensive income (loss). Under Canadian GAAP, actuarial losses were amortized over the average remaining service period of the active officers.
Cash and cash equivalents	<ul style="list-style-type: none"> • As Food Services no longer consolidates Trade Marks, cash and cash equivalents on Food Services' balance sheet no longer includes Trade Marks' cash and cash equivalents. • IFRS had no impact on the amount of cash generated by the Food Services' business.
Dividends receivable	<ul style="list-style-type: none"> • As Food Services no longer consolidates Trade Marks, dividends receivable from Trade Marks are recorded on Food Services' balance sheet.
Intangible assets	<ul style="list-style-type: none"> • As Food Services no longer consolidates Trade Marks, the A&W trade-marks are no longer recorded on Food Services' balance sheet.
Investment in Trade Marks	<ul style="list-style-type: none"> • Under IFRS, Food Services no longer consolidates Trade Marks but records its investment in common and preferred shares of Trade Marks and its equity in earnings of Trade Marks using the equity method.
Current liabilities	<ul style="list-style-type: none"> • As Food Services no longer consolidates Trade Marks, Trade Marks' trade payables and dividends payable to the Fund are no longer recorded on Food Services' balance sheet. • Food Services' royalty payable to the Partnership is no longer eliminated on consolidation.
Non-current liabilities	<ul style="list-style-type: none"> • Trade Marks' term loan, interest rate swap and deferred financing fees are no longer recorded on Food Services' balance sheet. • Food Services' deferred gain on the sale of the trade-marks is no longer eliminated on consolidation.
Cash Flows	<ul style="list-style-type: none"> • As a result of Food Services no longer consolidating Trade Marks, Trade Marks' earnings and cash flows are no longer included on Food Services' statement of cash flows. • There has been no change in the actual cash flows generated by Food Services' business.

Future Accounting Changes

IFRS 9, "Financial Instruments – Classification and Measurement", is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. The standard was updated to include guidance on financial liabilities and de-recognition of financial instruments. The standard is required to be applied for accounting periods beginning on or after January 1, 2013 with early adoption permitted. Food Services is currently assessing the impact of this standard on the consolidated financial statements.

2011 Operating Results

Revenue

Food Services' franchising and corporate revenue for the first quarter of 2011 was \$19,184,000 compared to \$15,443,000 for the first quarter of 2010. Franchising revenue was \$16,766,000 compared to \$13,025,000 for the prior year. The increase of \$3,741,000 was due to higher revenue from new restaurant openings. Five new restaurants were opened in the first quarter of 2011 compared to two in the first quarter of 2010.

Corporate restaurant sales for the first quarter of 2011 were \$2,418,000, the same as in the first quarter of 2010. Sales in the Ottawa region were \$265,000 higher in 2011 as compared to 2010 as a result of opening a new corporate restaurant in the fourth quarter of 2010. During the first quarter of 2010, there were sales of \$265,000 from a restaurant being held for refranchising. This restaurant was refranchised in April 2010 and there are currently no restaurants being operated while held for refranchising.

Impact of IFRS

Food Services' transition to IFRS had no impact on revenue.

Expenses

Direct costs and administrative expenses for the first quarter of 2011 were \$8,841,000 compared to \$5,546,000 for the first quarter of 2010. The increase of \$3,295,000 was due to higher costs of sales for new restaurant openings, and expenses for Food Services' national franchisee convention which is held every two years and was held in March this year.

Employee benefit costs for the first quarter of 2011 were \$3,952,000 compared to \$3,706,000 for the first quarter of 2010. The increase of \$246,000 represents normal compensation increases.

Royalty expense for the first quarter of 2011 was \$4,939,000 compared to \$4,990,000 for the first quarter of 2010. The decrease is due to the 3.0% same store sales decrease.

Food Services' share of Trade Marks' earnings was \$329,000 for the first quarter of 2011 compared to \$218,000 for the first quarter of 2010. Trade Marks' earnings were \$3,271,000 for the first quarter of 2011 and Food Services' share is 10%. Trade Marks' earnings for the first quarter of 2010 were \$501,000 and Food Services' share was 43.3%. The increase in Trade Marks' earnings was due to a decrease in interest expense as the A&W notes and Class A and Class B preferred shares were extinguished effective December 22, 2010 (see "Recapitalization and Reorganization").

Earnings before finance income (expense), amortization, income taxes, and Food Services' gain on its sale of units of the Fund increased by \$362,000 to \$1,781,000 for the first quarter of 2011 compared to \$1,419,000 for the first quarter of 2010.

Impact of IFRS

Direct costs and administrative expenses no longer include the general and administrative expenses of Trade Marks, the accretion of the supplementary retirement benefit plan which is now included in finance expense, and employee benefit costs which are now shown separately. Royalty expense is now included as Food Services no longer consolidates Trade Marks.

Finance income (expense) and amortization

	12 week period ended Mar 27, 2011	12 week period ended Mar 28, 2010
Interest income	\$ 20	\$ 1,634
Accretion of supplementary retirement benefit plan obligation	(121)	(117)
Finance leases	(30)	(18)
	\$ (131)	\$ 1,499

Finance expense for the first quarter of 2011 is \$131,000 compared to finance income of \$1,499,000 for the first quarter of 2010. The decrease in finance income of \$1,630,000 is due to interest income on the Class A and Class B preferred shares of Trade Marks held by Food Services. The Class A and Class B preferred shares entitled Food Services to a fixed cumulative preferential cash dividend at a rate of \$1.075 per share per annum. In accordance with IFRS, cumulative dividends were treated for accounting purposes as interest expense by Trade Marks and interest income by Food Services. There were no Class A and Class B preferred shares in the first quarter of 2011 (see "Recapitalization and Reorganization").

Impact of IFRS

As Food Services no longer consolidates Trade Marks, interest expense no longer includes Trade Marks' interest on the A&W notes and its term loan. Finance income for 2010 under IFRS includes Food Services' interest income on Trade Marks' Class A and Class B shares held by Food Services. This was previously eliminated upon consolidation of Trade Marks with Food Services. Finance expense under IFRS includes the accretion of Food Services' supplementary retirement benefit plan which was

included in Direct costs and administrative expenses under Canadian GAAP. The amortization of Food Services' deferred gain on the sale of the A&W trade-marks is now included in Food Services' statement of income; under Canadian GAAP it was eliminated upon the consolidation of Trade Marks with Food Services.

Gain on sale of units of A&W Revenue Royalties Income Fund

On March 2, 2011, Food Services exchanged 5,994,000 common shares of Trade Marks for 2,997,000 units of the Fund, which were then sold for \$69,980,000 or \$23.35 per unit under a secondary offering pursuant to a Short Form Prospectus filed by the Fund on February 23, 2011. Food Services recorded a gain of \$29,101,000, net of transaction costs. See "Secondary Offering".

Impact of IFRS

Food Services' transition to IFRS had no impact on this gain.

Income taxes

Provisions for current income taxes increased by \$4,076,000 to \$4,331,000 for the first quarter of 2011 compared to \$255,000 for the first quarter of 2010 due to the taxable capital gain on the sale of units of the Fund (see "Secondary Offering").

Impact of IFRS

Provisions for deferred income taxes no longer include Trade Marks' provision for deferred income taxes, as Food Services no longer consolidates Trade Marks.

Net income attributable to non-controlling interests

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

Impact of IFRS

The Fund's interest in the earnings of Trade Marks representing the common equity of Trade Marks held by the Fund is no longer recorded on Food Services' income statement as Food Services no longer consolidates Food Services.

Other comprehensive income (expense)

Food Services' share of Trade Marks' other comprehensive income relates to the change in fair value of Trade Marks' interest rate swap, net of tax. Food Services' share for the first quarter of 2011 was 10% and a loss of \$22,000 compared to 43.3% and income of \$17,000 for the first quarter of 2010. The change was due to Trade Marks entering into a new interest rate swap on its new term loan of \$60,000,000 in December 2010 (see "Recapitalization and Reorganization").

There was no actuarial loss on the supplementary retirement benefit plan in the first quarter of 2011 compared to an actuarial loss of \$288,000 in the first quarter of 2010.

Comprehensive income for the first quarter of 2011 was \$27,502,000 compared to \$2,850,000 for the first quarter of 2010. The increase of \$24,652,000 is due primarily to the gain on the sale of units of the Fund, net of tax.

Impact of IFRS

Under IFRS, other comprehensive income includes Food Services' share of Trade Marks' other comprehensive income, comprised of the change in fair value of Trade Marks' interest rate swap, net of tax. Under Canadian GAAP, Food Services' other comprehensive income was comprised of Trade Marks' change in the fair value of the interest rate swap, net of tax and the Fund's share.

Under IFRS, actuarial losses on Food Services' supplementary retirement benefit plan are recorded in other comprehensive income (loss). Under Canadian GAAP, actuarial losses were amortized over the average remaining service period of the active officers.

Liquidity and Capital Resources

Food Services is primarily a franchise business with 724 of its 734 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 Food Services may from time to time choose to open new corporate restaurants 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 March 27, 2011, January 2, 2011 and January 4, 2010, the full amount of the facility was available.

Off-Balance Sheet Arrangements

Food Services has no off-balance sheet arrangements.

Related Party Transactions and Balances

During the period, Trade Marks declared dividends on its common shares of \$2,926,000 (2010 - \$480,000) of which \$644,000 was earned by Food Services and \$2,282,000 was earned by the Fund. At March 27, 2011, \$146,000 (January 2, 2011 - \$nil) is receivable by Food Services.

During the period, Food Services contracted with Biting Buffalo Holdings Inc. for rental of a private plane and crew for business travel. A shareholder, director and officer of Food Services who is also a director of Trade Marks, is the shareholder of Biting Buffalo Holdings Inc. The cost of the services provided under the contract during the period was \$169,000 (2010 - \$nil). At March 27, 2011, \$63,000 (January 2, 2011 - \$nil) is payable to Biting Buffalo Holdings Inc. by Food Services.

During the period, Food Services paid \$nil (2010 - \$85,000) to the Vancouver Canadians Professional Baseball Club, of which a shareholder, director and officer of Food Services and director of Trade Marks, is a part owner, in exchange for advertising the A&W brand at the ballpark. At March 27, 2011, \$nil (January 2, 2011 - \$nil) is payable to the Vancouver Canadians by Food Services.

Food Services maintains an advertising fund that is supported by prescribed contributions from corporate and franchise restaurants. The advertising fund paid \$126,000 (2010 - \$123,000) to Food Services during the period for marketing, promotional and administrative services provided to the advertising fund. At March 27, 2011, the advertising fund has a surplus balance of \$138,000 (January 2, 2011 - \$113,000) which is included in accounts payable and accrued liabilities.

During the period, Food Services paid a dividend of \$62,730,000 to its parent company from the proceeds of the Secondary Offering. The parent company subsequently paid a dividend of \$62,730,000 to its shareholders who are directors and/or certain officers of Food Services.

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 impairment of plant and equipment, impairment of investment in Trade Marks, pension obligations and current and deferred income taxes.

Financial Instruments

Food Services' financial instruments consist of cash and cash equivalents, accounts receivable, dividends receivable, notes receivable, other non-current assets, accounts payable, royalties payable and obligations under finance leases.

Food Services classifies its financial instruments as follows:

- Cash and cash equivalents are measured at fair value through profit or loss;
- Accounts receivable, dividends receivable, notes receivable and other non-current assets as loans and receivables, which are initially measured at fair value and subsequently at amortized cost;
- Accounts payable, royalties payable and obligations under finance leases as other financial liabilities, which are measured at amortized cost.

Management estimates that the fair values of cash and cash equivalents, accounts receivable, dividends receivable, non-current assets, notes receivable, accounts payable,

royalties payable and obligations under finance leases approximate their carrying values given the short term to maturity of these instruments.

Food Services' exposure to credit risk is as indicated by the carrying amount of its accounts receivable and notes receivable. Receivables are due from franchisees and distributors. The company does not have a significant exposure to any individual franchisee. However as at March 27, 2011, \$5,259,000 (January 2, 2011 - \$3,930,000) is receivable from one distributor.

The primary sources of liquidity risk are the royalty payment to the Partnership and dividends on the common shares. The primary sources of funds to pay the royalty and dividends are the fees from franchised restaurants and revenues from the development of franchised restaurants, the sale of food and supplies to franchisees and distributors, company-owned restaurants and the sale of A&W Root Beer concentrate. The liquidity risk is assessed as low due to the nature of the income Food Services receives from the franchisees and Food Services' ability to reduce future dividends if necessary.

The operating loan facilities bear floating rates of interest as disclosed previously. Cash and cash equivalents earn interest at market rates. All of Food Services' other financial instruments are non-interest bearing.

Capital Disclosure

Food Services' capital consists of shareholders' equity (deficiency). Food Services' capital management objectives have not changed, and are to have sufficient cash and cash equivalents to ensure the growth of the business and fund its investing activities, and pay royalties to the Partnership and dividends on its common shares to its shareholders, after satisfaction of its debt service and income tax obligations; provisions for direct costs and administrative expenses and employee benefit costs; and retention of reasonable working capital reserves. Food Services manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Food Services may adjust the amount of dividends paid to its shareholders.

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 hamburgers, chicken, fries and soft drinks, such as increased food and labour costs, changing tastes or health concerns, publicity from any food borne illness, the availability of experienced management and hourly employees, and government regulations concerning smoking bans, 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.

The harmonization of GST with provincial sales taxes in British Columbia effective July 1, 2010 effectively added a new 7% tax on restaurant meals in this province. While not announced, the potential future harmonization in Saskatchewan would also effectively add a new tax on restaurant meals in Saskatchewan. The harmonization of GST with provincial sales taxes in Ontario and British Columbia and the increase in the harmonized sales tax in Nova Scotia from 13% to 15% could adversely affect disposable consumer income and consequently consumer visits to restaurants in general and the sales of A&W restaurants in particular, and the amount of royalty payable to the Partnership.

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.

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, availability of financing 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 HST in British Columbia and continued unsettled economic conditions are expected to continue to impact restaurant sales for some time to come. In response, A&W has moved to respond aggressively with promotional programs and activities, while at the same time focusing on the key strategic priorities which build long term competitive advantage.

A&W's strategic focus is on the growing "premium burger" market, its most powerful differentiator from the competition. Building on innovations like the Sirloin Uncle Burger, the Mini Sirloin Twins and the Spicy Mama Burger, A&W recently introduced its newest member of the Burger Family, the Prime Rib Grandma Burger.

Another strategic initiative underway is A&W's "next generation" re-image program, to modernize and enhance the appeal of A&W restaurants. Twenty-four restaurants have re-imaged to this new design to date. Costs of re-imaging restaurants are borne by the franchisees and there is no cost to the Fund.

A&W's strategy also includes accelerating the pace of growth of new restaurants, particularly in the key Ontario market. A&W has now entered into Multi-Site Development Agreements for a total of 145 new restaurants to be built over the coming years. A&W opened 5 new restaurants in the first quarter of 2011.

A&W is a strategy driven company whose mission is "to make A&W the number one national burger choice for baby boomers and the fastest growing and most successful burger businesses in Canada." A&W plans to continue to focus on building the A&W brand through successful advertising and marketing campaigns, menu innovation, facilities design and expanding to serve customers in new markets.

Subsequent Events

On May 4, 2011, Food Services declared a dividend on its common shares of \$2,000,000, payable on May 9, 2011.

FORWARD LOOKING INFORMATION

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

The forward-looking information in this report includes, but is not limited to: the addition of 15 net new restaurants to the Royalty Pool on January 5, 2011; Food Services' Mission and strategy to "make A&W the number one national burger choice for baby boomers and the fastest growing and most successful burger businesses in Canada"; Food Services' plans to respond to the HST in BC and market conditions; Food Services' plans to build the A&W brand through advertising and marketing campaigns, menu innovation, facilities design and expanding to serve customers in new markets; Food Services' plans to focus on strengthening its appeal to its core baby boomer customer; Food Services' plans to continue to innovate and expand its offering in the Premium Burger segment of the quick service restaurant market; Food Services' plans to modernize and enhance the appeal of A&W restaurants; Food Services' plans to accelerate the pace of growth of new restaurants, particularly in the key Ontario market; Food Services' plans to build new restaurants in British Columbia, Ontario and Quebec under Multi-Site Development Agreements over the next five to seven years; Food Services' plans to open more "urban" concept restaurants in 2011; 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 smoking bans, menu labelling and disclosure

and drive-thru restrictions; no publicity from any food borne illness; no changes in competition; no changes in the retail hamburger 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; no closures of A&W restaurants that materially affect the amount of the Royalty; franchisees duly pay franchise fees and other amounts; no impact on sales from harmonization of sales taxes in British Columbia and Ontario; no harmonization of sales taxes in Saskatchewan; no new or increased sales taxes; continued availability of key personnel; no material litigation from guests alleging food-related illness, injuries suffered on the premises or other food quality, health or operations concerns; continued ability to preserve intellectual property; 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; 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 smoking bans, menu labelling and disclosure and drive-thru restrictions; publicity from any food-borne illness; competition; changes in the retail hamburger 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; the closure of A&W restaurants may affect the amount of the Royalty; dependence on A&W franchisees' ability to pay franchise fees and other amounts; the impact of new or increased or harmonization of sales taxes upon sales; dependence on key personnel; material litigation from guests alleging food-related illness, injuries suffered on the premises or other food quality, health or operations concerns; dependence on intellectual property; 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; 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; changes in investment eligibility and penalties for foreign property; and changes to the Canadian federal income tax treatment of publicly listed trusts and other 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.

A&W Food Services of Canada Inc.

Condensed Consolidated Interim Financial Statements
12-week period ended March 27, 2011
(in thousands of dollars)

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

A&W Food Services of Canada Inc.

Condensed Consolidated Statement of Income (Unaudited)

(in thousands of dollars)

	Note	12-week period ended March 27, 2011 \$	12-week period ended March 28, 2010 \$
Revenue			
Franchising		16,766	13,025
Corporate restaurants		2,418	2,418
		<u>19,184</u>	<u>15,443</u>
Direct costs and administrative expenses		8,841	5,546
Employee benefit costs	13	3,952	3,706
Royalty expense		4,939	4,990
Share of income from A&W Trade Marks Inc.	6	<u>(329)</u>	<u>(218)</u>
Earnings before the following		1,781	1,419
Finance (expense) income	14	(131)	1,499
Amortization of deferred gain		194	176
Depreciation of plant and equipment		(284)	(250)
Gain on sale of Units of A&W Revenue Royalties Income Fund	18	<u>29,101</u>	<u>-</u>
Income before income taxes		<u>30,661</u>	<u>2,844</u>
Provision for (recovery of) income taxes			
Current		4,331	255
Deferred		<u>(1,194)</u>	<u>(532)</u>
		<u>3,137</u>	<u>(277)</u>
Net income for the period		<u>27,524</u>	<u>3,121</u>
Net income attributable to:			
Shareholders of A&W Food Services of Canada Inc.		27,368	2,997
Non-controlling interest		<u>156</u>	<u>124</u>
		<u>27,524</u>	<u>3,121</u>

See accompanying notes to the consolidated financial statements.

A&W Food Services of Canada Inc.

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

(in thousands of dollars)

	12-week period ended March 27, 2011 \$	12-week period ended March 28, 2010 \$
Net income for the period	27,524	3,121
Other comprehensive income		
Share of other comprehensive (loss) income of A&W Trade Marks Inc.	(22)	17
Actuarial loss on supplementary retirement benefit plan	-	(288)
Comprehensive income	<u>27,502</u>	<u>2,850</u>
Comprehensive income attributed to:		
Shareholders of A&W Food Services of Canada Inc.	27,346	2,726
Non-controlling interest	<u>156</u>	<u>124</u>
	<u>27,502</u>	<u>2,850</u>

See accompanying notes to the consolidated financial statements.

A&W Food Services of Canada Inc.

Condensed Consolidated Balance Sheet (Unaudited)

(in thousands of dollars)

		March 27, 2011	January 2, 2011	As at January 4, 2010
	Note	\$	\$	\$
Assets				
Current assets				
Cash and cash equivalents		11,716	13,508	3,091
Accounts receivable		9,525	11,180	14,646
Dividends receivable		146	-	533
Inventories		2,172	2,521	1,521
Prepaid expenses		110	293	212
		<u>23,669</u>	<u>27,502</u>	<u>20,003</u>
Non-current assets				
Investment in A&W Trade Marks Inc.	6	11,105	43,236	64,973
Deferred income taxes		8,995	7,801	5,496
Plant and equipment	7	6,573	6,641	5,383
Other non-current assets		1,372	-	-
Notes receivable		25	42	70
		<u>51,739</u>	<u>85,222</u>	<u>95,925</u>
Total assets				
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		12,551	15,801	15,923
Royalties payable		1,696	1,798	2,152
Deposits on franchise and equipment sales		3,692	2,912	1,177
Income taxes payable		2,789	5,204	3
		<u>20,728</u>	<u>25,715</u>	<u>19,255</u>
Non-current liabilities				
Deferred gain	9	75,516	68,851	63,425
Supplementary retirement benefit plan	10	8,982	8,877	7,233
Other long-term liabilities	11	223	223	189
Obligations under finance leases	11	769	807	478
		<u>106,218</u>	<u>104,473</u>	<u>90,580</u>
Shareholders' Deficiency				
Capital stock	12	10,500	10,500	10,500
Accumulated deficit		(64,162)	(28,800)	(5,136)
Accumulated other comprehensive loss		(1,188)	(1,166)	(125)
		<u>(54,850)</u>	<u>(19,466)</u>	<u>5,239</u>
Non- controlling interest				
		371	215	106
Total deficit				
		<u>(54,479)</u>	<u>(19,251)</u>	<u>5,345</u>
Total liabilities and deficiency				
		<u>51,739</u>	<u>85,222</u>	<u>95,925</u>
Commitments and contingencies				
Subsequent event	15			
	19			

See accompanying notes to the consolidated financial statements.

A&W Food Services of Canada Inc.

Condensed Consolidated Statement of Changes in Shareholders' Equity (Deficiency) (Unaudited)

(in thousands of dollars)

	Number of common shares		Accumulated other comprehensive income (loss)	Accumulated deficit	Total	Non- controlling interest	Total equity (deficiency)
		\$	\$	\$	\$	\$	\$
Balance - January 4, 2010	4,781,250	10,500	(125)	(5,136)	5,239	106	5,345
Net income for the period	-	-	-	2,997	2,997	124	3,121
Share of other comprehensive income of A&W Trade Marks Inc.	-	-	17	-	17	-	17
Actuarial loss on supplementary retirement benefit plan	-	-	(288)	-	(288)	-	(288)
Balance - March 28, 2010	4,781,250	10,500	(396)	(2,139)	7,965	230	8,195
Net income for the period	-	-	-	28,259	28,259	585	28,844
Dividends on common shares	-	-	-	(54,920)	(54,920)	(600)	(55,520)
Share of other comprehensive income of A&W Trade Marks Inc.	-	-	188	-	188	-	188
Actuarial loss on supplementary retirement benefit plan	-	-	(958)	-	(958)	-	(958)
Balance - January 2, 2011	4,781,250	10,500	(1,166)	(28,800)	(19,466)	215	(19,251)
Net income for the period	-	-	-	27,368	27,368	156	27,524
Dividends on common shares	-	-	-	(62,730)	(62,730)	-	(62,730)
Share of other comprehensive loss of A&W Trade Marks Inc.	-	-	(22)	-	(22)	-	(22)
Balance - March 27, 2011	4,781,250	10,500	(1,188)	(64,162)	(54,850)	371	(54,479)

A&W Food Services of Canada Inc.
Condensed Consolidated Statement of Cash Flows
(Unaudited)

(in thousands of dollars)

	Note	12-week period ended March 27, 2011 \$	12-week period ended March 28, 2010 \$
Cash flow provided by (used in)			
Operating activities			
Net income for the period		27,524	3,121
Items not affecting cash			
Amortization of plant and equipment		284	250
Deferred income taxes		(1,194)	(532)
Gain on sale of Units of A&W Revenue Royalties Income Fund	18	(29,101)	-
Change in actuarial valuation on the supplementary retirement benefit plan		105	92
Amortization of deferred gain		(194)	(176)
Share of income from A&W Trade Marks Inc.	6	(329)	(218)
Change in accrued dividends on Class A and Class B preferred shares		-	(490)
		(2,905)	2,047
Net changes in non-cash working capital		(2,806)	4,697
Net cash generated from operating activities		(5,711)	6,744
Investing activities			
Decrease (increase) in notes receivable		17	(12)
Purchase of plant and equipment		(160)	(148)
Dividends from A&W Trade Marks Inc.		500	108
Net proceeds from sale of Units of A&W Revenue Royalties Income Fund	18	66,380	-
Net cash generated from investing activities		66,737	(52)
Financing activities			
Decrease in obligations under finance leases		(88)	(87)
Dividends paid to shareholder	18	(62,730)	-
Net cash generated from financing activities		(62,818)	(87)
(Decrease) increase in cash and cash equivalents		(1,792)	6,605
Cash and cash equivalents - Beginning of period		13,508	3,091
Cash and cash equivalents - End of period		11,716	9,696
Supplementary cash flow information			
Interest paid		-	-
Income taxes paid		(6,746)	(218)
Dividends received on Class A and Class B preferred shares of A&W Trade Marks Inc.		-	1,096
Non-cash investing activities			
Non-cash acquisition of automobiles through finance leases		66	289

See accompanying notes to the consolidated financial statements.

A&W Food Services of Canada Inc.

Notes to Condensed Consolidated Financial Statements

March 27, 2011

(in thousands of dollars)

1 General information

Nature of operations

A&W Food Services of Canada Inc. (the Company or Food Services) is in the business of developing and franchising quick-service restaurants in Canada. During the period ended March 27, 2011, the company opened 5 locations, bringing the total number of A&W restaurants to 734, of which 724 are franchised and 10 are owned and operated corporately.

Food Services registered offices are located at Suite 300 - 171 West Esplanade, North Vancouver, British Columbia, Canada.

2 Basis of preparation and adoption of IFRS

In 2010, Canadian generally accepted accounting principles (GAAP) as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA) were revised to incorporate International Financial Reporting Standards (IFRS) and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, Food Services has commenced reporting on this basis in these consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These condensed consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in note 5, Food Services has consistently applied the same accounting policies in its opening IFRS balance sheet as at January 4, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on Food Services' reported equity, comprehensive income and cash flows, including the nature and effect of significant changes in accounting policies from those used in Food Services' consolidated financial statements for the year ended January 2, 2011.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of June 3, 2011, the date the Directors approved the statements. Any subsequent changes to IFRS that are given effect in Food Services' annual consolidated financial statements for the year ending January 1, 2012 could result in a restatement of these condensed consolidated interim financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed consolidated interim financial statements should be read in conjunction with Food Services' Canadian GAAP annual financial statements for the 52-week period ended January 2, 2011. Throughout these condensed consolidated interim financial statements, additional disclosures relating to the 52-week period ended January 2, 2011 are provided in accordance with IFRS where material to an understanding of these condensed consolidated interim financial statements.

A&W Food Services of Canada Inc.

Notes to Condensed Consolidated Financial Statements

March 27, 2011

(in thousands of dollars)

3 Significant accounting policies, judgments and estimation uncertainty

Significant accounting policies

The significant accounting policies used in the preparation of these condensed consolidated interim financial statements are described below.

Basis of measurement

The condensed consolidated interim financial statements have been prepared under the historical cost convention.

Consolidation

The financial statements include the accounts of Food Services and its 60% interest in A&W Root Beer Beverages of Canada Inc. (Beverages). Changes in Food Services' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Non-controlling interest

Non-controlling interest represents an equity interest in Beverages owned by outside parties. The share of net assets of its subsidiary attributable to non-controlling interests is presented as a component of equity. Changes in Food Services' ownership interest in its subsidiary that do not result in a loss of control are accounted for as equity transactions.

Investment in A&W Trade Marks Inc. (Trade Marks)

Investments over which Food Services exercise significant influence and which are neither subsidiaries nor interests in joint ventures, are associates. Investments in associates are accounted for using the equity method, except when classified as held for sale. The equity method involves the recording of the initial investment at cost and the subsequent adjusting of the carrying value of the investment for our proportionate share of the income or loss and any other changes in the associates' net assets such as dividends.

Food Services' proportionate share of the associate's income or loss is based on its most recent financial statements. Adjustments are made to account for any impairment losses recognized by the associate. If Food Services' share of the associate's losses equals or exceeds its investment in the associate, recognition of further losses is discontinued. After Food Services' interest is reduced to zero, additional losses will be provided for and a liability recognized, only to the extent that Food Services has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports income, Food Services resumes recognizing its share of that income only after Food Services' share of the income equals the share of losses not recognized. At each balance sheet date, Food Services assesses its investment in Trade Marks for indicators of impairment. Changes in Food Services' ownership interest in Trade Marks that do not result in a loss of control are accounted for as equity transactions.

A&W Food Services of Canada Inc.

Notes to Condensed Consolidated Financial Statements

March 27, 2011

(in thousands of dollars)

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is Food Services' functional currency.

Use of 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 impairment of plant and equipment, impairment of investment in Trade Marks, pension obligations and current and deferred income taxes.

Fiscal year

To align its financial reporting with the normal business cycle of its operations, the Company uses a fiscal year comprising a 52- or 53-week period ending the Sunday nearest December 31. The fiscal 2010 year was 52 weeks and ended January 2, 2011 (2009 - 53 weeks ended January 3, 2010. Beverages uses a fiscal year ending December 31. The first quarter ends 12 weeks after the fiscal year-end.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and short-term investments with an original maturity date of three months or less.

Accounts receivable

Accounts receivable are amounts due from franchisees for the sale of goods and services performed in the ordinary course of business. These amounts are classified as current because collection is expected in the normal operating cycle of the business. Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less a provision for impairment.

Inventories

Inventories consist of finished goods, equipment for resale to franchisees, and work-in-progress relating to new franchisee store openings. They are valued at the lower of cost and estimated net realizable value. The cost of finished goods includes all direct costs relating to the purchase of these items. Net realizable value is the estimated selling price in the ordinary course of business.

A&W Food Services of Canada Inc.

Notes to Condensed Consolidated Financial Statements

March 27, 2011

(in thousands of dollars)

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss.

Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Accounts payable

Accounts payable are obligations to pay for goods and services that have been acquired in the normal course of business. These amounts are classified as current because payment is expected in the normal operating cycle of the business. Accounts payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Provisions

A provision is recognized if, as a result of a past event, Food Services has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The rate used to discount provisions reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Current and deferred income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

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In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by Food Services and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are presented as non-current.

Tax on income in interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

Plant and equipment

Plant and equipment comprise mainly leasehold improvements and restaurant equipment. Plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within direct costs and administrative expenses in the consolidated statement of income.

Depreciation is provided using the straight-line method. Machinery and equipment are amortized at rates from 7% to 50%. Depreciation of leasehold improvements is charged over the term of the lease plus the first renewal term. Automobiles are amortized at rates from 24% to 33%.

The Company reviews its plant and equipment and tests for recoverability when events or changes in circumstances indicate that their carrying value may not be recoverable. If the carrying value of an asset exceeds the undiscounted estimated future cash flows related to the asset, an impairment loss is recognized to the extent that the carrying value exceeds the fair value of the asset.

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Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are expensed as incurred. For those leases where the Company has an arrangement to licence the premises to the franchisee, the leases are classified as operating leases with the licence to the franchisee having the same classification. The net amounts under these arrangements are recorded in the consolidated statement of income.

Leases of plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in obligations under finance leases. The interest element of the finance cost is charged to the consolidated statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Capital stock

Common shares are classified as equity. Incremental costs directly relating to the issuance of new common shares are shown as a deduction, net of tax from the proceeds.

Revenue recognition

Revenues comprise the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of sales taxes, returns, rebates and discounts.

The Company's revenues consist 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 granting multi-site development areas, revenue from company-owned restaurants and revenue from the sale of A&W Root Beer concentrate. Fees from franchised restaurants include initial fees, service fees and other fees. Initial fees are recognized upon opening a restaurant, which is when the Company has performed substantially all initial services required by the franchise agreement. Service fees, in the amount of 2.5% to 3.6% of net sales of franchise operations, are recognized as reported by the franchisee. Other fees are recognized in the period earned. Revenue from the sale of food and supplies to franchisees and distributors is recognized at the time of sale. Revenue from the opening of new franchised restaurants is recognized when the restaurant commences operation. Revenue from the granting of multi-site development areas is recognized when the agreement is signed. Revenue from company-owned restaurants is recognized when services are rendered. Revenue from the sale of A&W Root Beer concentrate is recognized when it is shipped to bottlers.

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Royalty expense

Royalty expense is paid to A&W Trade Marks Limited Partnership (the Partnership), and is recognized on an accrual basis as 3% of sales reported from specific A&W restaurants in Canada (the Royalty Pool) in accordance with the Licence and Royalty Agreement.

Finance income (expense)

Under IFRS, finance income (expense) includes interest income on preferred shares of Trade Marks held by the Company, and interest expense associated with the supplementary retirement benefit plan. Interest including accretion associated with the supplementary retirement benefit plan was previously included in direct costs and administrative expenses.

Employee Benefits

Supplementary retirement benefit plan

The Company has entered into agreements with certain officers to provide an unfunded supplementary retirement benefit plan. The actuarial determination of the accrued benefit obligation for the plan uses the projected benefit method pro-rated on service and management's best estimate of salary escalation and retirement ages of officers. Actuarial gains (losses), which can arise from changes in actuarial assumptions used to determine the accrued benefit obligation are recognized immediately through other comprehensive income and directly to accumulated deficit.

Defined contribution pension plan

The cost of providing benefits through the defined contribution pension plan is charged to the consolidated statement of income as the obligation to contribute is incurred.

Deferred gain

The gain realized on the sale of the A&W trade-marks is being deferred and amortized over the 99-year term of the Licence and Royalty Agreement. Amortization of the gain is charged to amortization of deferred gain on the consolidated statement of income. Increases to the deferred gain arise from the additions to the Royalty Pool. These additions are amortized over the remaining term of the Licence and Royalty Agreement from the date of addition.

Financial instruments

Financial assets and liabilities are recognized when Food Services becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognized when the rights to receive or pay cash flows from the assets or liabilities have expired or have been transferred and Food Services has transferred substantially all risks and rewards of ownership.

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At initial recognition, Food Services classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- a) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Cash and cash equivalents are included in this category.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of income. Gains and losses arising from changes in fair value are presented in the statement of income within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond the normal operating cycle as at the balance sheet date, which is classified as non-current.

- b) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Food Services' loans and receivables are comprised of accounts receivable, other non-current assets, notes receivable and dividends receivable and are included in current assets due to their short-term nature. Accounts receivable, other non-current assets and notes receivable are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivable to fair value. Subsequently, accounts receivable, other non-current assets and notes receivable are measured at amortized cost using the effective interest method less a provision for impairment. Dividends receivable are recognized as the amounts to be received.
- c) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable, royalties payable and obligations under finance leases. Accounts payable, royalties payable and obligations under finance leases are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable, royalties payable and obligations under finance lease are measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within the normal operating cycle. Otherwise, they are presented as non-current liabilities.

Standards issued but not yet effective

IFRS 9 - Financial Instruments - Classification and Measurement

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. The standard was updated to include guidance on financial liabilities and de-recognition of financial instruments. The standard is required to be applied for accounting periods beginning on or after January 1, 2013 with early adoption permitted. The Company is currently assessing the impact of this standard on the consolidated financial statements.

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4 Transition to International Financial Reporting Standards

Basis of transition to IFRS

Food Services' financial statements for the year ended January 1, 2012 will be first annual financial statements that comply with IFRS. Food Services transition date is January 4, 2010 (the Transition Date), and Food Services prepared its opening IFRS balance sheet as at that date. In preparing its opening IFRS balance sheet and comparative information for the 12-week period ended March 28, 2010, Food Services has adjusted amounts reported previously in financial statements prepared in accordance Canadian GAAP.

Upon transition to IFRS, the general principle is that the financial statements must be prepared on a retrospective basis as if IFRS had always been applied. However, in addition to exempting entities from the requirement to restate comparatives for particular standards, IFRS 1 provides certain mandatory exceptions and grants certain optional exemptions from full retrospective application of IFRS.

Mandatory exceptions from full retrospective application followed by Food Services.

Food Services has applied the following mandatory exceptions from full retrospective application:

a) Estimates

The requirement is for estimates made under IFRS at January 4, 2010 to be consistent with estimates made for the same date under Canadian GAAP, unless there is evidence that those estimates were in error. Food Services' estimates under IFRS as at January 4, 2010 are consistent with estimates under Canadian GAAP for the same date. Therefore, this exception had no impact on Food Services' IFRS financial statements.

b) Non-controlling interest

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Changes in the parent company's ownership interest in its subsidiary that do not result in a loss of control are accounted for as equity transactions. As a result the Company records changes in its equity interest of its subsidiary within equity.

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Optional exemptions from full retrospective application elected by Food Services

Food Services has elected to apply the following optional exemptions from full retrospective application:

a) Business combinations

IFRS 1 provides the option to apply IFRS 3 (revised), *Business Combinations* (IFRS 3), retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to January 4, 2010.

b) Leases

IFRS 1 provides the option to determine whether an arrangement contains a lease at the Transition Date based on the facts and circumstances and the nature of the leases that the Company enters into. The Company has elected to apply this exemption.

c) Supplementary retirement benefit plan

Actuarial gains and losses result from differences between the actuarial liabilities and the amounts recorded in the financial statements. IFRS 1 allows for an optional exemption on first-time adoption of IFRS to recognize all previously recorded unamortized actuarial gains and losses immediately to retained earnings on the Transition Date. If this exemption is not taken, actuarial gains and losses would have to be calculated under IFRS from the inception of the supplementary retirement benefit plan. The Company has elected to take this exemption and thus, has recognized cumulative unamortized actuarial losses into accumulated deficit for the supplementary retirement benefit plan on transition to IFRS. This reduced equity under IFRS by \$153,000 on January 4, 2010.

5 Reconciliation from IFRS to GAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS:

a) Reconciliation of opening and closing equity previously reported under Canadian GAAP to IFRS

b) Reconciliation of comprehensive income

Each reconciliation is followed by a series of notes which describe the material impact of IFRS on Food Services' financial statements compared to Canadian GAAP.

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c) Reconciliation of equity

	January 2, 2011	March 28, 2010	January 4, 2010
	\$	\$	\$
Equity as reported under Canadian GAAP	(27,732)	537	(1,612)
Impact of deconsolidation of Trade Marks	9,519	7,714	7,004
Unamortized actuarial losses on supplementary retirement benefit plan	(1,253)	(286)	(153)
Non-controlling interest moved to equity	215	230	106
	<u>(19,251)</u>	<u>8,195</u>	<u>5,345</u>

d) Reconciliation of comprehensive income

	January 2, 2011	March 28, 2010
	\$	\$
Comprehensive income as reported under Canadian GAAP	28,395	2,149
Impact of deconsolidation of Trade Marks	3,073	863
Unamortized actuarial losses on supplementary retirement benefit plan	(1,253)	(286)
Non-controlling interest moved to equity	709	124
	<u>30,924</u>	<u>2,850</u>

Notes to the Reconciliations

e) IAS 27 Impact of deconsolidation of Trade Marks

Under Canadian GAAP, Food Services consolidated Trade Marks based on CICA Accounting Guideline 15, “*Consolidation of Variable Interest Entities*” (AcG-15). However on the transition to IFRS and guidelines under International Accounting Standards 27, *Consolidated and Separate Financial Statements* (IAS 27) there was a change in the consolidation because under IFRS a more qualitative assessment of control is used compared to the guidelines under Canadian GAAP, which require a more quantitative analysis of benefits obtained. IAS 27 defines control as having the power to govern the financial and operating policies and the ability to exercise this control. As a result of the A&W Revenue Royalties Income Fund’s (the Fund) interest in Trade Marks and the assessment of the Fund’s ability to exercise control over the financial and operating policies of Trade Marks, the Fund now consolidates Trade Marks. Food Services records its investment in Trade Marks using the equity method as an associate.

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f) IAS 12 Classification of deferred income tax assets and liabilities

Under Canadian GAAP deferred income taxes were classified as current and non-current based on the classification of the underlying assets and liabilities to which they relate or based on the expected reversal of the temporary difference. However, under IFRS all deferred tax assets and liabilities are classified as non-current.

g) Adjustments to the statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows of Food Services.

h) Refundable dividend tax on hand (RDTOH)

Under Canadian GAAP, future RDTOH was recognized in equity (Shareholders' equity (deficiency)). Under IFRS future RDTOH is included in deferred income taxes in the consolidated statement of comprehensive income. This had no significant impact to Food Services.

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6 Investment in A&W Trade Marks Inc.

Food Services 10% (January 2, 2011 - 32.5%) investment in Trade Marks is recorded using the equity method.

	Common shares \$	Class A and Class B preferred shares \$	Partnership \$	Cumulative equity in earnings \$	Cumulative dividend \$	Cumulative equity in other comprehensive income \$	Total \$
Balance - January 4, 2010	3,552	63,835	2	3,932	(6,223)	(125)	64,973
January 5, 2010 adjustment to Royalty Pool	1,287	4,903	-	-	-	-	6,190
December 22, 2010 exchange of preferred shares for A&W notes, and A&W notes and common shares for Units of A&W Revenue Royalties Income Fund	(2,187)	(24,549)	-	-	-	-	(26,736)
December 22, 2010 exchange of preferred shares for common shares	44,189	(44,189)	-	-	-	-	-
Equity in earnings	-	-	1	1,185	-	205	1,391
Dividends	-	-	(23)	-	(2,559)	-	(2,582)
Balance - January 2, 2011	46,841	-	(20)	5,117	(8,782)	80	43,236
January 5, 2011 adjustment to Royalty Pool	5,487	-	-	-	-	-	5,487
February 23, 2011 exchange of common shares for Units of A&W Revenue Royalties Income fund	(37,279)	-	-	-	-	-	(37,279)
Equity in earnings	-	-	-	329	-	(22)	307
Dividends	-	-	(2)	-	(644)	-	(646)
Balance - March 27, 2011	15,049	-	(22)	5,446	(9,426)	58	11,105

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7 Plant and equipment

	Leasehold improvement \$	Machinery and equipment \$	Vehicles \$	Total \$
Balance - January 4, 2010				
Cost	4,380	4,755	1,167	10,302
Accumulated depreciation	(1,344)	(3,158)	(417)	(4,919)
Net book value	3,036	1,597	750	5,383
Opening net book value				
Additions	510	1,145	1,041	2,696
Disposals	-	(28)	(306)	(334)
Depreciation	(276)	(418)	(410)	(1,104)
Net book value	3,270	2,296	1,075	6,641
As at January 2, 2011				
Cost	4,890	5,799	1,596	12,285
Accumulated depreciation	(1,620)	(3,503)	(521)	(5,644)
Net book value	3,270	2,296	1,075	6,641
Opening net book value				
Additions	10	150	66	226
Disposals	-	-	(10)	(10)
Depreciation	(64)	(117)	(103)	(284)
Net book value	3,216	2,329	1,028	6,573
As at March 27, 2011				
Cost	4,900	5,949	1,632	12,481
Accumulated depreciation	(1,684)	(3,620)	(604)	(5,908)
Net book value	3,216	2,329	1,028	6,573

8 Operating loan facilities

Food Services has a \$5,000,000 demand operating loan facility with HSBC Bank Canada (the Bank) to fund 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. As at March 27, 2011, January 2, 2011 and January 4, 2010, the full amount of the facility was available.

Food Services' operating facility is secured by 2,000,000 common shares of Trade Marks owned by Food Services.

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9 Sale of A&W trade marks and deferred gain

In 2002, Food Services sold the A&W trade-marks used in the A&W quick service restaurant business in Canada to Trade Marks 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 preferred shares and 2,8780,00 voting common shares of Trade Marks, and \$40,000,000 was paid by amounts Trade Marks paid Food Services in respect of annual adjustments to the Royalty Pool up to January 5, 2010. Concurrent with the sale of the trade-marks, Trade Marks 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 Trade Marks a royalty of 3% of the sales reported to Food Services by A&W restaurants in the Royalty Pool (the Licence and Royalty Agreement). Accordingly, for accounting purposes, the gain on the sale of the trade-marks is deferred and is being amortized over the term of the licence.

On January 21, 2009, the A&W trade-marks owned by Trade Marks were transferred to the Partnership in exchange for the general partnership interest held by Trade Marks, and the Licence and Royalty Agreement between Trade Marks and Food Services was assumed by the Partnership.

The Royalty Pool is adjusted annually to reflect sales from new A&W restaurants, net of the sales of any A&W restaurants that have permanently closed. Food Services is paid for the additional royalty stream related to the sales of the net, new restaurants, based on a formula set out in the Licence and Royalty Agreement. The formula provides for a payment to Food Services based on 92.5% of the amount of estimated sales from the net new restaurants and the current yield on the Units of the Fund. Prior to the creation of the Partnership, Trade Marks paid Food Services for the additional royalty stream by issuing common and preferred shares of Trade marks which were the economic equivalent of Units of the Fund. Effective 2010, additional limited partnership units (LP units) are issued to Food Services to reflect the annual adjustments. Food Services' additional LP units are exchangeable for additional shares of Trade Marks which are exchangeable for Units of the Fund. For accounting purposes, annual adjustments are recorded as an increase in Food Services' investment in Trade Marks, and an increase in the deferred gain.

The deferred gain as at March 27, 2011 is as follows:

	Number of restaurants in Royalty Pool	Deferred gain \$	Accumulated amortization \$	Net deferred gain \$
Deferred gain on initial sale	585	32,292	6,864	25,428
Annual adjustments				
2003	19	5,108	697	4,411
2004	16	5,210	388	4,822
2005	18	6,197	402	5,795
2006	16	6,915	380	6,535
2007	6	5,908	266	5,642
2008	16	6,467	224	6,243
2009	9	3,782	91	3,691
2010	15	6,190	83	6,107
2011	15	6,859	17	6,842
	715	84,928	9,412	75,516

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10 Employee benefits

a) Supplementary retirement benefit plan

	March 27, 2011	January 2, 2011	January 4, 2010
	\$	\$	\$
Unfunded liability under supplementary retirement benefit plan	9,241	9,136	7,492
Less: Current portion included in accrued liabilities	(259)	(259)	(259)
Liability in the balance sheet	8,982	8,877	7,233

	12-week period ended March 27, 2011	12-week period ended March 28, 2010
	\$	\$
Income statement charge for:		
Supplementary retirement benefit plan	165	657
Actuarial losses recognized in the statement of other comprehensive income in the period	-	1,246
Cumulative actuarial losses recognized in the statement of other comprehensive income	1,246	1,246

The movement in the supplementary retirement benefit plan is as follows:

	\$
Balance - January 4, 2010	7,492
Current service cost	150
Interest cost	507
Actuarial losses	1,246
Benefits paid	(259)
Balance - January 2, 2011	9,136
Current service cost	44
Interest cost	121
Benefits paid	(60)
Balance - March 27, 2011	9,241

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b) Defined contribution pension plan

Pension expense for the period for the defined contribution pension plan was \$165,000 (2010 - \$148,000). Total cash payments in the period for the defined contribution pension plan were \$165,000 (2010 - \$148,000).

11 Long-term liabilities and obligations under finance leases

	March 27, 2011	January 2, 2011	January 4, 2010
	\$	\$	\$
Long-term liabilities	284	284	233
Less: Current portion included in accrued liabilities	61	61	44
	<u>223</u>	<u>223</u>	<u>189</u>
Obligations under finance leases, bearing interest at 4.25% - 11.65%	1,117	1,149	753
Less: Current portion included in accrued liabilities	348	342	275
	<u>769</u>	<u>807</u>	<u>478</u>

12 Capital stock

Authorized

Unlimited number of common shares
Unlimited number of preferred shares

Issued

	March 27, 2011	January 2, 2011	January 4, 2010
	\$	\$	\$
4,781,250 common shares	<u>10,500</u>	<u>10,500</u>	<u>10,500</u>

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13 Employee benefit costs

	12-week period ended March 27, 2011 \$	12-week period ended March 28, 2010 \$
Wages and salaries and other termination benefits	3,743	3,523
Pension costs - defined contribution plan	165	148
Pension costs - supplementary retirement benefit plan	44	35
	<u>3,952</u>	<u>3,706</u>

14 Finance income (expense)

	12-week period ended March 27, 2011 \$	12-week period ended March 28, 2010 \$
Interest		
Interest income	20	1,634
Accretion of pension obligation	(121)	(117)
Finance leases	(30)	(18)
	<u>(131)</u>	<u>1,499</u>

15 Commitments and contingencies

Leases

The Company has base rental obligations under operating leases for premises, equipment and automobiles and under finance leases for automobiles. Certain of the premises leases require additional payments contingent on sales volume. The Company generally arranges premises leases and enters into agreements whereby the Company licenses the premises to the franchisee, for which the Company receives a premises licence fee. Under the licence agreement, the franchisee is responsible for the obligations under the lease. Accordingly, the Company records net operating lease expenses in its consolidated statements of earnings.

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National Advertising Fund

The Company maintains an advertising fund that is supported by prescribed contributions from corporate and franchise restaurants. The advertising fund paid \$126,000 (2010 - \$123,000) to Food Services during the period for marketing, promotional and administrative services provided to the advertising fund. At March 27, 2011, the advertising fund had a surplus balance of \$138,000 (January 2, 2011 - \$113,000) which is included in accounts payable and accrued liabilities.

Contingencies

In the normal course of operations, the company is party to various legal proceedings. Management has assessed the Company's likely liability for all claims outstanding and has made provision for these claims in the consolidated financial statements. The actual liability could differ from these estimates.

16 Financial instruments and financial risk management

Food Services' financial instruments consist of cash and cash equivalents, accounts receivable, dividends receivable, notes receivable, other non-current assets, accounts payable, royalties payable and obligations under finance leases.

Food Services classifies its financial instruments as follows:

- Cash and cash equivalents are measured at fair value through profit and loss.
- Accounts receivable, dividends receivable, notes receivable and other non-current assets as loans and receivables, which are initially measured at fair value and subsequently at amortized cost.
- Accounts payable, royalties payable and obligations under finance leases as other financial liabilities, which are measured at amortized cost.

Fair values

Management estimates that the fair values of cash and cash equivalents, accounts receivable, dividends receivable, non-current assets, notes receivable, accounts payable, royalties payable and obligations under finance leases approximate their carrying values given the short term to maturity of these instruments.

Credit risk

The Company's exposure to credit risk is as indicated by the carrying amount of its accounts receivable and notes receivable. Receivables are due from franchisees and distributors. The company does not have a significant exposure to any individual franchisee. However, as at March 27, 2011 \$5,259,000 (January 2, 2011 - \$3,930,000) is receivable from one distributor.

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Liquidity risk

The primary sources of liquidity risk are the royalty payment to the Partnership and dividends on the common shares. The primary sources of funds to pay the royalty and dividends are the fees from franchised restaurants and revenues from the development of franchised restaurants, the sale of food and supplies to franchisees and distributors, company-owned restaurants and the sale of A&W Root Beer concentrate. The liquidity risk is assessed as low due to the nature of the income Food Services receives from the franchisees and the Company's ability to reduce future dividends if necessary.

Interest rate risk

The operating loan facilities bear floating rates of interest as disclosed in note 8. Cash and cash equivalents earn interest at market rates. All of the Company's other financial instruments are non-interest bearing.

17 Capital disclosures

Food Services' capital currently consists of shareholders' equity (deficiency). Food Services' capital management objectives have not changed, and are to have sufficient cash and cash equivalents to ensure the growth of the business and fund its investing activities, and pay royalties to the Partnership and dividends on its common shares to its shareholders, after satisfaction of its debt service and income tax obligations; provisions for direct costs, administrative expenses and employee benefit costs, and retention of reasonable working capital reserves. Food Services manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Food Services may adjust the amount of dividends paid to its shareholders.

18 Related party transactions and balances

During the period, Trade Marks declared dividends on its common shares of \$2,926,000 (2010 - \$480,000) of which \$644,000 was earned by Food Services and \$2,282,000 was earned by the Fund. At March 27, 2011 \$146,000 (January 2, 2011 - \$nil) is receivable by Food Services.

During the period, Food Services contracted with Biting Buffalo Holdings Inc. for rental of a private plane and crew for business travel. A shareholder, director and officer of Food Services, who is also a director of Trade Marks, is the shareholder of Biting Buffalo Holdings Inc. The cost of the services provided under the contract during the period totalled \$169,000 (2010 - \$nil) and was negotiated on normal commercial terms. At March 27, 2011, \$63,000 (January 2, 2011 - \$nil) is payable to Biting Buffalo Holdings Inc. by Food Services.

During the period, the Company paid \$nil (2010 - \$85,000) to the Vancouver Canadians 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 March 27, 2011, \$nil (January 2, 2011 - \$nil) is payable to the Vancouver Canadians by Food Services.

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Recapitalization and reorganization

a) The Fund's offer to purchase Units

On November 10, 2010, the Fund announced its intention to make a substantial issuer bid (the Offer) to purchase for cancellation 2,500,000 of its Units at a price of \$20 per Unit. A total of 2,588,663 Units were deposited under the Offer, including 2,500,000 securities of Trade Marks held by Food Services exchangeable for a total of 2,500,000 Units. As the aggregate number of Units deposited under the Offer exceeded the 2,500,000 Units for which the Offer was made, Units were taken up under the Offer on a pro-rata basis, resulting in 85,627 Units being purchased from Unitholders other than Food Services and 2,414,373 Units being purchased from Food Services.

b) Exchange of securities

On December 22, 2010, prior to the completion of the Offer, Food Services exchanged 2,414,373 Class A shares of Trade Marks with a book value of \$24,549,000 for \$24,144,000 principal amount of A&W notes. Food Services and Trade Marks recorded the additional A&W notes at a book value of \$24,549,000. Subsequently, Food Services exchanged the \$24,144,000 principal amount of A&W notes and 2,414,373 common shares of Trade Marks (comprising 303,790 non-voting common shares and 2,110,583 voting common shares) for 2,414,373 Units of the Fund. The Fund recorded an increase in its interest in Trade Marks through the acquisition of the new A&W notes at the principal amount of \$24,144,000, and the acquisition of the 2,414,373 common shares at \$10 per share or \$24,144,000. Food Services recorded its investment in Units of the Fund at \$20 per Unit or \$48,288,000, and recognized a gain at fair value on the exchange of \$21,552,000, represented by the excess of Food Services' \$48,288,000 investment in the Fund over Food Services' carrying value of the 2,414,373 common shares of Trade Marks of \$2,187,000 and the A&W notes of Trade Marks of \$24,549,000.

c) Completion of the Offer

The completion of the Offer also took place on December 22, 2010. The Fund's carrying value of the 2,500,000 Units was \$50,084,000, and the excess of the carrying value over the \$50,000,000 cost of acquisition or \$84,000, was credited to the Fund's accumulated earnings as at December 31, 2010. Food Services recorded its \$48,288,000 proceeds from its sale of 2,414,373 Units of the Fund reducing its direct investment in the Fund to \$nil.

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d) Reorganization

Also on December 22, 2010, subsequent to Food Services' exchange of securities of Trade Marks, and the completion of the Offer, the reorganization (the Reorganization) of the capital structure of Trade Marks took place. The Reorganization was approved by Unitholders of the Fund at the Annual General Meeting held May 4, 2010 and was initiated to minimize the impact of the new Specified Investment Flow Through (SIFT) tax on income trusts announced by the federal government in October 2006. The SIFT tax is effective January 1, 2011 and treats an income trust like a corporation, requiring it to pay tax on its taxable income. The Trustees of the Fund examined the alternatives available to maximize Unitholder value in the face of this new tax, and proposed this Reorganization to minimize the impact of the new SIFT tax and maximize amounts available for distribution to Unitholders in light of the SIFT tax.

The following is a summary of the impact of the Reorganization on Food Services:

- i) The 769,577 Class A preferred shares of Trade Marks held by Food Services were exchanged for 769,577 non-voting common shares without par value with a value of \$7,826,000.
- ii) The 3,198,951 Class B preferred shares of Trade Marks held by Food Services were exchanged for 3,198,951 new non-voting common shares with \$10 par value with a value of \$36,363,000.

e) Exchange rights

The common shares of Trade Marks held by Food Services may be exchanged at the option of Food Services into Units of the Fund on the basis of two common shares for one Unit of the Fund, except that Food Services may not exchange non-voting common shares for Units of the Fund if it would result in Food Services having a voting interest in Trade Marks greater than its economic interest. Therefore, after the Offer and Reorganization, Food Services held indirectly, the equivalent of 32.5% of the Units of the Fund on a fully diluted basis, on the basis of two common shares being the economic equivalent of one Unit of the Fund. Food Services will continue to be entitled to additional limited partnership units (LP units) of the Partnership on the annual adjustment of the restaurants in the Royalty Pool. The additional LP units are exchangeable for non-voting common shares of Trade Marks on the basis of one LP unit for two non-voting common shares of Trade Marks.

All of the voting and non-voting common shares held by the Fund and Food Services are entitled to the same dividends per share.

The Fund's secondary offering (the Offering)

On March 2, 2011, Food Services exchanged 5,994,000 common shares of Trade Marks with a carrying value of \$37,279,000 for 2,997,000 Units of the Fund, which were then sold for \$69,980,000 or \$23.35 per Unit as part of a secondary offering pursuant to a Short Form Prospectus filed by the Fund on February 23, 2011. Food Services recognized a gain at fair value on the exchange of \$29,101,000, net of transaction costs. Food Services paid a dividend of \$62,730,000 to its parent from the proceeds of the Offering. The parent company subsequently paid a dividend of \$62,730,000 to its shareholders who are directors and/or certain officers of Food Services. As a result of the Offering, Food Services' interest in Trade Marks decreased to 10%.

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Other related party transactions are disclosed within the financial statements.

Key management compensation

Key management includes members of the Company's Strategy Team. The compensation awarded to key management includes:

	12-week period ended March 27, 2011 \$	12-week period ended March 28, 2010 \$
Salaries and other short-term employee benefits	509	500
Pension costs - defined contribution plan	58	57
Pension costs - supplementary retirement benefit plan	165	152
Total	732	709

In addition, Food Services paid a dividend of \$62,730,000 to its parent from the proceeds of the Offering as described in this note.

19 Subsequent event

On May 4, 2011, Food Services declared a dividend on its common shares of \$2,000,000, payable to its parent on May 9, 2011.



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

**Tel: 604-988-2141
[www. aw.ca](http://www.aw.ca)**