

A&W Revenue Royalties Income Fund

Q1

First Quarter Report to Unitholders
for the period ended
March 21, 2004

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To our Unitholders

On behalf of the Board of Trustees, I am pleased to present the results of the A&W Revenue Royalties Income Fund for the first quarter ended March 21, 2004.

During the quarter, the same store sales for the 620 restaurants in the Royalty Pool increased by 5% over the prior year. Same store sales are an important driver of increases in royalty revenue to the Fund and are an important measure of the performance of the Fund. The increase in the first quarter same store sales is the strongest since the inception of the Fund in February 2002. A&W restaurants have now posted four consecutive quarters of same store sales increases.

This sales increase has been driven by the key strategic initiatives which have been underway for several years within the A&W business. Driven by A&W's mission to be "the number one choice of the baby boomer generation", programs such as restaurant re-imaging, new menu boards, and a continued high level of menu innovation are yielding positive results. In addition, A&W unveiled an exciting new T.V. advertising campaign with the launch of the "Drive" spot in March this year. If you have not seen it yet, you can view it by going to the Fund website at www.awincomefund.ca. The response by consumers to this new campaign, which reaches directly to the rich memories that baby boomers recall from the drive-in era at A&W, has been outstanding.

On top of these key initiatives, the sales increases have been helped by an emerging recovery in Canada's foodservice industry which had suffered, during 2002 and 2003, from two of the most difficult years for the industry in recent history. Projections by the Canadian Restaurant and Foodservices Association are calling for continued improvement in the underlying health of the foodservice industry for the balance of the year.

We are confident that A&W's strategy, the key programs already underway, and new ones that are in development, will continue to result in strong performance versus the industry. We are proud to report that the fund remains on track to deliver its anticipated annual distribution of \$1.08 per unit.

A handwritten signature in black ink, appearing to read 'John R. McLernon'.

John R. McLernon

Chairman and CEO, A&W Revenue Royalties Income Fund

On behalf of the Board of Trustees

Management Discussion and Analysis

For the Quarter Ended March 21, 2004

OVERALL PERFORMANCE

The source of revenue for the A&W Revenue Royalties Income Fund (the “Fund”) is royalty income from A&W Food Services of Canada Inc. (“Food Services”). As a result, same store sales growth by A&W restaurants is a key performance indicator for the Fund. A&W restaurants continued to enjoy a strengthening trend in same store sales increases. The following chart shows the percentage changes in same store sales by A&W restaurants for the eight most recently completed quarters:

%	2004	2003				2002		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Same store sales growth	+5.0	+4.0	+2.1	+2.5	-2.2	-0.1	-2.4	-2.8

The increase in the first quarter same store sales is the strongest since the inception of the Fund in February 2002. There have now been four consecutive quarters of same store sales increases. These sales increases have been achieved against a backdrop of very challenging times for the foodservice industry in Canada. They reflect A&W’s continued investment in its strategic initiatives aimed at accelerating progress toward its Mission to “become the number one choice of the baby boomer generation”. Sales have also been helped by an emerging recovery of the foodservice industry.

Royalty income for the quarter ended March 21, 2004 increased 7.4% over the same quarter in 2003, due to the increased number of restaurants in the royalty pool and the 5.0% same store sales increase for the quarter. General and administrative expenses decreased by \$16,000. Distributable cash available to pay distributions to unitholders and dividends on Class A and B shares increased by 10.6% to \$2,429,000.

The Fund remains on track to deliver its anticipated annual distribution of \$1.08 per unit.

HIGHLIGHTS

(dollars in thousands except per unit amounts)

	Period from Jan 1, 2004 to Mar 21, 2004	Period from Jan 1, 2003 to Mar 23, 2003
Same store sales growth	5.0%	-2.2%
Number of restaurants in the royalty pool	620	604
Sales reported by the restaurants in the royalty pool	\$ 93,472	\$ 86,991
Royalty income	2,804	2,610
Expenses and taxes (excluding dividends)	509	493
A&W Trade Marks Inc. share dividends	882	783
Net earnings for the period	1,413	1,334
Basic and diluted earnings per Unit (8,340,000 Units)	\$ 0.169	\$ 0.160

OVERVIEW

The Fund is a limited purpose trust established to invest in A&W Trade Marks Inc. (“Trade Marks”), which owns the A&W trade-marks used in the A&W quick service restaurant business in Canada. Trade Marks licenses the use of the A&W trade-marks by Food Services, which operates the A&W restaurant and soft drink beverages businesses. The trade-marks comprise some of the best-known brand names in the Canadian foodservice industry.

In return for licensing Food Services to use its trade-marks, the Fund (through Trade Marks) receives royalties of 3% of sales from A&W restaurants across Canada in the royalty pool.

The royalty pool is adjusted in January of each year to reflect sales from new restaurants, net of the sales of any A&W restaurants that have permanently closed. The Fund (through Trade Marks) pays Food Services for the additional royalty

stream of the sales of the net new restaurants, based upon a formula set out in the licence agreement. The formula, designed to be accretive to unitholders, is based on the amount of sales from the net new restaurants and the yield on the units of the Fund, and provides for a payment to Food Services in the form of common and class B shares of Trade Marks on the basis of 92.5% of that value.

The distributions to unitholders are a function of the top-line revenues of the restaurants in the royalty pool, less the Fund's expenses, and are thereby isolated from many of the factors that can influence an operating business.

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

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

EXPANSION OF THE ROYALTY POOL

On January 5, 2004, the number of A&W restaurants for which royalties are paid to the Fund increased by 28 new restaurants, less 12 restaurants which permanently closed during 2003. Trade Marks paid Food Services \$5,134,000, by issuance of 488,476 Class B and common shares, as initial consideration for the estimated royalty stream from the 16 net restaurants added to the royalty pool. A final adjustment to the share consideration will be made in December 2004 based upon the 2004 sales reported by the new restaurants. Twenty percent of the shares are held in escrow until the 2004 sales of the new restaurants are known. After the January 5, 2004 amendment to the royalty pool, Food Services owns the equivalent of 31% of the units of the Fund on a fully-diluted basis.

The issuance of the shares is recorded as an additional cost of the intangible assets, the A&W trade-marks (\$5,134,000). The Class B shares are classified as liabilities of the Fund and, accordingly, the issuance of the shares is recorded as an additional liability (\$5,134,000).

A&W Trade Marks Inc. shares

(dollars in thousands)

	Mar 21, 2004 Number of shares	Amount	Dec 31, 2003 Number of shares	Amount
Common shares – at cost	3,720,945	\$ —	3,232,469	\$ —
Class A shares – at cost	2,779,975	27,800	2,779,975	27,800
Class B shares – at cost	940,945	10,242	452,469	5,108
Accrued dividends on Class A and B shares		484		808
		\$ 38,526		\$ 33,716

RESULTS OF OPERATIONS

For the quarter ended March 21, 2004, royalty income earned from Food Services was \$2,804,000, based on sales of \$93,472,000 reported by the A&W restaurants in the royalty pool. This is an increase of 7.4% over royalty income of \$2,610,000 and sales of \$86,991,000 for the quarter ended March 23, 2003. This increase is due to the combined impact of the additional 16 restaurants in the royalty pool and the 5.0% same store sales increase for the quarter.

Expenses and taxes

(dollars in thousands)

	Period from Jan 1, 2004 to Mar 21, 2004	Period from Jan 1, 2003 to Mar 23, 2003
General and administrative	\$ 202	\$ 218
Amortization of deferred financing fees	30	31
Interest on term loan	135	136
Future income taxes and large corporations tax	142	108
A&W Trade Marks Inc. share dividends	882	783

General and administrative expenses for the quarter ended March 21, 2004 decreased \$16,000 to \$202,000 compared to \$218,000 in the same quarter in 2003 due to measures that were taken to control and reduce costs. Future income taxes increased by \$56,000, largely attributable to the increase in earnings before taxes for the quarter. The large corporations capital tax decreased by \$22,000 as the Government of Canada is phasing out the tax between 2004 and 2008, and limiting it to tax on capital in excess of \$50 million in 2004.

The dividends on Trade Marks' shares are treated for accounting purposes as interest expense and, as such, are accrued and deducted in arriving at net earnings. The accrual of Class A and B share dividends increased by \$99,000 from \$783,000 in the first quarter of 2003 to \$882,000 in 2004. The increase is due to Food Services' increased equivalent ownership in the Fund to 31% from 28%.

Distributions to Unitholders

(dollars in thousands except per unit amounts)

	Period from Jan 1, 2004 to Mar 21, 2004	Period from Jan 1, 2003 to Mar 23, 2003
Net earnings for the period	\$ 1,413	\$ 1,334
Add:		
Amortization of deferred financing fees	30	31
Future income taxes	104	48
A&W Trade Marks Inc. share dividends	882	783
Distributable cash	\$ 2,429	\$ 2,196
Distributable cash for Trust Units	\$ 1,984	\$ 2,014
Distributable cash available for dividends	445	182
	\$ 2,429	\$ 2,196
Distributable cash per Trust Unit (8,340,000 Units)	\$ 0.238	\$ 0.241
Distributions paid per Trust Unit (8,340,000 Units)	\$ 0.180	\$ 0.180

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

Cash available for distribution to unitholders during the quarter was \$1,984,000 compared to \$2,014,000 in 2003. This decrease of \$30,000 was due to the fact that there were 81 days in the quarter in 2004 (a leap year) versus 82 days in 2003. During the quarter, cash distributions of \$1,501,000 (\$0.18 per unit) were declared in February and March, the same as the prior year. The January 2004 distribution of \$0.09 per unit was declared in December 2003.

Dividends payable to Food Services on Class A and B shares of Trade Marks are subordinated to distributions to unitholders. The Fund expects to generate sufficient distributable cash in 2004 to meet its obligations on Class A and B shares including the 2003 subordinated dividends

Subordinated dividends on Class A and B shares

(dollars in thousands)

	Period from Jan 1, 2004 to Mar 21, 2004	Period from Jan 1, 2003 to Mar 23, 2003
Dividends accrued and payable	\$ 882	\$ 783
Distributable cash available for dividends	(445)	(182)
Subordinated dividends	437	601
Subordinated dividends – beginning of period	257	66
Subordinated dividends – end of period	\$ 694	\$ 667

The increase in the subordinated dividends during the quarter was expected due to the seasonality of sales in A&W restaurants. The royalty received by the Fund (through Trade Marks) will vary through the year due to seasonal fluctuations in sales, while uniform distributions to unitholders and dividends on Class A and B shares are paid monthly. Subordinated dividends are projected to be eliminated by the end of the year.

Dividends paid to Food Services were \$1,170,000 in the first quarter of 2004 compared to \$253,000 in the same period in 2003. The increase of \$917,000 is due to timing of payment of the 2003 dividends and the increase in Food Services' equivalent ownership in the Fund from 28% in 2003 to 31% in 2004.

Summary of Quarterly Results

(dollars in thousands except per unit amounts)

	2004		2003			2002		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Royalty income	\$2,804	\$ 4,507	\$ 3,397	\$ 3,165	\$ 2,610	\$ 4,138	\$ 3,175	\$ 2,947
Net earnings	1,413	2,663	2,083	1,779	1,334	2,448	1,992	1,801
Basic and diluted earnings per Unit	\$0.169	\$ 0.319	\$ 0.250	\$ 0.213	\$ 0.160	\$ 0.294	\$ 0.239	\$ 0.216

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

LIQUIDITY AND CAPITAL RESOURCES

The Fund believes it has sufficient financial resources to meet ongoing future distribution and dividend obligations. Trade Marks has a demand operating loan of up to \$2,000,000 to fund its working capital requirements and meet its cash flow needs. Occasional cash shortfalls arise in part because royalty income is a function of sales which fluctuate seasonally. Shortfalls also arise because the royalty is paid by Food Services every four weeks (13 times a year) while uniform distributions and dividends are paid monthly. The operating loan bears interest at bank prime rate plus 0.5%.

Cash decreased by \$1,013,000 in the quarter resulting in use of the operating loan of \$479,000. The key factors leading to this use of cash were:

- increase in royalties receivable; and
- payment of dividends in respect of the accrued dividends at December 31, 2003.

On April 1, 2004, Trade Marks replaced its original \$2,000,000 operating loan and \$10,000,000 term loan with a new credit facility with HSBC Bank Canada. A general

security agreement over the assets of Trade Marks was provided as security for the new credit facility. The credit facility includes:

- a demand operating loan of up to \$2,000,000 to fund working capital requirements and for general corporate purposes. The operating loan bears interest at the bank prime rate plus 0.5% and is repayable on demand.
- a 48 month term loan in the amount of \$10,000,000. The term loan is repayable on March 15, 2008 and bears interest at bank prime rate plus between 0.0% and 0.5% depending on the ratio of total debt to EBITDA. (Total debt is the aggregate outstanding balance of the operating loan and the term loan and EBITDA is earnings before interest [which includes Class A and B share dividends], taxes, depreciation and amortization.)

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

An existing interest rate swap maturing February 14, 2005 was assigned to HSBC. The interest rate swap fixes the interest rate at 6.18% per annum.

Payments due by Period

(dollars in thousands)

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

An impact of this financing change is that in the second quarter of 2004, the remaining unamortized deferred financing fees of \$125,000 relating to the former term loan will be fully expensed. The cost of securing and documenting the HSBC term loan is estimated to be \$84,000 and will be deferred and amortized over the term of the new loan.

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

OFF-BALANCE SHEET ARRANGEMENTS

The Fund has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During the quarter, royalty income of \$2,804,000 (2003 - \$2,610,000) was earned from Food Services, of which \$2,018,000 is receivable at March 21, 2004 (2003 - \$1,820,000). The increase in royalties receivable from \$1,267,000 at December 31, 2003 is due to the timing of scheduled royalty payments.

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

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

CRITICAL ACCOUNTING ESTIMATES

There are no critical accounting estimates that, if changed, would materially affect the Fund's overall financial condition or results of operations.

FINANCIAL INSTRUMENTS

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

RISKS AND UNCERTAINTIES

The amount of the royalty received from Food Services is dependent upon the sales of the A&W restaurants in the royalty pool. In addition to the risks and uncertainties noted in the Fund's 2003 Management Discussion and Analysis that could affect these sales, there are risks surrounding the supply of some raw materials relied upon by the restaurants. During the quarter there were some shortages of chicken products due to supply problems. At the current time, these supply problems have been rectified but there is uncertainty whether greater disruption could occur which could have an impact on sales of chicken products in the restaurants.

OUTLOOK

The success of the Fund will continue to be driven by the ability of Food Services to drive growth in same store sales. Food Services projects that A&W's three pillars of trust – strategic management of the A&W brand, Climate, and experienced leadership – will continue to produce system sales results which outpace the Quick Service Restaurant industry. In addition, the Canadian foodservice industry is projected to show improved performance in 2004, following a very difficult 2003.

In 2004, Food Services will continue to focus on a number of strategic initiatives aimed at accelerating progress toward its Mission to "become the number one choice of the baby boomer generation".

Restaurant Re-imaging and Menu Boards

During 2004, A&W will continue its restaurant re-imaging and menu board programs. The re-imaging program incorporates a number of A&W design features which

research has shown evoke fond memories in baby boomer customers. Re-imaged restaurants in a control group of test restaurants delivered sales improvements in excess of 5%. The new menu boards improve product merchandising and have delivered a 2% increase in the average cheque in a control group of test restaurants.

Climate Goal Program Extension

A&W's Climate Goal program is a successful workplace initiative that has reduced employee turnover and increased commitment to outstanding food and service. This program will be further extended in 2004.

Ongoing Menu Innovation

A&W will continue to implement new menu innovation through 2004 to appeal to its baby boomer customer base. The first innovations will be the relaunch of breakfast by sharpening A&W's core breakfast menu. This relaunch will be supported by TV advertising.

Advertising and Marketing Campaigns

In 2004, Food Services started work on several new initiatives related to its strategic focus on baby boomers, including the release of a new advertising campaign that achieves a stronger connection to baby boomers and taps into the many rich, personal memories that boomers have from their experiences at an A&W drive-in, back in the 50's, 60's and 70's. The first new ad is called "Drive" and it tells a story relevant to boomers' lives today. It makes a simple parallel between the enduring relationship A&W has enjoyed with its customers and the wonderful enduring relationships in their own lives. A&W was a fun part of their lives then and still is today.

Together these initiatives are providing A&W with strong momentum in executing its strategy. Franchised operators have been very supportive of these initiatives and as the industry continues to improve, A&W will be positioned very competitively in the foodservice marketplace.

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

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

Consolidated Balance Sheet

Unaudited

(in thousands of dollars)

As at	March 21, 2004	December 31, 2003
ASSETS		
Current assets		
Cash	\$ —	\$ 534
Accounts receivable	2,051	1,296
Prepaid interest	15	26
	2,066	1,856
Intangible assets (note 2)	130,998	125,864
Deferred financing fees	125	155
	\$ 133,189	\$ 127,875
LIABILITIES		
Current liabilities		
Bank indebtedness	\$ 479	\$ —
Accounts payable and accrued liabilities	202	218
Corporate taxes payable	—	11
Distribution payable to Unitholders	751	751
Dividends payable	327	291
	1,759	1,271
Term loan	10,000	10,000
Future income taxes	7,788	7,684
A&W Trade Marks Inc. shares (notes 2 and 3)	38,526	33,716
	58,073	52,671
Unitholders' equity	75,116	75,204
	\$ 133,189	\$ 127,875

Consolidated Statement of Earnings

Unaudited

(in thousands of dollars, except per unit amounts)

	Period from Jan 1, 2004 to Mar 21, 2004	Period from Jan 1, 2003 to Mar 23, 2003
Gross sales reported by A&W restaurants in the royalty pool	\$ 93,472	\$ 86,991
Royalty income	\$ 2,804	\$ 2,610
Expenses		
General and administrative	202	218
Amortization of deferred financing fees	30	31
Interest expense		
- term loan	135	136
- A&W Trade Marks Inc. share dividends	882	783
	1,249	1,168
Earnings before income taxes	1,555	1,442
Provision for income taxes		
Large corporations tax	38	60
Future income taxes	104	48
	142	108
Net earnings for the period	\$ 1,413	\$ 1,334
Basic and diluted earnings per Trust Unit (8,340,000 Units)	\$ 0.169	\$ 0.160

Consolidated Statement of Unitholders' Equity

Unaudited

(in thousands of dollars)

	Period from Jan 1, 2004 to Mar 21, 2004	Period from Jan 1, 2003 to Mar 23, 2003
Balance – beginning of period	\$ 75,204	\$ 76,352
Net earnings for the period	1,413	1,334
Distributions declared	(1,501)	(1,501)
Balance – end of period	\$ 75,116	\$ 76,185

Consolidated Statement of Cash Flows

Unaudited

(in thousands of dollars)

	Period from Jan 1, 2004 to Mar 21, 2004	Period from Jan 1, 2003 to Mar 23, 2003
Cash flows from operating activities		
Net earnings for the period	\$ 1,413	\$ 1,334
Items not affecting cash		
Amortization of deferred financing fees	30	31
Provision for future income taxes	104	48
Change in accrued dividends (note 3)	(324)	113
	1,223	1,526
Net changes in non-cash working capital	(735)	(366)
	488	1,160
Cash flows from financing activities		
Distributions paid to Unitholders	(1,501)	(1,501)
Decrease in cash for the period	(1,013)	(341)
Cash – beginning of period	534	490
(Bank Indebtedness) Cash – end of period	\$ (479)	\$ 149
Supplementary cash flow information		
Non-cash financing activities		
Issuance of A&W Trade Marks Inc. Class B shares	\$ 5,134	\$ 5,505
Interest paid	\$ (108)	\$ (174)
Dividends paid	\$ (1,170)	\$ (253)



Notes to the Interim Consolidated Financial Statements

For the quarter ended March 21, 2004

Unaudited

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

1. BASIS OF PRESENTATION

A&W Revenue Royalties Income Fund (the Fund) prepares its financial statements in accordance with Canadian generally accepted accounting principles on a basis consistent with those used and described in the annual consolidated financial statements. These interim consolidated financial statements do not include all of the disclosure requirements of generally accepted accounting principles for annual financial statements.

These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2003.

2. INTANGIBLE ASSETS

On January 5, 2004, the number of A&W restaurants for which royalties are paid to the Fund was increased by 28 new restaurants, less 12 restaurants which permanently closed during 2003. The Fund, through its subsidiary A&W Trade Marks Inc., paid A&W Food Services of Canada Inc. (Food Services) \$5,134,000, by issuance of 488,476 Class B and common shares, as initial consideration for the estimated royalty stream from the 16 net restaurants added to the royalty pool. A final adjustment to the share consideration will be made in December 2004 based upon the 2004 gross sales reported by the new restaurants. Twenty percent of the shares are held in escrow until the 2004 gross sales of the new restaurants are known. After the January 5, 2004 amendment to the royalty pool, Food Services owns the equivalent of 31% of the units of the Fund on a fully-diluted basis.

The shares comprise the second payment of the unpaid balance of the purchase price on the acquisition of the A&W trade-marks and will be recorded as an additional cost of the A&W trade-marks.

The Class B shares have substantially the same terms as the Class A shares and are therefore classified as liabilities of the Fund and the cumulative dividends are classified as interest expense in the consolidated statement of earnings.

3. A&W TRADE MARKS INC. SHARES

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

	Mar 21, 2004	Dec 31, 2003
Common shares - at cost	\$ —	\$ —
Class A shares - at cost	27,800	27,800
Class B shares - at cost	5,108	5,108
Class B shares - at cost (note 2)	5,134	—
Accrued dividends on		
Class A and Class B shares	484	808
	\$ 38,526	\$ 33,716

4. DISTRIBUTIONS

	Period from Jan 1, 2004 to Mar 21, 2004	Period from Jan 1, 2003 to Mar 23, 2003
Net earnings for the period	\$ 1,413	\$ 1,334
Add:		
Amortization of deferred financing fees	30	31
Future income taxes	104	48
A&W Trade Marks Inc. share dividends	882	783
Distributable cash	\$ 2,429	\$ 2,196
Distributable cash for Trust Units	\$ 1,984	\$ 2,014
Distributable cash available for dividends	445	182
	\$ 2,429	\$ 2,196
Distribution declared per Trust Unit (8,340,000 Units)	\$ 0.180	\$ 0.180
Distribution paid per Trust Unit (8,340,000 Units)	\$ 0.180	\$ 0.180

5. SUBSEQUENT EVENT

Term loan

On April 1, 2004, Trade Marks paid out its existing operating loan and term loan in the amount of \$10,000,000 with a new credit facility with HSBC Bank Canada. A general security agreement over the assets of Trade Marks was provided as security for the new credit facility. The credit facility includes:

- a demand operating loan of up to \$2,000,000 to fund working capital requirements and for general corporate purposes. The operating loan bears interest at the bank prime rate plus 0.5% and is repayable on demand.
- a 48 month term loan in the amount of \$10,000,000. The term loan is repayable on March 15, 2008. Interest is at a fixed rate of 6.18% by an existing interest rate swap maturing February 14, 2005.

UNITHOLDER INFORMATION

Corporate Head Office

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** Audit Committee and
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Registrar and Transfer Agent

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Market Information

Units Listed:
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Symbol: **AW.UN**

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**A&W Food Services
of Canada Inc.**

Q1 / 2004

Consolidated Financial
Statements
For the first quarter ended
March 21, 2004

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

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REPORT TO UNITHOLDERS OF A&W REVENUE ROYALTIES INCOME FUND

This report is provided as a supplement to the quarterly report of the A&W Revenue Royalties Income Fund for the quarter ended March 21, 2004.

A&W Food Services of Canada Inc. ("Food Services") is the franchisor of the A&W restaurant chain in Canada and derives revenues from franchise fees, sales in corporate-owned restaurants, sales of goods and services to franchisees, initial and regrant franchise fees, lease guarantee fees, and other fees. Food Services also receives revenue from its subsidiary's sales of flavour concentrate to a licensed bottler who produces and distributes A&W Root Beer for sale in retail grocery stores.

Food Services' direct costs and administrative expenses include the cost of materials and supplies and equipment sold either directly to franchisees or to distributors that service the restaurants. In addition, direct costs include the expenses and costs of the eight corporate restaurants operated by Food Services. Also included are salaries and general and administrative costs associated with providing services to the franchised A&W restaurants and establishing new A&W restaurants.

Food Services, through its investment in A&W Trade Marks Inc. ("Trade Marks"), owns the equivalent of 31% of the units of the A&W Revenue Royalties Income Fund (the "Fund"), up from 28% in 2003, and receives dividend income from this source.

Food Services licences the A&W trade-marks from the Fund in exchange for a royalty fee of 3% of the sales of the A&W restaurants in the royalty pool of the Fund.

The royalty pool is adjusted in January of each year to reflect sales from new restaurants, net of the sales of any A&W restaurants that have permanently closed. The Fund pays Food Services for any increase in the royalty from these new restaurants on the basis of a formula set out in the licence agreement.

Selected Financial Information

(dollars in thousands)

	12-week period ended Mar 21, 2004	12-week period ended Mar 23, 2003
System sales	\$ 100,307	\$ 92,486
System sales % change	+8.5%	+2.4%
Same store sales % change	+5.0%	-2.2%
New restaurants opened	3	4
Restaurants closed	5	3
Number of restaurants	632	614
Franchising & corporate restaurant revenue	\$ 8,890	\$ 8,982
Direct costs and administrative expenses	6,448	6,633
Operating contribution	2,442	2,349
Dividend income	1,206	670
Royalty expense	2,927	2,686
Earnings before interest, amortization and taxes	721	333
Net earnings for the quarter	751	1,112

System Sales

For the 12 weeks ended March 21, 2004, total system sales for all A&W restaurants in Canada were \$100,307,000, an increase of 8.5% or \$7,821,000 from the same period in 2003. This increase is due primarily to the increased number of restaurants and same store sales growth.

Same store sales at A&W restaurants grew by 5.0% in the first quarter of 2004 and have increased for four consecutive quarters. This sales increase is driven by the key strategic initiatives which have been underway for several years within the A&W business. Driven by A&W's mission to be "the number one choice of the baby boomer generation", programs such as restaurant re-imaging, new menu boards and a continued high level of menu innovation are yielding positive results. In addition, A&W unveiled an exciting new advertising campaign with the launch of the "Drive" spot in March this year.

Sales increases have also been helped by an emerging recovery in Canada's foodservice industry. Projections by the Canadian Restaurant and Foodservices Association are calling for continued improvement in the underlying health of the foodservice industry for the balance of the year.

New Restaurant Development and Restaurant Closures

A&W opened three new franchised restaurants in the first quarter of 2004 compared to four new restaurants in the first quarter of 2003. In keeping with A&W's strategy, the new restaurants opened are in Ontario and Quebec. Five restaurants were closed compared to three in the same period in 2003. The increase in the number of closed restaurants in 2004 versus 2003 is due to a greater number of lease expiries. In several cases, the restaurants were low-volume restaurants located in shopping centres that were no longer economically viable. In these cases, Food Services and the respective franchisees chose not to renew the leases and the restaurants subsequently closed. One corporate-owned restaurant in Ottawa was closed upon lease expiry as the landlord wanted the space back for re-merchandising of the shopping centre.

In 2004, Food Services intends to maintain its 2003 level of new restaurant openings, with a continued emphasis on openings planned for Ontario, Quebec and Atlantic Canada, providing appropriate locations and franchisees can be secured.

Expansion of the Royalty Pool

On January 5, 2004, the number of A&W restaurants for which royalties are paid to the Fund increased by 28 new restaurants, less 12 restaurants which permanently closed during 2003. Trade Marks paid Food Services \$5,134,000, by issuance of 488,476 Class B and common shares, as initial consideration for the estimated royalty stream from the 16 net restaurants added to the royalty pool. A final adjustment to the share consideration will be made in December 2004 based upon the 2004 sales reported by the new restaurants. Twenty percent of the shares are held in escrow until the 2004 sales of the new restaurants are known. After the January 5, 2004 amendment to the royalty pool, Food Services owns the equivalent of 31% of the units of the Fund on a fully-diluted basis.

2004 First Quarter Operating Results

Revenue

First quarter franchising and corporate revenues decreased by \$92,000 to \$8,890,000 from \$8,982,000 in the first quarter of 2003. Overall, franchising revenue increased by \$158,000 due to higher franchise fees generated by the increase in the number of restaurants and system sales growth. Same store sales from corporate-owned restaurants in Ottawa increased by \$166,000. However, total corporate restaurant revenue in the first quarter

was \$250,000 lower than last year as three restaurants which Food Services was operating in 2003, while holding for franchising, were franchised later in 2003 and one corporate-owned restaurant in Ottawa was closed in January 2004.

Direct Costs and Administrative Expenses

Direct costs and administrative expenses decreased by \$185,000 to \$6,448,000 in 2004 from \$6,633,000 in 2003. A key factor in this decrease was the reduction in operating costs as a result of the three restaurants which were operated by Food Services in 2003 being franchised and one corporate restaurant being closed. This was offset slightly by higher general and administrative costs in 2004 compared to 2003.

Operating contribution margin improved from 26.2% in 2003 to 27.5% in 2004 due to the lower costs noted above.

Dividend Income

Dividend income increased to \$1,206,000 in the first quarter of 2004 from \$670,000 in the same period in 2003. The increase of \$536,000 is due to the timing of receipt of 2003 dividends and the increase in the equivalent ownership of the Fund from 28% in 2003 to 31% in 2004.

Royalty Expense

Total royalties paid to the Fund for the use of the trade-marks increased by \$241,000 from \$2,686,000 in the first quarter of 2003 to \$2,927,000 in 2004. The increase is due to same store sales growth and the increase in the number of restaurants in the royalty pool from 604 in 2003 to 620 in 2004.

Earnings before Interest, Amortization and Taxes

Earnings before interest, amortization and taxes increased from \$333,000 in 2003 to \$721,000 due to improvements in the operating contribution and timing in the receipt of dividend income.

Amortization of Deferred Gain

Amortization of the deferred gain on the sale of the trade-marks decreased by \$721,000 for the quarter. This large decrease is attributable to an accounting policy change. Effective October 2003, in accordance with the new recommendations of the Canadian Institute of Chartered Accountants, the deferred gain is being amortized on a straight-line basis over the term of the licence agreement. Prior to October 2003, the amortization was based upon the present value of the expected royalty payments made under the licence agreement.

Net Earnings

Net earnings for the quarter decreased by \$361,000 to \$751,000 in 2004 from \$1,112,000 in 2003. The lower earnings in 2004 are as a result of the accounting policy change with respect to the amortization of the deferred gain on the sale of the trade-marks, described above.

Liquidity and Capital Resources

As at March 21, 2004, Food Services had a deficit. The deficit arose in 2002 at the time of the sale of the A&W trade-marks and the payment of dividends to the shareholders. In accordance with GAAP, the gain on the sale of the trade-marks was deferred and will be amortized over the term of the licence for the use of the trade-marks. The net equity, including the deferred gain, improved by \$4,901,000, as follows:

Net Equity

(dollars in thousands)

	Mar 21, 2004	Dec 28, 2003
Deficit	\$ (8,408)	\$ (8,811)
Deferred accounting gain on sale of A&W trade-marks	37,288	32,243
Less related tax recovery	(4,045)	(3,498)
	24,835	19,934
Capital stock	10,500	10,500
Net equity, including deferred gain	\$ 35,335	\$ 30,434

Food Services has sufficient cash on hand to meet its obligations. The company has minimal capital requirements related to the corporate restaurants and head office. Future restaurant growth will continue to be funded by franchisees.

We are confident that A&W's strategy, the key programs already underway, and new ones that are in development will continue to result in strong performance versus the industry.

This report contains certain forward-looking statements based on assumptions that management considered reasonable at the time they were prepared. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. These forward-looking statements are subject to a number of risk factors, including the ability of A&W Food Services of Canada Inc. to implement its marketing strategies, the opening of new A&W restaurants, general economic and business conditions, financial and political instability, and other factors disclosed previously and from time to time in the Fund's public filings.

Consolidated Balance Sheet

Unaudited
(in thousands of dollars)

As at	March 21, 2004	December 28, 2003
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,958	\$ 4,540
Accounts receivable	4,669	8,075
Inventories	1,120	1,035
Dividends receivable	327	334
Prepaid expenses	54	30
Future income taxes	251	272
	14,379	14,286
Investment in A&W Trade Marks Inc. (note 2)	38,042	32,908
Future income taxes	3,746	3,197
Property, plant and equipment	1,722	1,809
Notes receivable	505	425
	\$ 58,394	\$ 52,625
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 8,375	\$ 9,974
Accrued royalties payable	2,018	2,227
Income taxes payable	422	—
Deposits on franchise and equipment sales	2,331	806
	13,146	13,007
Deferred gain (note 2)	37,288	32,243
Long-term liabilities	5,701	5,592
Non-controlling interest	167	94
	56,302	50,936
SHAREHOLDERS' EQUITY		
Capital stock	10,500	10,500
Deficit	(8,408)	(8,811)
	2,092	1,689
	\$ 58,394	\$ 52,625

Consolidated Statement of Earnings and Deficit

Unaudited
(in thousands of dollars)

	12-week period ended Mar 21, 2004	12-week period ended Mar 23, 2003
Revenue		
Franchising	\$ 7,608	\$ 7,450
Corporate restaurants	1,282	1,532
Dividend income	1,206	670
	10,096	9,652
Direct costs and administrative expenses	6,448	6,633
Royalty expense	2,927	2,686
	9,375	9,319
Earnings before the following:	721	333
Interest <small>(note 3)</small>	39	(9)
Amortization of property, plant and equipment	91	95
Amortization of deferred gain	(89)	(810)
Earnings before income taxes and non-controlling interest	680	1,057
Recovery of (provision for) income taxes		
Current	(384)	(406)
Future income taxes	528	523
	144	117
Earnings for the period before non-controlling interest	824	1,174
Non-controlling interest	73	62
Net earnings for the period	751	1,112
Deficit beginning of period	(8,811)	(10,885)
Refundable dividend tax	(348)	(648)
Deficit - end of period	\$ (8,408)	\$ (10,421)

Consolidated Statement of Cash Flows

Unaudited
(in thousands of dollars)

	12-week period ended Mar 21, 2004	12-week period ended Mar 23, 2003
Cash flows from operating activities		
Net earnings for the period	\$ 751	\$ 1,112
Items not affecting cash		
Amortization of property, plant and equipment	91	95
Increase in future income taxes – non-current	(549)	(546)
(Gain) loss on disposal of property, plant and equipment	(1)	3
Amortization of deferred gain	(89)	(810)
Increase in long-term liabilities	109	108
(Increase) decrease in notes receivable	(80)	24
Non-controlling interest's share of earnings	73	62
	305	48
Net changes in non-cash working capital	3,464	(2,302)
	3,769	(2,254)
Cash flows from investing activities		
Purchase of property, plant and equipment	(4)	(110)
Proceeds from disposal of property, plant and equipment	1	—
	(3)	(110)
Cash flows from financing activities		
Refundable dividend tax	(348)	(648)
	(348)	(648)
Increase (decrease) in cash and cash equivalents	3,418	(3,012)
Cash and cash equivalents - beginning of period	4,540	11,054
Cash and cash equivalents - end of period	\$ 7,958	\$ 8,042
Cash and cash equivalents consist of:		
Cash	1,453	2,037
Short-term investments	6,505	6,005
	\$ 7,958	\$ 8,042
Supplementary cash flow information (note 3)		
Net interest received	\$ 37	\$ 76
Net income taxes paid	\$ (278)	\$ (5,463)

Notes to the Interim Consolidated Financial Statements

For the 12-week period ended March 21, 2004

Unaudited

(figures in tables are expressed in thousands of dollars)

1. Basis of Presentation

The company prepares its interim financial statements in accordance with Canadian generally accepted accounting principles on a basis consistent with those used and described in the annual consolidated financial statements. These interim consolidated financial statements do not include all of the disclosure requirements of generally accepted accounting principles for annual financial statements.

These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 28, 2003.

2. Investment in A&W Trade Marks Inc.

On January 5, 2004, the number of A&W restaurants for which royalties are paid to A&W Trade Marks Inc. (Trade Marks) increased by 28 new restaurants, less 12 restaurants which permanently closed during 2003. The company received \$5,134,000, by issuance of 488,476 Class B and common shares of Trade Marks, as initial consideration for the estimated additional royalty stream from the 16 net restaurants added to the royalty pool. A final adjustment to the share consideration will be made in December 2004 based upon the 2004 gross sales reported by the new restaurants. Twenty percent of the shares are held in escrow until the 2004 gross sales of the new restaurants are known.

The shares comprise the second payment of the balance of the purchase price on the sale of the A&W trade-marks and are recorded as an additional investment in Trade Marks with a corresponding increase in the deferred gain.

3. Supplementary Earnings and Cash Flow Information

	12-week period ended Mar 21, 2004	12-week period ended Mar 23, 2003
Interest expense		
Interest income	\$ (37)	(76)
Other	76	67
	\$ 39	\$ (9)
Non-cash investing activities		
Investment in A&W Trade Marks Inc.	\$ 5,134	\$ 5,505



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