

A&W Revenue Royalties Income Fund

Q1

First Quarter Report to Unitholders
for the period ended
March 26, 2006

| | |
|-----------------------|---|
| Report to Unitholders | 1 |
|-----------------------|---|

| | |
|---|----|
| A&W Revenue Royalties Income Fund | |
| Management Discussion and Analysis | 3 |
| Financial Statements | 17 |
| Notes to the Interim Financial Statements | 20 |

| | |
|---|----|
| A&W Trade Marks Inc. | |
| Financial Statements | 23 |
| Notes to the Interim Financial Statements | 26 |

| | |
|------------------------|----|
| Unitholder Information | 31 |
|------------------------|----|



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 for the first quarter ended March 26, 2006. The Fund has enjoyed a strong quarter, driven by a strong same store sales increase of 8.9% as compared to the first quarter of 2005. This is the twelfth consecutive quarter of same store sales increases and the strongest since the inception of the Fund in February 2002.

The source of revenue for the Fund is through its 64% ownership in A&W Trade Marks Inc. which, in turn, receives royalty income from A&W Food Services of Canada Inc. based on 3% of the sales of the A&W restaurants in the Royalty Pool. Effective January 5, 2006 the pool was expanded from 638 to 654 restaurants, reflecting the addition of 27 new restaurants opened between September 3, 2004 and September 8, 2005, adjusted for 11 restaurants which closed during 2005.

It was an excellent quarter for the Fund. Total sales of restaurants in the Royalty Pool increased by 11.3% as a result of the 8.9% same store sales increase plus the higher number of restaurants in the Royalty Pool. As a result, total distributable cash increased by 9.7%. Distributable cash per equivalent unit increased from 23.5 cents to 24.9 cents, as compared to a year ago.

As a result of the continued strong performance the Trustees have increased monthly distributions to unitholders by 2.2% to 9.5 cents per month effective with the April distribution payable on May 31, 2006. On an annualized basis this represents a distribution rate of \$1.14.

The same store sales growth was driven by the continued success of the marketing and operational strategies that A&W has in place to achieve its strategic mission of “being the number one burger choice of the baby boomer generation”. In addition, there were several external factors which drove the strong sales. The first was uncommonly warm weather throughout Canada in January. This unusual weather pattern was very favourable to the foodservice industry. Another factor impacting the strong sales performance was the Alberta government’s payment of rebates to its residents. These rebates significantly stimulated retail purchasing, including spending in restaurants. Finally, the first quarter results benefited from the timing of Easter. The Easter weekend typically has a negative impact on quick service restaurant sales. In 2005, Easter fell in the first quarter, while in 2006 it will occur in the second quarter. This positively impacted the 2006 first quarter results.

We continue to be extremely pleased with the overall performance of the Fund and the underlying business and that as a result, the Fund has been able to increase distributions twice this year.

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

The following is a discussion on the unaudited financial statements and results of operations of the A&W Revenue Royalties Income Fund (the Fund) for the quarter ended March 26, 2006. This report is dated May 2, 2006 and should be read in conjunction with the interim unaudited financial statements for the quarter ended March 26, 2006 and the annual audited financial statements for the year ended December 31, 2005. A copy of this report and additional information about the Fund is available at www.sedar.com or www.awincomefund.ca.

In addition, readers are directed to the annual audited financial statements of A&W Trade Marks Inc. (Trade Marks) for the year ended December 31, 2005 and the interim unaudited financial statements for the quarter ended March 26, 2006.

Readers should be aware that 2006 results are not directly comparable to the prior year due to the increase in the number of restaurants in the Royalty Pool from 638 in 2005 to 654 in 2006. In addition, the first quarter of 2006 is not directly comparable to the first quarter of 2005 as there were 85 days in the Q1 2006 compared to 86 days in Q1 2005. Same store sales growth is based on an equal number of days in each quarter.

OVERALL PERFORMANCE

Same store sales growth for the restaurants in the Royalty Pool was 8.9% for the quarter. Royalty income for the quarter increased 11.3% over the same quarter in 2005 due to the same store sales growth and the increase in the number of restaurants in the Royalty Pool from 638 during 2005 to 654 during 2006.

Distributable cash available to pay distributions to unitholders and dividends on Class A and B preferred shares and common shares increased by 9.7% to \$3,241,000 for the quarter from \$2,955,000 for the same quarter in 2005. This increase in distributable cash was generated through growth in royalty income. While cash taxes and expenses increased in the quarter compared to last year, this increase was due primarily to timing of expenses relating to the annual report.

As a result of the continued strong performance, the Trustees have increased monthly distributions to unitholders by 2.2% to 9.5 cents per month beginning with the April 2006 distribution which is payable on May 31, 2006. On an annualized basis this represents a distribution rate of \$1.14 per unit. This represents the second increase in distributions this year.

FINANCIAL HIGHLIGHTS

The following table sets out selected financial highlights of the Fund and Trade Marks, and should be read in conjunction with the attached financial statements of the Fund and Trade Marks.

| (dollars in thousands except per unit amounts) | Period from Jan 1, 2006 to Mar 26, 2006 | Period from Jan 1, 2005 to Mar 27, 2005 |
|---|--|---|
| Same store sales growth | 8.9% | 5.5% |
| Number of restaurants in the Royalty Pool | 654 | 638 |
| Sales reported by the restaurants in the Royalty Pool | \$121,717 | \$109,352 |
| Royalty income | \$3,651 | \$3,281 |
| Cash taxes and expenses | \$410 | \$326 |
| Total distributable cash generated for distributions and dividends | \$3,241 | \$2,955 |
| Distributable cash per equivalent unit (2006 – 13,039,828 units; 2005 - 12,579,462 units) | \$0.249 | \$0.235 |
| Distributions declared per unit (8,340,000 units) | \$0.186 | \$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. This information is provided as it identifies the amount of actual cash available to pay distributions to unitholders and dividends to Food Services.

OVERVIEW

The Fund

The Fund is a limited purpose trust established to invest in Trade Marks, which owns 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.

The Fund earns interest income on A&W notes issued by Trade Marks. The A&W notes are in the amount of \$83,399,000, bear interest at 10.75% per annum and mature on February 15, 2034. Payments of interest only are receivable from Trade Marks monthly in arrears.

The Fund also earns dividend income from its 64% investment in the common shares of Trade Marks.

The Fund's distributions to unitholders are based on its net cash receipts, less minimal expenses of the Fund which are limited to bank charges.

The Fund is not taxed on any income that is distributed to unitholders. Income tax obligations related to the distributions by the Fund are obligations of the unitholders.

Trade Marks

On February 15, 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 common shares of Trade Marks and the balance (the Balance) of \$40,000,000 is due without interest on January 31, 2010.

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 three per cent 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 to Trade Marks if the restaurant had not closed, until the next adjustment to the Royalty Pool.

The Balance of the purchase price will be reduced by all amounts Trade Marks is required to pay Food Services in respect of annual adjustments to the Royalty Pool up to January 31, 2010. If the total annual adjustments are less than the Balance, the obligation of Trade Marks to pay the remaining Balance of the purchase price is extinguished.

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. Trade Marks pays Food Services for the additional royalty stream of the sales of the net new restaurants, based on a formula set out in the Licence and Royalty Agreement. The formula provides for a payment to Food Services based on the amount of estimated sales from the net new restaurants and the current yield on the units of the Fund, discounted by 7.5%. The payment is in the form of common shares and Class B preferred shares of Trade Marks which are the economic equivalent of units of the Fund. Twenty percent of the shares are held in escrow for a year until the actual sales of the new restaurants are known and the corresponding adjustment is made to the consideration.

Trade Marks' expenses include general and administrative expenses, amortization of deferred financing fees, interest expenses on its \$10 million term loan and the A&W notes, and taxes. Also, GAAP stipulates that the dividends on the Class A and B preferred shares be classified as interest expense by Trade Marks.

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.

The Class A and Class B preferred shares of Trade Marks are owned by Food Services and comprise:

| (dollars in thousands) | March 26, 2006 | | December 31, 2005 | |
|---------------------------|----------------|--------|-------------------|--------|
| | # | \$ | # | \$ |
| Class A shares - at cost | 2,779,975 | 27,800 | 2,779,975 | 27,800 |
| Class B shares - at cost: | | | | |
| 2003 annual adjustment | 452,469 | 5,108 | 452,469 | 5,108 |
| 2004 annual adjustment | 495,681 | 5,210 | 495,681 | 5,210 |
| 2005 annual adjustment | 511,337 | 6,197 | 511,337 | 6,197 |
| 2006 annual adjustment | 460,366 | 5,695 | - | - |
| | 1,919,853 | 22,210 | 1,459,487 | 16,515 |
| Accrued dividends | | 334 | | 360 |
| | 4,699,828 | 50,344 | 4,239,462 | 44,675 |

The Class A and B preferred shares entitle Food Services to a fixed cumulative preferential cash dividend at a rate of \$1.075 per share per annum. The Class A and B preferred shares may be redeemed at the option of Food Services into A&W notes of Trade Marks on the basis of \$10 principal amount of A&W notes for one Class A or Class B preferred share and, in turn, one common share of Trade Marks and a \$10 A&W note are exchangeable for a unit in the Fund.

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

| | The Fund | | Food Services | | Total |
|------------------------|-----------|-------|---------------|-------|------------|
| | # | % | # | % | # |
| February 15, 2002 | 8,340,000 | 75.0% | 2,780,000 | 25.0% | 11,120,000 |
| 2003 annual adjustment | | -2.9% | 452,469 | 2.9% | 452,469 |
| 2004 annual adjustment | | -3.0% | 495,681 | 3.0% | 495,681 |
| 2005 annual adjustment | | -2.8% | 511,337 | 2.8% | 511,337 |
| 2006 annual adjustment | | -2.3% | 460,366 | 2.3% | 460,366 |
| | 8,340,000 | 64.0% | 4,699,853 | 36.0% | 13,039,853 |

Summary

Trade Marks earns royalty income from Food Services and distributes its available cash by way of dividends on its shares, after satisfaction of its debt service obligations, provisions for administrative expenses of Trade Marks and the Fund, and retention of reasonable working capital reserves. The Fund receives interest income and dividends from Trade Marks and pays its net cash receipts to unitholders. An important aspect of the structure 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. Food Services' consolidated financial statements are included as a supplement to this report.

EXPANSION OF THE ROYALTY POOL

On January 5, 2006, the number of A&W restaurants for which royalties are paid to Trade Marks was increased by 27 new restaurants less 11 restaurants which permanently closed during 2005. Trade Marks paid Food Services \$5,695,000, by issuance of 460,366 Class B preferred shares and 460,366 common shares of Trade

Marks, as initial consideration for the estimated royalty stream from the 16 net restaurants added to the Royalty Pool. These shares are the economic equivalent of units of the Fund and are valued at \$12.37 per share, being the weighted average trading price of the units of the Fund for the 20 trading days ending October 31, 2005.

A final adjustment to the share consideration will be made in December 2006 based upon the actual annual sales reported by the new restaurants. Until then, 20% of the shares will be held in escrow. After the January 5, 2006 adjustment to the Royalty Pool, Food Services owns the equivalent of 36% of the units of the Fund on a fully-diluted basis.

OWNERSHIP OF THE FUND

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

| | March 26, 2006 ⁽¹⁾ | | December 31, 2005 | |
|---|-------------------------------|---------------|-------------------|---------------|
| | # | % | # | % |
| Fund units held by public unitholders | 8,340,000 | 63.96 | 8,340,000 | 66.30 |
| Trade Marks' Class A and B preferred shares held by Food Services: ⁽²⁾ | | | | |
| Class A ⁽³⁾ | 2,779,975 | 21.32 | 2,779,975 | 22.10 |
| Class B ⁽⁴⁾ | 1,919,853 | 14.72 | 1,459,487 | 11.60 |
| | 4,699,828 | 36.04 | 4,239,462 | 33.70 |
| Total equivalent units | 13,039,828 | 100.00 | 12,579,462 | 100.00 |

Notes:

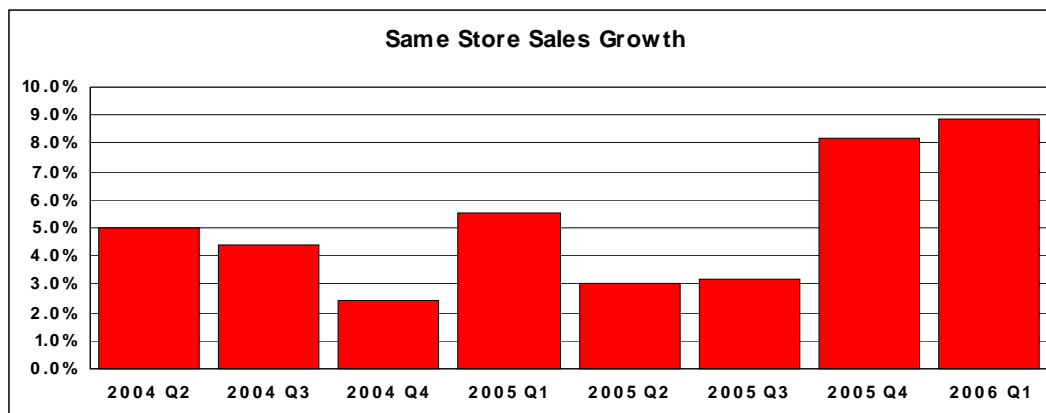
- (1) Information is current as at May 2, 2006.
- (2) May be redeemed into A&W notes of Trade Marks on the basis of \$10 principal amount of A&W notes for one Class A or Class B preferred share and, in turn, one common share of Trade Marks and a \$10 A&W note are exchangeable for a unit in the Fund.
- (3) Represents Food Services' initial 25% equivalent ownership of the Fund, prior to the issuance of the Class B preferred shares.
- (4) Represents Class B preferred shares issued to Food Services as consideration for annual adjustments to the Royalty Pool.

SAME STORE SALES GROWTH

The source of revenue for Trade Marks is royalty income from Food Services. Royalty income is equal to 3% of sales of the A&W restaurants in the Royalty Pool. As a result, same store sales growth by A&W restaurants is a key performance indicator for Trade Marks and the Fund.

Same store sales growth of 8.9% for the quarter was driven by the continued success of Food Services' marketing and operational strategies. There were several external factors which also contributed to the strong first quarter same store sales growth. The first was the unseasonably warm weather throughout Canada in January which was extremely favourable for sales in the quick service restaurant industry. A second factor was the impact of the Alberta government's payment of rebates to its residents. This had a significant impact on retail spending, including spending in restaurants. Finally, the shift of the timing of Easter to the second quarter in 2006 versus the first quarter in 2005 had a positive impact on comparable sales during the first quarter of 2006.

Same store sales growth has now been positive for 12 consecutive quarters. The following chart shows the percentage change in same store sales by A&W restaurants for the eight most recently completed quarters:



RESULTS OF OPERATIONS

During the quarter ended March 26, 2006, the Fund earned \$2,088,000 of interest income on the A&W notes from Trade Marks, a decrease of \$25,000 from 2005 due to the shorter first quarter in 2006. The Fund's share of Trade Marks' losses in the quarter was \$164,000 compared to \$289,000 in the first quarter of 2005. The decrease of \$125,000 was due to the increase in Trade Marks' royalty income and the decrease in the Fund's ownership in Trade Marks from 66% in 2005 to 64% in 2006.

Royalty income earned by Trade Marks from Food Services was \$3,651,000 based on sales of \$121,717,000 reported by the A&W restaurants in the Royalty Pool. This is an increase of 11.3% over royalty income of \$3,281,000 and sales of \$109,352,000 during the same quarter of 2005. The increase is due to the combined impact of the additional 16 restaurants in the Royalty Pool and the same store sales increase of 8.9%.

EXPENSES AND TAXES

The Fund had no direct expenses while Trade Marks' expenses were as follows:

| (dollars in thousands) | Period from Jan 1, 2006 to Mar 26, 2006 | Period from Jan 1, 2005 to Mar 27, 2005 |
|--|--|--|
| General and administrative | \$254 | \$149 |
| Amortization of deferred financing fees | 4 | 4 |
| Interest on term loan | 128 | 141 |
| Interest on A&W notes | 2,088 | 2,113 |
| Dividends on Class A&B preferred shares ⁽¹⁾ | 1,176 | 1,076 |
| Large corporations tax | 28 | 36 |
| Future income taxes | 229 | 198 |

(1) as required by GAAP, the dividends are classified as interest expense and accrued accordingly

General and administrative expenses in the quarter, including expenses for the Fund under the administration agreement between Trade Marks and the Fund, increased by \$105,000 to \$254,000, compared to \$149,000 in 2005. These increased costs are primarily due to timing of expenses with respect to the Fund's annual report. Overall public reporting expenses are expected to be higher in 2006 due to increased filing fees and higher printing and postage costs for the annual report.

Trade Marks' interest expense on its term loan decreased by \$13,000 to \$128,000 in the quarter due to the interest rate swap agreement which came into effect on February 16, 2005. Interest on the A&W notes decreased by \$25,000 to \$2,088,000 for the first quarter which was one day shorter than the same quarter of 2005.

The Class A and B preferred shares entitle Food Services to a fixed cumulative preferential cash dividend at a rate of \$1.075 per share per annum. In accordance with GAAP, the cumulative dividends are treated for accounting purposes by Trade Marks as interest expense and, as such, are accrued and deducted to arrive at net earnings. Class A and Class B preferred share dividends accrued in the quarter increased by \$100,000, from \$1,076,000 in the first quarter of 2005 to \$1,176,000 in 2006. The increase is due to Food Services' increased equivalent ownership in the Fund to 36% from 34%.

Large corporations tax decreased by \$8,000 due to the reduction in the tax rate, and future income taxes, a non-cash expense, increased by \$31,000 due to the increase in earnings before taxes for the quarter.

DISTRIBUTABLE CASH

Distributable cash is calculated as the combined operating cash flows of the Fund and Trade Marks, adjusted for the dividends on Trade Marks' Class A and B preferred shares. Distributable cash is not an earnings measure recognized by GAAP and therefore may not be comparable to similar measures presented by other issuers.

| (dollars in thousands except per unit amounts) | Period from Jan 1, 2006 to Mar 26, 2006 | Period from Jan 1, 2005 to Mar 27, 2005 |
|---|--|---|
| Trade Marks' cash flow used for operating activities ⁽¹⁾ | \$(49) | \$(258) |
| Add: Change in accrued dividends | 26 | 24 |
| Dividends on Class A & B preferred shares | 1,176 | 1,076 |
| Distributable cash – Trade Marks | 1,153 | 842 |
| The Fund's cash flow from operating activities ⁽¹⁾ | 2,088 | 2,113 |
| Total distributable cash | \$3,241 | \$2,955 |
| Cumulative surplus – beginning of period | 1,692 | 269 |
| Distributable cash for unitholders | (2,167) | (2,122) |
| Distributable cash for Food Services | (1,221) | (1,081) |
| Cumulative surplus – end of period | \$1,545 | \$21 |
| Distributable cash per equivalent unit | \$0.249 | \$0.235 |
| Number of equivalent units | 13,039,828 | 12,579,462 |
| Distributions declared per unit (8,340,000 units) | \$0.186 | \$0.180 |

(1) before changes in non-cash working capital

Total distributable cash increased by \$286,000 to \$3,241,000 for the quarter due to the increase in royalty income less the increase in general and administrative expenses discussed previously.

Distributable cash for unitholders for the quarter was \$2,167,000, compared to \$2,122,000 in 2005, due to the increase in the annual distribution rate from \$1.08 per unit in 2005 to the current distribution rate of \$1.116 per unit.

Distributable cash for dividends to Food Services for the quarter was \$1,221,000 compared to \$1,081,000 in 2005. The increase was due to the additional common and Class B preferred shares issued to Food Services in January 2006 as a result of the annual adjustment to the Royalty Pool and the increase in the annual distribution rate from \$1.08 to \$1.116.

At the end of the first quarter there was a cumulative surplus of distributable cash of \$1,545,000 compared to a cumulative surplus of \$1,692,000 at the end of last year.

DISTRIBUTIONS TO UNITHOLDERS

During the quarter ended March 26, 2006, the Fund declared distributions to unitholders of \$1,551,000 or \$0.186 per unit, compared to \$1,501,000 or \$0.180 per unit in the same quarter of 2005. The amounts and dates of these distributions were as follows:

| (dollars in thousands except per Unit amounts) | Declaration date | Payment date | Amount | Per unit |
|---|-------------------------|---------------------|---------------|-----------------|
| January 2006 | February 6, 2006 | February 28, 2006 | \$ 775.6 | \$0.093 |
| February 2006 | March 6, 2006 | March 31, 2006 | 775.6 | 0.093 |
| | | | \$1,551.2 | \$0.186 |

The distribution for December 2006 of \$750,600, which was paid on January 31, 2006, was declared and recorded for income tax purposes in 2005, the period in which it was earned. Therefore, only two distributions were declared during the quarter ended March 26, 2006.

The February 2006 distribution of \$775,620 which was declared on March 6, 2006 and paid on March 31, 2006 is reported as a current liability at March 26, 2006. On April 4, 2006, the Fund declared the March 2006 distribution of \$775,620 or \$0.093 per unit, payable to unitholders on April 28, 2006.

Due to the continued strong performance of the Fund, the Trustees have announced an increase in monthly distributions to unitholders from 9.3 cents per unit to 9.5 cents per unit starting with the April 2006 distribution which will be paid on May 31, 2006 to unitholders of record on May 15, 2006. The new monthly distribution rate translates into an annualized distribution of \$1.14 per unit, an increase of 2.2% from the prior level of \$1.116. This is the second increase in distributions this year.

DIVIDENDS ON TRADE MARKS' COMMON SHARES

During the quarter, Trade Marks declared dividends on its common shares of \$89,000 or \$0.0068 per share, of which \$57,000 was earned by the Fund and \$32,000 was earned by Food Services. In the quarter, \$29,000 and \$15,000 was paid to the Fund and Food Services respectively. As at March 26, 2006, \$45,000 is reported as a current liability and is payable on March 31, 2006 to the Fund and Food Services.

On April 4, 2006, Trade Marks declared a dividend on common shares of \$45,000 or \$0.0034 per share, payable on April 28, 2006.

DIVIDENDS ON TRADE MARKS' CLASS A AND B PREFERRED SHARES

During the quarter, Trade Marks declared dividends on Class A and B preferred shares of \$1,202,000, of which \$360,000 was in respect of 2005 and \$842,000 or \$0.1792 per share was in respect of 2006. \$797,000 was paid to Food Services in the quarter and \$405,000, payable on March 31, 2006, is reported as a current liability at March 26, 2006.

| (dollars in thousands except per share amounts) | Amount | Per Share |
|--|---------------|------------------|
| Total dividends in respect of 2005 | \$ 360 | |
| Total dividends in respect of 2006 | 842 | \$0.1792 |
| Total Class A and B preferred share dividends | \$1,202 | |

On April 4, 2006, Trade Marks declared a dividend on Class A and B preferred shares of \$421,000 or \$0.08958 per share, payable to Food Services on April 28, 2006.

SUMMARY OF QUARTERLY RESULTS

| (dollars in thousands except per unit amounts) | Q1 2006 | Q4 2005 | Q3 2005 | Q2 2005 |
|---|--------------------|--------------------|--------------------|--------------------|
| Number of restaurants in the Royalty Pool | 654 | 638 | 638 | 638 |
| Royalty income | \$3,651 | \$5,202 | \$3,970 | \$3,708 |
| The Fund's interest income | \$2,088 | \$2,726 | \$2,063 | \$2,063 |
| The Fund's net earnings | \$1,924 | \$3,343 | \$2,223 | \$2,054 |
| Basic and diluted earnings per unit | \$0.231 | \$0.401 | \$0.267 | \$0.246 |
| Distributable cash | \$3,241 | \$4,887 | \$3,748 | \$3,418 |
| Number of equivalent units | 13,039,828 | 12,579,462 | 12,579,462 | 12,579,462 |
| Distributable cash per equivalent unit | \$0.249 | \$0.388 | \$0.298 | \$0.272 |
| Distributions declared | \$1,552 | \$3,002 | \$2,252 | \$2,252 |
| Distributions declared per unit (8,340,000 units) | \$0.186 | \$0.360 | \$0.270 | \$0.270 |
| Number of days in the quarter | 85 | 111 | 84 | 84 |

| (dollars in thousands except per unit amounts) | Q1 2005 | Q4 2004 | Q3 2004 | Q2 2004 |
|---|------------|------------|------------|------------|
| Number of restaurants in the Royalty Pool | 638 | 620 | 620 | 620 |
| Royalty income | \$3,281 | \$4,849 | \$3,706 | \$3,471 |
| The Fund's interest income | \$2,113 | \$2,866 | \$2,057 | \$2,058 |
| The Fund's net earnings | \$1,824 | \$2,850 | \$2,181 | \$1,956 |
| Basic and diluted earnings per unit | \$0.219 | \$0.342 | \$0.262 | \$0.234 |
| Distributable cash | \$2,955 | \$4,493 | \$3,486 | \$3,151 |
| Number of equivalent units | 12,579,462 | 12,068,125 | 12,068,125 | 12,068,125 |
| Distributable cash per equivalent unit | \$0.235 | \$0.372 | \$0.289 | \$0.261 |
| Distributions declared | \$1,501 | \$3,002 | \$2,252 | \$2,252 |
| Distributions declared per unit (8,340,000 units) | \$0.180 | \$0.360 | \$0.270 | \$0.270 |
| Number of days in the quarter | 86 | 117 | 84 | 84 |

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 back to school and Christmas shopping seasons.

LIQUIDITY AND CAPITAL RESOURCES

The Fund has sufficient financial resources to pay ongoing future distributions as it receives income by way of interest on the A&W notes and dividends on its common shares of Trade Marks.

Trade Marks has a demand operating loan facility with HSBC Bank Canada of up to \$2,000,000 to fund its working capital requirements and to meet its cash flow needs. The operating loan bears interest at bank prime rate plus 0.5% and is repayable on demand. As at March 26, 2006, the full amount of the facility was available.

Trade Marks has a term loan with HSBC Bank Canada in the amount of \$10,000,000. The term loan is repayable on March 15, 2008 and bears interest at bank prime rate plus between 0.0% and 0.5% depending on specified financial ratios. Interest only is payable monthly, provided that 12 month trailing earnings before interest, taxes, depreciation and amortization (EBITDA) at any time are not less than \$10,000,000. In the event that EBITDA is less than \$10,000,000, the term loan will be fully amortized over the remaining term and repayment will be by way of blended monthly instalments of principal and interest.

An interest rate swap effective February 16, 2005 and maturing February 18, 2008 fixes the interest rate on the term loan at 5.81% per annum.

A general security agreement over the assets of Trade Marks was provided as security for the demand operating loan facility and term loan.

| Payments due by period (dollars in thousands) | Total | Less than 1 year | 1 – 3 years | 4 – 5 years | After 5 years |
|--|----------|---------------------|----------------|----------------|------------------|
| Term loan | \$10,000 | \$0 | \$10,000 | \$0 | \$0 |

The Fund and Trade Marks have no other contractual or purchase obligations. 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, with the exception of the interest rate swap discussed previously.

RELATED PARTY TRANSACTIONS AND BALANCES

During the quarter, Trade Marks' interest expense and the Fund's interest income on the A&W notes was \$2,088,000 (2005 - \$2,113,000), of which \$1,326,000 (December 31, 2005 - \$761,000) is receivable by the Fund from Trade Marks at March 26, 2006.

During the quarter, royalty income of \$3,651,000 (2005 - \$3,281,000) was earned by Trade Marks from Food Services, of which \$1,257,000 (December 31, 2005 - \$1,316,000) is receivable by Trade Marks at March 26, 2006.

As at March 26, 2006, \$31,000 (December 31, 2005 - \$31,000) is due to Trade Marks by the Fund, without interest and on demand.

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 for 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 and Analysis.

CRITICAL ACCOUNTING ESTIMATES

Trade Marks' 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 26, 2006.

FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash, accounts receivable, investment in Trade Marks, distribution payable to unitholders, and due to Trade Marks. 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, except for the investment in Trade Marks, approximate their carrying values. It is not practicable to determine the fair value of the investment in Trade Marks given the many terms and conditions that would influence such a determination.

Trade Marks' fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and dividends payable approximate their carrying values given the short term to maturity of these instruments. The fair value of Trade Marks' term loan approximates its carrying value due to the floating interest rate. The fair value of the interest rate swap is \$48,000 unfavourable. It is not practicable to determine the fair value of the A&W notes payable and Class A and B preferred shares given the many terms and conditions that would influence such a determination.

Trade Marks' exposure to credit risk is as indicated by the carrying amount of its accounts receivable. The majority of accounts receivable relates to royalties due from Food Services. All of Trade Marks' financial instruments are non-interest bearing except for the term loan and operating line of credit and the A&W notes payable, which bear interest as disclosed previously.

RISKS AND UNCERTAINTIES

The performance of the Fund is dependent upon the interest income and dividend income it receives from Trade Marks. The performance of Trade Marks is dependent on the royalty it receives from Food Services. The amount of the royalty is dependent upon the sales of the A&W restaurants in the Royalty Pool. Sales are subject to a number of factors that affect the restaurant industry generally and the quick service segment of this industry in particular, including the highly competitive nature of the industry, traffic patterns, demographic considerations and the type, number and proximity of competing quick service restaurants. In addition, factors such as the availability of experienced management and hourly employees may also adversely affect the sales of the quick service restaurant industry in general and the sales by A&W restaurants in particular.

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

Any significant event that adversely affects consumption of hamburgers, chicken, fries and soft drinks, such as cost, changing tastes or health concerns, could

adversely impact the sales of A&W restaurants and consequently, the amount of the royalty payable to Trade Marks.

The growth of the royalty is dependent upon the ability of Food Services to (i) grow same store sales, (ii) maintain and grow the current system of franchises, (iii) locate new retail sites in prime locations and (iv) obtain qualified operators to become A&W franchisees. Food Services faces competition for retail locations and franchisees from its competitors and from franchisors of other businesses. Food Services' inability to successfully obtain qualified franchisees could adversely affect its business development. The opening and success of franchised restaurants is dependent on a number of factors, including availability of suitable sites, negotiations of acceptable lease or purchase terms for new locations, permits and government regulatory compliance, and the ability to meet construction schedules. A&W franchisees may not have all these business abilities or access to financial resources necessary to open an A&W restaurant or to successfully develop or operate an A&W restaurant in their franchise areas in a manner consistent with Food Services' standards.

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

OUTLOOK

A&W is a strategy driven business. The focus of the strategy is A&W's mission to be "the number one burger choice of the baby boomer generation". This strategy is continuing to drive a high level of innovation in all areas of the business. These innovations include advertising and marketing, menu and product development, new restaurant development and restaurant design.

2006 is a milestone year for A&W. It marks the 50th anniversary of the opening of the first A&W drive-in in Canada. In June, A&W will celebrate this anniversary with consumers and franchisees right across Canada.

Menu Innovation

A&W's menu strategy is focussed on building three strong dayparts: breakfast, lunch and dinner, as well as undertaking menu innovation to appeal to baby boomers. In 2005 there were two major initiatives, the new Homestyle Breakfast sandwiches and the Fresh Choices menu (featuring the premium Swiss Veggie Deluxe burger, a new tossed salad program and a reformulated all white meat Chicken Grill Deluxe sandwich), which were well received. In 2006, A&W will continue to focus on building the important breakfast daypart.

A&W is seen by consumers as having the best tasting burgers in the Canadian quick service restaurant industry, as measured by consumer research. An important priority in 2006 will be to build on A&W's dominant market position in Canada for best tasting burgers.

Advertising and Marketing Campaigns

A&W's advertising and promotions programs were a great success in 2005. The "Winning Boomers" advertising campaign was launched in 2004 with the highly successful "Drive" television commercial, followed up in 2005 with the equally successful "Burger Family" spot. This campaign reaches back to the strong emotional connection that boomers have with A&W and will continue to run in 2006.

New advertising will be developed in 2006 to support both specific promotional offers as well as to continue to build on the strength and the reputation of the A&W brand.

Cruise Nights events will continue to be held at freestanding restaurants across the country in 2006, celebrating the music and classic cars of the boomers' youth. In 2005, over 175 freestanding restaurants held over 750 Cruise Night events.

New Restaurant Development

The overall growth and performance of Trade Marks and the Fund is also driven by the expansion of the Royalty Pool when the royalties from new A&W restaurants are added. During the first quarter of 2006, 2 new A&W restaurants were opened. In 2006, A&W will continue to focus on new restaurant development across Canada.

Restaurant Re-imaging

The roll out of the retro-modern restaurant image will continue during 2006. The cost of these upgrades is paid entirely by the franchise operator and therefore there is no cost impact on Trade Marks or the Fund.

Looking forward, A&W will continue to focus on the key strategic initiatives which will build A&W's appeal to the baby boomers and grow customer traffic and sales.

Certain statements in this Management Discussion and Analysis and the annual report of the Fund may be forward-looking in nature. These include references to liquidity, subordinated dividends, earnings and anticipated earnings from growth in same store sales and new restaurant openings. Actual results may differ materially from those expressed or implied in these forward-looking statements. The forward-looking statements are based on assumptions that management considered reasonable at the time they were prepared. These forward-looking statements are subject to a number of risk factors, including the ability of A&W Food Services of Canada Inc. to implement its marketing strategies, the opening of new A&W restaurants, general economic and business conditions, financial and political instability, and other factors disclosed previously and from time to time in the Fund's public filings. The forward looking information contained in this document is current only as of the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

A&W Revenue Royalties Income Fund

Financial Statements

For the first quarter ended March 26, 2006

Balance Sheet

Unaudited
(in thousands of dollars)

| | March 26, 2006 | December 31, 2005 |
|--|-------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 26 | \$ - |
| Accounts receivable (note 4) | 1,354 | 761 |
| | 1,380 | 761 |
| Investment in A&W Trade Marks Inc. (note 2) | 75,514 | 75,735 |
| | \$ 76,894 | \$ 76,496 |
| Liabilities | | |
| Current liabilities | | |
| Distribution payable to unitholders (note 3) | \$ 776 | \$ 751 |
| Due to A&W Trade Marks Inc. (note 4) | 31 | 31 |
| | 807 | 782 |
| Unitholders' Equity: | | |
| Capital contributions | 77,115 | 77,115 |
| Accumulated earnings | 35,370 | 33,446 |
| Accumulated distributions (note 3) | (36,398) | (34,847) |
| | 76,087 | 75,714 |
| | \$ 76,894 | \$ 76,496 |

See accompanying notes to these financial statements.

Statement of Earnings and Accumulated Earnings

Unaudited

(in thousands of dollars, except per unit amounts)

| | Period from Jan 1, 2006 to Mar 26, 2006 | Period from Jan 1, 2005 to Mar 27, 2005 |
|--|--|---|
| Interest income | \$ 2,088 | \$ 2,113 |
| Equity in loss of A&W Trade Marks Inc. | (164) | (289) |
| Net earnings for the period | 1,924 | 1,824 |
| Accumulated earnings - beginning of period | 33,446 | 24,002 |
| Accumulated earnings - end of period | \$ 35,370 | \$ 25,826 |
| Basic and diluted earnings per unit (8,340,000 units) | \$ 0.231 | \$ 0.219 |

See accompanying notes to these financial statements.

Statement of Cash Flows

Unaudited

(in thousands of dollars)

| | Period from Jan 1, 2006 to Mar 26, 2006 | Period from Jan 1, 2005 to Mar 27, 2005 |
|--|--|---|
| Cash flows from operating activities | | |
| Net earnings for the period | \$ 1,924 | \$ 1,824 |
| Items not affecting cash | | |
| Equity in loss of A&W Trade Marks Inc. | 164 | 289 |
| | 2,088 | 2,113 |
| Net changes in non-cash working capital | (565) | (542) |
| | 1,523 | 1,571 |
| Cash flows from investing activities | | |
| Dividends received from A&W Trade Marks Inc. | 29 | - |
| Cash flows from financing activities | | |
| Distributions paid to unitholders | (1,526) | (1,501) |
| Increase in cash for the period | 26 | 70 |
| Cash - beginning of period | - | 2 |
| Cash - end of period | \$ 26 | \$ 72 |
| Supplementary cash flow information | | |
| Interest received | \$ 1,523 | \$ 1,521 |

See accompanying notes to these financial statements.

A&W Revenue Royalties Income Fund

Notes to the Interim Financial Statements

For the first quarter ended March 26, 2006

Unaudited

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

1. Nature of operations and basis of presentation

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

The Fund prepares its financial statements in accordance with Canadian generally accepted accounting principles (GAAP) and has applied the accounting policies described in the annual audited financial statements for the year ended December 31, 2005. These interim unaudited financial statements do not include all of the disclosure requirements of GAAP for annual financial statements.

These interim unaudited financial statements should be read in conjunction with the annual audited financial statements of the Fund for the year ended December 31, 2005 and the annual audited financial statement of Trade Marks for the year ended December 31, 2005, and the interim unaudited financial statements of Trade Marks for the first quarter ended March 26, 2006.

The Fund uses a fiscal year ending December 31. A&W Food Services of Canada Inc. (Food Services) uses a fiscal year comprising a 52 or 53 week period ending the Sunday nearest December 31, therefore Food Services' 2005 fiscal year ended January 1, 2006 (2004 – January 2, 2005). To align its financial reporting with that of Food Services, the Fund's first quarter of 2006 ended March 26, 2006 (2005 – March 27, 2005), 12 weeks after Food Services' fiscal year end.

2. Investment in A&W Trade Marks Inc.

The Fund's investment in Trade Marks is as follows:

| | March 26, 2006 | December 31, 2005 |
|---------------------------|-----------------|-------------------|
| Common shares | \$1 | \$1 |
| A&W notes receivable | 83,399 | 83,399 |
| Cumulative equity in loss | (7,703) | (7,539) |
| Cumulative dividends | (183) | (126) |
| | <u>\$75,514</u> | <u>\$75,735</u> |

The Fund's 64% (2005 – 66%) investment in the common shares of Trade Marks is recorded using the equity method. Trade Marks owns the A&W trade-marks used in the A&W quick service restaurant business in Canada. Concurrently 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 three per cent of the sales reported to Food Services by A&W restaurants in the Royalty Pool. The Royalty Pool is adjusted in January of each year to include new restaurants, less any restaurants that permanently closed. Trade Marks pays Food Services for the additional royalty stream from the net new restaurants by issuing additional common shares and Class B preferred shares. As a result, the Fund's equity interest in Trade Marks is diluted as annual adjustments to the Royalty Pool take place.

The issued and outstanding common shares of Trade Marks are as follows:

| | The Fund | | Food Services | | Total |
|------------------------|-----------|-------|---------------|-------|------------|
| | # | % | # | % | # |
| February 15, 2002 | 8,340,000 | 75.0% | 2,780,000 | 25.0% | 11,120,000 |
| 2003 annual adjustment | | -2.9% | 452,469 | 2.9% | 452,469 |
| 2004 annual adjustment | | -3.0% | 495,681 | 3.0% | 495,681 |
| 2005 annual adjustment | | -2.8% | 511,337 | 2.8% | 511,337 |
| 2006 annual adjustment | | -2.3% | 460,366 | 2.3% | 460,366 |
| | 8,340,000 | 64.0% | 4,699,853 | 36.0% | 13,039,853 |

The A&W notes, issued by Trade Marks, amount to \$83,399,000, bear interest at 10.75% per annum and mature on February 15, 2034. Interest only payments are receivable monthly in arrears.

3. Distributions

During the quarter ended March 26, 2006, the Fund declared distributions to Unitholders of \$1,551,000 or \$0.186 per Unit. The amounts of these distributions were as follows:

| Month | Declaration date | Payment date | Amount | Per Unit |
|---|------------------|-------------------|-----------|----------|
| January 2006 | February 6, 2006 | February 28, 2006 | \$ 776 | \$ 0.093 |
| February 2006 | March 6, 2006 | March 31, 2006 | 776 | 0.093 |
| | | | 1,551 | \$ 0.186 |
| Accumulated distributions - beginning of period | | | 34,847 | |
| Accumulated distributions - end of period | | | \$ 36,398 | |

The distribution for December 2005 of \$750,600, which was paid on January 31, 2006, was declared and recorded for income tax purposes in 2005, the period in which it was earned. Therefore, only two distributions were declared during the quarter ended March 26, 2006.

The February 2006 distribution of \$775,620 which was declared on March 6, 2006 and paid on March 31, 2006 is reported as a current liability at March 26, 2006.

4. Related party transactions and balances

During the quarter, interest income of \$2,088,000 (2005 - \$2,113,000) was earned from Trade Marks on the A&W notes receivable, of which \$1,326,000 is receivable at March 26, 2006 (December 31, 2005 - \$761,000). During the quarter, dividend income of \$57,000 (2005 - \$nil) was earned from Trade Marks, of which \$28,000 is receivable at March 26, 2006 (December 31, 2005 - \$nil).

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.

Amounts due to Trade Marks are without interest and due on demand.

5. Subsequent events

On April 4, 2006, the Fund declared a distribution to Unitholders of \$0.093 per Unit or \$775,620, payable on April 28, 2006 to Unitholders of record as at April 15, 2006.

A&W Trade Marks Inc.

Financial Statements

For the first quarter ended March 26, 2006

Balance Sheet

Unaudited
(in thousands of dollars)

| | March 26, 2006 | December 31, 2005 |
|--|-------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 2,567 | \$ 1,624 |
| Accounts receivable (note 8) | 1,288 | 1,351 |
| Corporate taxes recoverable | 29 | 18 |
| Prepaid interest | 66 | 48 |
| | 3,950 | 3,041 |
| Intangible assets (note 3) | 142,966 | 137,271 |
| Deferred financing fees | 37 | 41 |
| | \$ 146,953 | \$ 140,353 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 8) | \$ 1,531 | \$ 934 |
| Dividends payable (notes 6 and 7) | 450 | - |
| | 1,981 | 934 |
| Term loan (note 4) | 10,000 | 10,000 |
| Future income taxes | 9,712 | 9,483 |
| A&W notes payable (note 5) | 83,399 | 83,399 |
| Class A and Class B preferred shares (note 6) | 50,344 | 44,675 |
| | 155,436 | 148,491 |
| Shareholders' deficiency: | | |
| Common shares (note 7) | 1 | 1 |
| Deficit | (8,484) | (8,139) |
| | (8,483) | (8,138) |
| | \$ 146,953 | \$ 140,353 |

These unaudited interim financial statements of the company have been prepared by and are the responsibility of the company's management. As the company is a private entity, the company's auditor has not performed a review of these financial statements.

See accompanying notes to these financial statements.

Statement of Loss and Deficit

Unaudited

(in thousands of dollars)

| | Period from Jan 1, 2006 to Mar 26, 2006 | Period from Jan 1, 2005 to Mar 27, 2005 |
|--|---|---|
| Gross sales reported by A&W restaurants in the Royalty Pool | \$ 121,717 | \$ 109,352 |
| Royalty income | \$ 3,651 | \$ 3,281 |
| Expenses | | |
| General and administrative | 254 | 149 |
| Amortization of deferred financing fees | 4 | 4 |
| Interest expense | | |
| - term loan | 128 | 141 |
| - A&W notes | 2,088 | 2,113 |
| - Class A and B preferred share dividends | 1,176 | 1,076 |
| | 3,650 | 3,483 |
| Earnings (loss) before income taxes | 1 | (202) |
| Provision for income taxes | | |
| Large corporations tax | 28 | 36 |
| Future income taxes | 229 | 198 |
| | 257 | 234 |
| Net loss for the period | (256) | (436) |
| Deficit - beginning of period | (8,139) | (8,799) |
| Dividends declared on common shares | (89) | - |
| Deficit - end of period | \$ (8,484) | \$ (9,235) |

See accompanying notes to these financial statements.

Statement of Cash Flows

Unaudited

(in thousands of dollars)

| | Period from Jan 1, 2006 to Mar 26, 2006 | Period from Jan 1, 2005 to Mar 27, 2005 |
|--|--|---|
| Cash flows from operating activities | | |
| Net loss for the period | \$ (256) | \$ (436) |
| Items not affecting cash | | |
| Amortization of deferred financing fees | 4 | 4 |
| Provision for future income taxes | 229 | 198 |
| Change in accrued dividends | (26) | (24) |
| | (49) | (258) |
| Changes in non-cash working capital | 1,036 | 785 |
| | 987 | 527 |
| Cash flows from financing activities | | |
| Dividends paid on common shares | (44) | - |
| Increase in cash for the period | 943 | 527 |
| Cash - beginning of period | 1,624 | 403 |
| Cash - end of period | \$ 2,567 | \$ 930 |
| Supplementary cash flow information | | |
| Interest paid on term loan and A&W notes payable | \$ (1,669) | \$ (1,673) |
| Dividends paid on Class A and B preferred shares | \$ (797) | \$ (1,108) |
| Taxes paid | \$ (39) | \$ (52) |
| Non-cash financing activities | | |
| Issuance of Class B preferred and common shares | \$ 5,695 | \$ 6,197 |

See accompanying notes to these financial statements.

A&W Trade Marks Inc.

Notes to the Interim Financial Statements

For the first quarter ended March 26, 2006

Unaudited

(figures in tables are expressed in thousands of dollars)

1. Nature of operations and basis of presentation

The business of A&W Trade Marks Inc. (Trade Marks) is the ownership of the A&W trade-marks and through a 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 payable under the Licence and Royalty Agreement. Food Services is a leading franchisor of hamburger quick service restaurants in Canada.

The common shares of Trade Marks are owned by A&W Revenue Royalties Income Fund (the Fund) (64%) and Food Services (36%).

Trade Marks prepares its financial statements in accordance with Canadian generally accepted accounting principles (GAAP) and has applied the accounting policies described in the annual audited financial statements for the year ended December 31, 2005. These interim unaudited financial statements do not include all of the disclosure requirements of GAAP for annual financial statements.

These interim unaudited financial statements should be read in conjunction with the annual audited financial statements of the Trade Marks for the year ended December 31, 2005 and the annual audited financial statements of the Fund for the year ended December 31, 2005, and the interim unaudited financial statements of the Fund for the first quarter ended March 26, 2006.

Trade Marks uses a fiscal year ending December 31. Food Services uses a fiscal year comprising a 52 or 53 week period ending the Sunday nearest December 31, therefore Food Services' 2005 fiscal year ended January 1, 2006 (2004 – January 2, 2005). To align its financial reporting with that of Food Services, Trade Marks' first quarter of 2006 ended March 26, 2006 (2005 – March 27, 2005), 12 weeks after Food Services' fiscal year end.

2. Seasonality

Trade Marks' revenue is subject to variances due to the seasonality of sales in the quick service restaurant industry. In freestanding restaurants, weather impacts sales. In shopping centres, sales fluctuate due to higher traffic during back to school and Christmas shopping seasons.

3. Intangible Assets

On February 15, 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 common shares of Trade Marks, and the balance of the purchase price (the Balance) of \$40,000,000 is due, without interest, on January 31, 2010.

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 three per cent of the sales reported to Food Services by A&W restaurants in the Royalty Pool (the Licence and Royalty Agreement).

The Balance of the purchase price will be reduced by all amounts Trade Marks is required to pay Food Services in respect of annual adjustments to the Royalty Pool up to January 31, 2010. If the total annual adjustments are less than the Balance, the obligation of Trade Marks to pay the remaining Balance of the purchase price is extinguished. Accordingly, for accounting purposes, the Balance is being recognized in the periods such adjustments become payable. The annual adjustments to the Royalty Pool are as follows:

| | New restaurants | Closed restaurants | Royalty Pool | Share consideration | | | Amount \$ |
|------------------------|--------------------|-----------------------|-----------------|---------------------|-------------------|-------------------|--------------|
| | | | | Common shares | Class A shares | Class B shares | |
| Initial consideration | | | | | | | |
| Cash | 585 | - | 585 | - | - | - | 84,876 |
| Shares | - | - | - | 2,780,000 | 2,779,975 | - | 27,800 |
| Future income taxes | - | - | - | - | - | - | 8,080 |
| | 585 | - | 585 | 2,780,000 | 2,779,975 | - | 120,756 |
| 2003 annual adjustment | 27 | (8) | 19 | 452,469 | - | 452,469 | 5,108 |
| 2004 annual adjustment | 28 | (12) | 16 | 495,681 | - | 495,681 | 5,210 |
| 2005 annual adjustment | 27 | (9) | 18 | 511,337 | - | 511,337 | 6,197 |
| 2006 annual adjustment | 27 | (11) | 16 | 460,366 | - | 460,366 | 5,695 |
| | 694 | (40) | 654 | 4,699,853 | 2,779,975 | 1,919,853 | 142,966 |

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

On January 5, 2006, the number of A&W restaurants for which royalties are paid to Trade Marks was increased by 27 new restaurants, less 11 restaurants that permanently closed during 2005. The consideration Trade Marks provided to Food Services for the additional net 16 restaurants added to the Royalty Pool consisted of shares of Trade Marks, based upon a formula set out in the Licence and Royalty Agreement. The formula is based on the estimated sales from the net new restaurants and the current yield on the Units of the Fund, discounted by 7.5%. The consideration provided by Trade Marks to Food Services for this additional royalty stream was \$5,695,000, by the issuance of 460,366 Class B

preferred shares and 460,366 common shares of Trade Marks. These shares are the economic equivalent of Units of the Fund and have been valued at \$12.37 per share, being the weighted average trading price of the Units of the Fund for the 20 trading days ending October 31, 2005. A final adjustment to the share consideration will be made in December 2006 based upon the actual annual gross sales reported by the new restaurants. Until then, 20% of the shares will be held in escrow.

4. Term loan and operating bank line of credit

Trade Marks has a demand operating loan facility with HSBC Bank Canada of \$2,000,000 to fund working capital requirements and for general corporate purposes. The operating loan bears interest at the bank prime rate plus 0.5% and is repayable on demand. As at March 26, 2006, the full amount of the facility was available.

Trade Marks has a term loan with HSBC Bank Canada in the amount of \$10,000,000. The term loan is repayable on March 15, 2008 and bears interest at bank prime rate plus between 0% and 0.5% depending on specified financial ratios. Interest only is payable monthly, providing 12 month trailing earnings before interest, taxes, depreciation and amortization (EBITDA) at any time is not less than \$10,000,000. In the event that EBITDA is less than \$10,000,000, the term loan will be fully amortized over the remaining term and repayment will be by way of blended monthly instalments of principal and interest.

An interest rate swap effective February 16, 2005 and maturing February 18, 2008 fixes the interest rate on the term loan at 5.81% per annum.

5. A&W notes payable

The A&W notes, held by the Fund, amount to \$83,399,000, bear interest at 10.75% per annum and mature on February 15, 2034. Interest only payments are payable monthly in arrears.

6. Class A and Class B preferred shares

The preferred shares are owned by Food Services and comprise:

| | March 26, 2006 | | December 31, 2005 | |
|---------------------------|----------------|--------|-------------------|--------|
| | # | \$ | # | \$ |
| Class A shares - at cost | 2,779,975 | 27,800 | 2,779,975 | 27,800 |
| Class B shares - at cost: | | | | |
| 2003 annual adjustment | 452,469 | 5,108 | 452,469 | 5,108 |
| 2004 annual adjustment | 495,681 | 5,210 | 495,681 | 5,210 |
| 2005 annual adjustment | 511,337 | 6,197 | 511,337 | 6,197 |
| 2006 annual adjustment | 460,366 | 5,695 | - | - |
| | 1,919,853 | 22,210 | 1,459,487 | 16,515 |
| Accrued dividends | | 334 | | 360 |
| | | 50,344 | | 44,675 |

During the quarter, Trade Marks issued 460,366 (2005 – 511,337) Class B preferred and common shares as consideration of \$5,695,000 (2005 - \$6,197,000) for the royalty stream from the 16 (2005 - 18) net restaurants added to the Royalty Pool (note 3).

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

During the quarter, Trade Marks declared dividends on the Class A and B preferred shares of \$1,202,000 of which \$360,000 was in respect of 2005 and \$842,000 or \$0.1792 per share was in respect of 2006. \$797,000 was paid in the quarter and \$405,000, payable on March 31, 2006, is reported as a current liability at March 26, 2006.

7. Common shares

The common shares are owned by the Fund and Food Services:

| | The Fund | | Food Services | | Total | |
|------------------------|-----------|-------|---------------|-------|------------|----|
| | # | % | # | % | # | \$ |
| February 15, 2002 | 8,340,000 | 75.0% | 2,780,000 | 25.0% | 11,120,000 | 1 |
| 2003 annual adjustment | | -2.9% | 452,469 | 2.9% | 452,469 | - |
| 2004 annual adjustment | | -3.0% | 495,681 | 3.0% | 495,681 | - |
| 2005 annual adjustment | | -2.8% | 511,337 | 2.8% | 511,337 | - |
| 2006 annual adjustment | | -2.3% | 460,366 | 2.3% | 460,366 | - |
| | 8,340,000 | 64.0% | 4,699,853 | 36.0% | 13,039,853 | 1 |

During the quarter, Trade Marks declared dividends on common shares of \$89,000 or \$0.0068 per share. \$44,000 was paid in the quarter and \$45,000, payable on March 31, 2006, is reported as a current liability as at March 26, 2006.

8. Related party transactions and balances

During the quarter, royalty income of \$3,651,000 (2005 - \$3,281,000) was earned from Food Services, of which \$1,257,000 (December 31, 2005 - \$1,316,000) is receivable at March 26, 2006.

Trade Marks has entered into 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 turn, Trade Marks has arranged for certain of these services to be provided by Food Services until 2011.

Interest expense on the A&W notes for the quarter was \$2,088,000 (2005 - \$2,113,000), of which \$1,326,000 (December 31, 2005 - \$761,000) is payable to the Fund at March 26, 2006.

Included in accounts receivable is \$31,000 (December 31, 2005 – \$31,000) due from the Fund without interest and due on demand.

9. Subsequent events

On April 4, 2006, Trade Marks declared a dividend on Class A and Class B preferred shares of \$421,000 or \$0.08958 per share and a dividend on common shares of \$45,000 or \$0.0034 per share, payable on April 28, 2006.

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⁾
Don A. James ⁽¹⁾
Conrad A. Pinette ⁽¹⁾

A&W Trade Marks Inc. Board of Directors and Officers

John R. McLernon ⁽²⁾
Chairman

Don A. James ⁽²⁾
President

Conrad A. Pinette ⁽²⁾
Secretary-Treasurer

Jefferson J. Mooney

David A. Mindell

Committees of the Board

⁽¹⁾ Audit Committee and

⁽²⁾ Governance Committee

Registrar and Transfer Agent

Computershare Investor Services Inc.

Market Information

Units Listed:
Toronto Stock Exchange
Symbol: AW.UN

Investor Enquiries

Don Leslie
Chief Financial Officer

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

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.

Q1/2006

**Consolidated Financial
Statements**

For the first quarter ended
March 26, 2006

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 2, 2006 to March 26, 2006

This report and the unaudited consolidated financial statements of A&W Food Services of Canada Inc. are provided as a supplement to the quarterly report of the A&W Revenue Royalties Income Fund. This report is dated May 2, 2006 and should be read in conjunction with the interim unaudited consolidated financial statements for the quarter ended March 26, 2006 and the annual audited consolidated financial statements for the year ended January 1, 2006. 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., its 60% owned subsidiary, A&W Root Beer Beverages of Canada Inc., and its 36% ownership interest in A&W Trade Marks Inc. |
| Food Services | Financial results of A&W Food Services of Canada Inc. and A&W Root Beer Beverages of Canada Inc. |
| The Fund | A&W Revenue Royalties Income Fund |
| Trade Marks | A&W Trade Marks Inc. |
| Beverages | A&W Root Beer Beverages of Canada Inc. |

Same Store Sales

Same store sales at A&W restaurants grew by 8.9% in the first quarter of 2006. This marks the twelfth consecutive quarter of positive same store sales growth. The same store sales growth was driven by the continued success of the marketing and operational strategies that Food Services has in place to achieve its strategic mission of “being the number one burger choice of the baby boomer generation”. In addition, there were several external factors which drove the strong sales. The first was uncommonly warm weather throughout Canada in January. This unusual weather pattern was very favourable to the foodservice industry. Another factor impacting the strong sales performance was the Alberta government’s payment of rebates to its residents. These rebates significantly stimulated retail purchasing, including spending in restaurants. Finally, the first quarter results benefited from the timing of Easter. The Easter weekend typically has a negative impact on quick

service restaurant sales. In 2005, Easter fell in the first quarter, while in 2006 it will occur in the second quarter. This positively impacted the 2006 first quarter results.

System Sales

For the 12 weeks ended March 26, 2006, total system sales for all A&W restaurants in Canada were \$122,914,000, an increase of 11.6% or \$12,833,000 from the same period in 2005. This increase is due to the increase in the number of restaurants from 652 to 663 and the 8.9% same store sales growth.

New Restaurant Development and Restaurant Closures

Food Services opened two new franchised restaurants in the first quarter of 2006, compared to five new restaurants in the first quarter of 2005. Three restaurants were closed compared to one closure in the same period in 2005. All of the closed restaurants were older shopping centre restaurants that were no longer economically viable and Food Services and the respective franchisees chose to close the restaurants.

Consolidated Financial Highlights

| (dollars in thousands) | 12 week period ended Mar 26, 2006 | 12 week period ended Mar 27, 2005 |
|--|--|--------------------------------------|
| System sales | \$122,914 | \$110,081 |
| System sales growth | 11.6% | 9.7% |
| Same store sales growth | 8.9% | 5.5% |
| New restaurants opened | 2 | 5 |
| Restaurants closed | 3 | 1 |
| Number of restaurants | 663 | 652 |
| Franchising & corporate restaurant revenue | \$10,308 | \$11,083 |
| Direct costs and administrative expenses | \$7,347 | \$8,529 |
| Earnings before interest, amortization, taxes and non-controlling interests | \$2,961 | \$2,554 |
| Net loss | (\$513) | (\$316) |

Overview

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

Also included in direct costs and administrative expenses in the Consolidated Financial Statements are Trade Marks' general and administrative expenses. Trade Marks' general and administrative expenses include the expenses of the Fund under an administration agreement between Trade Marks and the Fund. Under this agreement, Trade Marks, at its expense, provides or arranges for the provision of services required in the administration of the Fund.

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

On February 15, 2002, Food Services sold the A&W trade-marks used in the A&W quick service restaurant business in Canada to Trade Marks. Trade Marks in turn 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 three per cent of the sales reported to Food Services by A&W restaurants 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. Trade Marks pays Food Services for the additional royalty stream of the sales of the net new restaurants, based on a formula set out in the Licence and Royalty Agreement. The formula provides for a payment to Food Services based on the amount of estimated sales from the net new restaurants and the current yield on the Units of the Fund, discounted by 7.5%. The payment is in the form of common shares and Class B preferred shares of Trade Marks which are the economic equivalent of Units of the Fund. Twenty percent of the shares are held in escrow for a year until the actual sales of the new restaurants are known and the corresponding adjustment is made to the consideration.

The fourth adjustment to the Royalty Pool took place on January 5, 2006. The number of A&W restaurants for which royalties are paid increased by 27 new restaurants less 11 restaurants which permanently closed during 2005. Food Services was paid \$5,695,000, by issuance of 460,366 Class B preferred shares and 460,366 common shares, as initial consideration for the estimated royalty stream from the 16 new restaurants added to the Royalty Pool. Twenty percent of the shares will be held in escrow until December 2006 when the final consideration will be determined based on the actual sales of the net new restaurants.

After the January 5, 2006 amendment to the Royalty Pool, Food Services owns 36% (2005 – 34%) of the common shares of Trade Marks with the majority interest held by the Fund as follows:

| | The Fund | | Food Services | | Total |
|------------------------|-----------|-------|---------------|-------|------------|
| | # | % | # | % | # |
| February 15, 2002 | 8,340,000 | 75.0% | 2,780,000 | 25.0% | 11,120,000 |
| 2003 annual adjustment | | -2.9% | 452,469 | 2.9% | 452,469 |
| 2004 annual adjustment | | -3.0% | 495,681 | 3.0% | 495,681 |
| 2005 annual adjustment | | -2.8% | 511,337 | 2.8% | 511,337 |
| 2006 annual adjustment | | -2.3% | 460,366 | 2.3% | 460,366 |
| | 8,340,000 | 64.0% | 4,699,853 | 36.0% | 13,039,853 |

Trade Marks' Class A and Class B preferred shares are owned by Food Services as follows:

| (dollars in thousands) | March 26, 2006 | | January 1, 2006 | |
|---------------------------|----------------|--------|-----------------|--------|
| | # | \$ | # | \$ |
| Class A shares - at cost | 2,779,975 | 27,800 | 2,779,975 | 27,800 |
| Class B shares - at cost: | | | | |
| 2003 annual adjustment | 452,469 | 5,108 | 452,469 | 5,108 |
| 2004 annual adjustment | 495,681 | 5,210 | 495,681 | 5,210 |
| 2005 annual adjustment | 511,337 | 6,197 | 511,337 | 6,197 |
| 2006 annual adjustment | 460,366 | 5,695 | - | - |
| | 1,919,853 | 22,210 | 1,459,487 | 16,515 |
| Accrued dividends | | 334 | | 360 |
| | 4,699,828 | 50,344 | 4,239,462 | 44,675 |

The Class A and Class B preferred shares entitle Food Services to a fixed cumulative preferential cash dividend at a rate of \$1.075 per share per annum. The Class A and Class B preferred shares may be redeemed at the option of Food Services into A&W notes of Trade Marks on the basis of \$10 principal amount of A&W notes for one Class A or Class B preferred share and, in turn, a \$10 A&W note plus one common share of Trade Marks are exchangeable for a unit in the Fund. Therefore Food Services, through its 36% (2005 – 34%) investment in Trade Marks, owns the equivalent of 36% (2005 – 34%) of the units of the Fund.

Basis of Consolidation

Food Services and its related entities were required to adopt the Canadian Institute of Chartered Accountants' Accounting Guideline (AcG-15), "Consolidation of Variable Interest Entities" (VIE), effective January 1, 2005. As a result of the adoption of AcG-15, these Consolidated Financial Statements include the accounts of Trade Marks, and the trade-marks sold to Trade Marks by Food Services are recorded on the consolidated balance sheet at their book value at the time of the transaction. Food Services' investment in Trade Marks, its deferred gain on the sale of the trade-marks, and Trade Marks' intangible assets and Class A and B preferred shares held by Food Services are eliminated upon consolidation.

The adoption of AcG-15 does not change the contractual obligations nor the cash flows between Food Services and Trade Marks. It is important to note that Trade Marks continues to legally own the A&W trade-marks and receive royalty income from Food Services and pay dividends to Food Services. The liabilities of Trade Marks, comprising the A&W notes payable to the Fund and the term loan, are obligations of Trade Marks, not Food Services. For further information on the financial results of the Fund and Trade Marks, readers are referred to the Fund's Quarter 1, 2006 report (which includes the financial statements of Trade Marks) which is available at www.sedar.com or on the Fund's website at www.awincomefund.ca.

2006 First Quarter Operating Results

Revenue

Food Services' first quarter franchising and corporate revenues decreased by \$775,000 to \$10,308,000, from \$11,083,000 in the first quarter of 2005. Key factors in this revenue decrease included:

- \$424,000 increase in franchising revenue from existing restaurants due to the system sales growth of 11.6%;
- \$1,188,000 decrease in new restaurant fees and sales of equipment as there were only two new restaurant openings in the first quarter this year versus five last year;
- \$148,000 increase in sales in the eight corporate restaurants in Ottawa compared to the first quarter of 2005;
- \$159,000 decrease in sales in restaurants being operated corporately while being held for refranchising as two of the three restaurants being operated last year have since been refranchised.

Expenses

Direct costs and administrative expenses decreased by \$1,182,000 to \$7,347,000 for 2006 compared to \$8,529,000 in 2005. The decrease is attributable to the lower number of new restaurant openings and fewer restaurants being held for refranchising. Expenses were also lower this year as last year's administrative expenses included the cost of the bi-annual national franchisee convention. Direct costs and administrative expenses decreased at a higher rate than the decrease in franchising and corporate revenue, resulting in an improved operating contribution margin of 28.7% for 2006, compared to 23.0% in 2005.

Earnings before Interest, Amortization, Taxes and Non-controlling Interests

Earnings before interest, amortization, taxes and non-controlling interests increased by \$407,000 from \$2,554,000 in 2005 to \$2,961,000 for 2006 due to the improved operating contribution margin discussed above.

Interest Expense

Interest expense is comprised primarily of Trade Marks' interest expense on its term loan and the A&W notes payable to the Fund. Interest expense decreased by \$34,000 to \$2,177,000 for 2006 from \$2,211,000 in 2005. The decrease is due to a new interest rate swap agreement which came into effect on February 16, 2005. These debt service obligations are obligations of Trade Marks, not of Food Services.

Income Taxes

Current income taxes increased year over year due to a provision for taxes payable on a portion of the capital gain on the 2002 sale of the trade-marks which was deferred until 2006.

Non-controlling Interests

The non-controlling interest in Beverages represents the 40% interest of Beverages owned by Unilever Canada Inc. The Fund's interest in Trade Marks represents the common equity of Trade Marks held by the Fund. The Fund's share of Trade

Marks' losses in the quarter was \$164,000 compared to \$289,000 in the first quarter of 2005. The decrease of \$125,000 was due to the increase in Trade Marks' royalty income and the decrease in the Fund's ownership in Trade Marks from 66% in 2005 to 64% in 2006.

Net Loss

Net loss for the quarter increased by \$197,000, from \$316,000 in 2005 to \$513,000 in 2006 due to the increase in income taxes noted above.

Liquidity and Capital Resources

Food Services is primarily a franchise business with 654 of its 663 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. Food Services has no long term debt obligations. Food Services has sufficient cash on hand to meet its obligations and has a demand operating loan available of up to \$5,000,000 to fund its working capital requirements and for general corporate purposes. Food Services' operating facility is secured by the Class A preferred shares and 2,780,000 common shares of Trade Marks owned by Food Services. As at March 26, 2006, the full amount of the facility was available.

Trade Marks has a demand operating loan facility of up to \$2,000,000 to fund its working capital requirements and to meet its cash flow needs. The operating loan bears interest at bank prime rate plus 0.5% and is repayable on demand. As at March 26, 2006, the full amount of the facility was available.

Trade Marks has a term loan in the amount of \$10,000,000. The term loan is repayable on March 15, 2008 and bears interest at bank prime rate plus between 0.0% and 0.5% depending on specified financial ratios of Trade Marks. Interest only is payable monthly, provided that 12 month trailing earnings before interest, taxes, depreciation and amortization (EBITDA) at any time is not less than \$10,000,000. In the event that EBITDA is less than \$10,000,000, the term loan will be fully amortized over the remaining term and repayment will be by way of blended monthly instalments of principal and interest. An interest rate swap effective February 16, 2005 and maturing February 18, 2008 fixes the interest rate on the term loan at 5.81% per annum. A general security agreement over the assets of Trade Marks has been provided as security for Trade Marks' demand operating loan facility and term loan.

The A&W notes, issued by Trade Marks and held by the Fund, amount to \$83,399,000, bear interest at 10.75% per annum and mature on February 15, 2034. Interest only payments are payable monthly in arrears.

The liabilities of Trade Marks, comprising the A&W notes payable to the Fund, the operating facility and the term loan, are obligations of Trade Marks, not Food Services.

Trade Marks has no other contractual or purchase obligations. Trade Marks does not have any capital expenditures; its operating and administrative expenses are

expected to be stable and reasonably predictable and are considered to be in the ordinary course of business.

Off-Balance Sheet Instruments

Food Services and Trade Marks have no off-balance sheet arrangements, other than the interest rate swap discussed previously.

Related Party Transactions and Balances

Trade Marks' interest expense on the A&W notes for the quarter was \$2,088,000 (2005 - \$2,113,000), of which \$1,326,000 (January 1, 2006 - \$761,000) is payable to the Fund by Trade Marks at March 26, 2006.

During the quarter, Trade Marks declared dividends on its common shares held by the Fund of \$57,000 (2005 - \$nil), of which \$28,000 (January 1, 2006 - \$nil) is payable to the Fund by Trade Marks as at March 26, 2006.

Included in accounts receivable is \$31,000 (January 1, 2006 - \$31,000) due to Trade Marks by the Fund without interest and due on demand.

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 report.

Related party transactions and balances that were eliminated upon the consolidation of Food Services and Trade Marks are as follows:

- royalty income earned by Trade Marks from Food Services for the quarter was \$3,651,000 (2005 - \$3,281,000), of which \$1,257,000 (January 1, 2006 - \$1,316,000) is payable by Food Services to Trade Marks at March 26, 2006;
- dividends on Trade Marks' Class A and B preferred shares of \$1,202,000 (2005 - \$1,100,000) were declared by Trade Marks during the quarter, of which \$405,000 (January 1, 2006 - \$nil) is payable by Trade Marks to Food Services at March 26, 2006;
- dividends on Trade Marks' common shares held by Food Services of \$32,000 (2005 - \$nil) were declared by Trade Marks during the quarter, of which \$17,000 (January 1, 2006 - \$nil) is payable by Trade Marks to Food Services at March 26, 2006.

Critical Accounting Estimates

The intangible assets consist of the A&W trade-marks and are recorded at their book value at the time of the sale of the trade-marks to Trade Marks. 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 26, 2006.

Financial Instruments

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying values given the short term to maturity of these instruments. The long term notes receivable bear interest at market rates and therefore it is management's opinion that the carrying value approximates the fair value.

The fair value of Trade Marks' term loan approximates its carrying value due to the floating interest rate. The fair value of the interest rate swap is \$48,000 unfavourable.

It is not practicable to determine the fair value of the net liabilities due the Fund given the many terms and conditions that would influence such a determination.

Exposure to credit risk is as indicated by the carrying amount of its accounts receivable. Food Services does not have a significant exposure to any individual franchisee.

All of the financial instruments are non-interest bearing except for the operating line of credit and Trade Marks' term loan and A&W notes, which bear interest as disclosed previously.

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. In addition, factors such as the availability of experienced management and hourly employees may also adversely affect the gross sales of the quick service restaurant industry in general and the gross sales by A&W restaurants in particular.

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

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

Food Services faces competition for retail locations and franchisees from its competitors and from franchisors of other businesses. Food Services' inability to successfully obtain qualified franchisees could adversely affect its business development. The opening and success of franchised restaurants is dependent on a number of factors, including availability of suitable sites, negotiations of acceptable lease or purchase terms for new locations, permits and government regulatory compliance, and the ability to meet construction schedules. A&W franchisees may not have all these business abilities or access to financial resources necessary to open an A&W restaurant or to successfully develop or operate an A&W restaurant in their franchise areas in a manner consistent with Food Services' standards.

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

Outlook

A&W is a strategy driven business. At the heart of the strategy is the mission to be “the number one burger choice of the baby boomer generation”. This strategy calls for a high degree of innovation to attract more baby boomers as well as new restaurant expansion to serve baby boomer customers in new markets. Over the past several years, these innovations have focussed on marketing and advertising, menu and product development, and restaurant design. Innovation in these areas will continue in 2006. Further information on these initiatives is contained in the Fund’s Management Discussion and Analysis for the quarter ended March 26, 2006.

In 2006, Food Services will continue to expand on its base of over 660 restaurants across Canada, focusing on new restaurant development in Ontario, Quebec and Atlantic Canada. At the same time, opportunities will be aggressively sought in the more mature Western Canada markets.

A major system initiative was launched in 2005 to help improve the efficiency and ultimately the profitability of the franchisees. This initiative involved the implementation of a new “back of the house” administration system to provide the franchised operator with better tools to operate their day to day business and to control costs more effectively. This system also provides Food Services as the franchisor with more useful information on the performance of the overall business. The new system was implemented in over 140 restaurants in 2005 and roll-out will continue in 2006.

Finally, in 2006 A&W will celebrate a very important milestone, the 50th Anniversary of its first restaurant, an A&W drive-in which opened in Winnipeg, Manitoba in 1956. Events and promotions are planned in A&W restaurants across

the country in June to celebrate and say thank-you to all the customers who have supported A&W over the last half century.

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.

A&W Food Services of Canada Inc. Consolidated Financial Statements

For the first quarter ended March 26, 2006

Consolidated Balance Sheet

Unaudited

(in thousands of dollars)

| | March 26, 2006 | January 1, 2006 |
|--|-------------------|--------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 8,399 | \$ 4,238 |
| Accounts receivable | 5,044 | 8,819 |
| Inventories | 628 | 674 |
| Prepaid expenses | 106 | 161 |
| Future income taxes | 253 | 239 |
| | 14,430 | 14,131 |
| Intangible assets | 80,384 | 80,384 |
| Deferred financing fees | 37 | 41 |
| Future income taxes | 7,403 | 7,648 |
| Property, plant and equipment | 1,543 | 1,556 |
| Notes receivable | 404 | 417 |
| | \$ 104,201 | \$ 104,177 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 11,138 | \$ 12,029 |
| Deposits on franchise and equipment sales | 2,097 | 789 |
| Income taxes payable | 1,816 | 391 |
| | 15,051 | 13,209 |
| Net liabilities due to A&W Revenue Royalties Income Fund (note 3) | 75,514 | 75,735 |
| Term loan (note 4) | 10,000 | 10,000 |
| Long-term liabilities | 5,931 | 5,895 |
| Non-controlling interest | 295 | 223 |
| | 106,791 | 105,062 |
| Shareholder's Equity | | |
| Capital stock | 10,500 | 10,500 |
| Deficit | (13,090) | (11,385) |
| | (2,590) | (885) |
| | \$ 104,201 | \$ 104,177 |

These unaudited interim financial statements of the company have been prepared by and are the responsibility of the company's management. As the company is a private entity, the company's auditor has not performed a review of these financial statements.

See accompanying notes to these financial statements.

Consolidated Statement of Earnings and Deficit

Unaudited

(in thousands of dollars)

| | 12 Week Period Ended Mar 26, 2006 | 12 Week Period Ended Mar 27, 2005 |
|---|---|---|
| Revenue | | |
| Franchising | \$ 8,734 | \$ 9,498 |
| Corporate restaurants | 1,574 | 1,585 |
| | 10,308 | 11,083 |
| Direct costs and administrative expenses | 7,347 | 8,529 |
| Earnings before the following: | 2,961 | 2,554 |
| Interest expense (note 6) | 2,177 | 2,211 |
| Amortization of deferred financing fees | 4 | 4 |
| Amortization of property, plant and equipment | 107 | 97 |
| Earnings before income taxes and non-controlling interests | 673 | 242 |
| Provision for income taxes | | |
| Current | 1,047 | 542 |
| Future income taxes | 231 | 222 |
| | 1,278 | 764 |
| Loss for the period before non-controlling interests | (605) | (522) |
| Non-controlling interest in A&W Root Beer Beverages of Canada Inc. | (72) | (83) |
| A&W Revenue Royalties Income Fund's interest in loss of A&W Trade Marks Inc. | 164 | 289 |
| Net loss for the period | (513) | (316) |
| Deficit - beginning of period | (11,385) | (8,157) |
| Refundable dividend tax | (1,192) | (480) |
| Deficit - end of period | \$ (13,090) | \$ (8,953) |

See accompanying notes to these financial statements.

Consolidated Statement of Cash Flows

Unaudited

(in thousands of dollars)

| | 12 Week Period Ended Mar 26, 2006 | 12 Week Period Ended Mar 27, 2005 |
|---|---|---|
| Cash flows from operating activities | | |
| Net loss for the period | \$ (513) | \$ (316) |
| Items not affecting cash | | |
| Amortization of deferred financing fees | 4 | 4 |
| Amortization of property, plant and equipment | 107 | 97 |
| Future income taxes | 231 | 222 |
| Loss on disposal of property, plant and equipment | 2 | - |
| Increase in long-term liabilities | 36 | 77 |
| Non-controlling interest in A&W Root Beer Beverages of Canada Inc. | 72 | 83 |
| A&W Revenue Royalties Income Fund's interest in loss of A&W Trade Marks Inc. | (164) | (289) |
| | (225) | (122) |
| Net changes in non-cash working capital | 5,690 | 3,859 |
| | 5,465 | 3,737 |
| Cash flows from investing activities | | |
| Decrease (increase) in notes receivable | 13 | (21) |
| Purchase of property, plant and equipment | (96) | - |
| | (83) | (21) |
| Cash flows from financing activities | | |
| Refundable dividend tax | (1,192) | (480) |
| Dividend to A&W Revenue Royalties Income Fund | (29) | - |
| | (1,221) | (480) |
| Increase in cash and cash equivalents | 4,161 | 3,236 |
| Cash and cash equivalents - beginning of period | 4,238 | 3,642 |
| Cash and cash equivalents - end of period | \$ 8,399 | \$ 6,878 |
| Supplementary cash flow information | | |
| Net interest paid | \$ (1,630) | \$ (1,630) |
| Net income taxes paid | \$ (814) | \$ (328) |

See accompanying notes to these financial statements.

A&W Food Services of Canada Inc.

Notes to the Interim Consolidated Financial Statements

For the first quarter ended March 26, 2006

Unaudited

(figures in tables are expressed in thousands of dollars)

1. Nature of operations and basis of presentation

A&W Food Services of Canada Inc. (Food Services) is in the business of developing and franchising quick service restaurants in Canada.

Food Services prepares its interim financial statements in accordance with Canadian generally accepted accounting principles (GAAP) and has applied the accounting policies described in the annual audited consolidated financial statements. These interim unaudited consolidated financial statements do not include all of the disclosure requirements of GAAP for annual financial statements.

These interim unaudited consolidated financial statements include the accounts of Food Services and its 60% owned subsidiary, A&W Root Beer Beverages of Canada Inc. (Beverages), and its 36% ownership interest in A&W Trade Marks Inc. (Trade Marks). The non controlling interest comprises the common equity of Beverages held by Unilever Canada Inc. and the common equity of Trade Marks held by the A&W Revenue Royalties Income Fund (the Fund).

These interim unaudited consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended January 1, 2006.

Food Services uses a fiscal year comprising a 52 or 53 week period ending Sunday nearest December 31, therefore Food Services' 2005 fiscal year ended January 1, 2006 (2004 – January 2, 2005). Food Services' first quarter of 2006 ends 12 weeks after its fiscal year end.

2. Seasonality

Food Services' revenue is subject to variances due to the seasonality of sales in the quick service restaurant industry. In freestanding restaurants, weather impacts sales. In shopping centres, sales fluctuate due to higher traffic during back to school and Christmas shopping seasons.

3. Net liabilities due to A&W Revenue Royalties Income Fund

The Class A and B preferred shares of Trade Marks are owned by Food Services and the common shares of Trade Marks are owned by Food Services and the Fund. As a result, the Fund has an equity interest in Trade Marks. The issued and outstanding common shares of Trade Marks are as follows:

| | The Fund | | Food Services | | Total |
|------------------------|-----------|-------|---------------|-------|------------|
| | # | % | # | % | # |
| February 15, 2002 | 8,340,000 | 75.0% | 2,780,000 | 25.0% | 11,120,000 |
| 2003 annual adjustment | | -2.9% | 452,469 | 2.9% | 452,469 |
| 2004 annual adjustment | | -3.0% | 495,681 | 3.0% | 495,681 |
| 2005 annual adjustment | | -2.8% | 511,337 | 2.8% | 511,337 |
| 2006 annual adjustment | | -2.3% | 460,366 | 2.3% | 460,366 |
| | 8,340,000 | 64.0% | 4,699,853 | 36.0% | 13,039,853 |

The net liabilities due to the Fund by Trade Marks are comprised of:

| | March 26, 2006 | January 1, 2006 |
|--|----------------|-----------------|
| A&W notes payable | 83,399 | 83,399 |
| The Fund's equity interest in A&W Trade Marks Inc. | (7,885) | (7,664) |
| | \$75,514 | \$75,735 |

The A&W notes, issued by Trade Marks and held by the Fund, amount to \$83,399,000, bear interest at 10.75% per annum and mature on February 15, 2034. Interest only payments are payable monthly in arrears.

The A&W notes are contractual obligations of Trade Marks, not Food Services.

4. Term loan and operating bank line of credit

Food Services has a demand operating facility of \$5,000,000 to fund working capital requirements and for general corporate purposes. The operating loan bears interest at the bank prime rate plus 0.5% and is repayable on demand. As at March 26, 2006, the full amount of the facility was available.

Trade Marks has a demand operating loan facility of \$2,000,000 to fund working capital requirements and for general corporate purposes. The operating loan bears interest at the bank prime rate plus 0.5% and is repayable on demand. As at March 26, 2006, the full amount of the facility was available.

Trade Marks has a term loan in the amount of \$10,000,000. The term loan is repayable on March 15, 2008 and bears interest at bank prime rate plus between 0% and 0.5% depending on specified financial ratios of Trade Marks. Interest only is payable monthly, provided that 12 month trailing earnings before interest, taxes, depreciation and amortization (EBITDA) at any time is not less than \$10,000,000. In the event that EBITDA is less than \$10,000,000, the term loan will be fully amortized over the remaining term and repayment will be by way of blended monthly instalments of principal and interest.

An interest rate swap effective February 16, 2005 and maturing February 18, 2008 fixes the interest rate on the term loan at 5.81% per annum.

Trade Marks' operating facility and term loan are contractual obligations of Trade Marks, not Food Services.

5. Related party transactions and balances

Trade Marks' interest expense on the A&W notes for the quarter was \$2,088,000 (2005 - \$2,113,000), of which \$1,326,000 (January 1, 2006 - \$761,000) is payable to the Fund by Trade Marks at March 26, 2006.

Included in accounts receivable is \$31,000 (January 1, 2006 - \$31,000) due from the Fund without interest and due on demand.

During the quarter, Trade Marks declared dividends on its common shares of \$89,000 (2005 - \$nil) of which \$57,000 was earned by the Fund. \$29,000 was paid to the Fund in the quarter and \$28,000, payable on March 31, 2006, is reported as a current liability at March 26, 2006.

6. Interest expense

| | 12 Week Period Ended Mar 26, 2006 | 12 Week Period Ended Mar 27, 2005 |
|-------------------|---|---|
| Interest | | |
| Interest income | \$ (39) | \$ (43) |
| Term loan | 128 | 141 |
| A&W notes payable | 2,088 | 2,113 |
| | <u>\$ 2,177</u> | <u>\$ 2,211</u> |

7. Subsequent events

On April 4, 2006, Trade Marks declared a dividend on common shares of \$45,000 or \$0.0034 per share, payable to Food Services and the Fund on April 28, 2006.

On April 11, 2006, Food Services declared a dividend on common shares of \$3,000,000, payable to its shareholder on April 11, 2006.



**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)**