A&W Revenue Royalties Income Fund

Q1

First Quarter Report to Unitholders
for the period ended
March 25, 2007

To our Unitholders

On behalf of the Trustees of the A&W Revenue Royalties Income fund (the Fund) it is my pleasure to report the results for the first quarter ended March 25, 2007. It was a good quarter for the Fund, especially compared to the exceptionally strong results in the first quarter of the prior year. Total sales of the restaurants in the Royalty Pool increased by 5.3%. This was driven by a 3.6% increase in same store sales plus an increase in the number of restaurants in the Royalty Pool to 660, effective December 31, 2006. This in turn resulted in an increase in total distributable cash of 7.4%.

The source of revenue for the Fund is through its 62% ownership in A&W Trade Marks Inc. (Trade Marks) which, in turn, receives royalty income from A&W Food Services of Canada Inc. (Food Services) of 3% of the sales of the A&W restaurants in the Royalty Pool. Effective December 31, 2006 the pool was expanded from 654 restaurants to 660, reflecting the addition of 19 new restaurants opened from September 2005 and September 2006 and adjusted for 13 restaurants which closed during 2006.

Same store sales continued to be driven by A&W's initiatives to attract baby boomer customers. In particular, the breakfast daypart, which has been an area of focus for A&W, continued to show good growth, despite increasing competition in this segment. The 3.6% same store sales growth in the first quarter of 2007 represents the 16th straight quarter of same store sales growth.

Distributable cash per unit increased from 24.7 cents per unit to 25.9 cents per unit.

We are pleased that we were able to increase distributions four times during 2006 and in addition, pay a Special Distribution of 8 cents per unit in February this year. We continue to be pleased with the performance of the Fund, the growth that it continues to enjoy, and the value that it is creating for our unitholders.

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

A&W Revenue Royalties Income Fund
Management Discussion and Analysis

This Management Discussion and Analysis covers the period from January 1, 2007 to March 25, 2007 and is dated May 1, 2007. It should be read in conjunction with the Fund's interim unaudited financial statements for the quarter ended March 25, 2007 and the annual audited financial statements for the year ended December 31, 2006. In addition, readers are directed to the interim unaudited financial statements of A&W Trade Marks Inc. (Trade Marks) for the quarter ended March 25, 2007 and the annual audited financial statements for the year ended December 31, 2006. A copy of this report and additional information about the Fund is available at www.sedar.com or www.awincomefund.ca.

Readers should be aware that 2007 results are not directly comparable to the prior year due to the increase in the number of restaurants in the Royalty Pool from 654 during 2006 to 660 at the end of 2006. In addition, the first quarter of 2007 is not directly comparable to the first quarter of 2006 as there were 84 days in the first quarter of 2007 compared to 85 days in the first quarter of 2006. Same store sales growth is based on an equal number of days in each quarter.

OVERALL PERFORMANCE

Same store sales of A&W restaurants in the Royalty Pool grew 3.6% for the quarter compared to the first quarter of 2006. Royalty income for the quarter increased by $192,000 or 5.3% over the same quarter in 2006 due to the same store sales growth and the increase in the number of restaurants in the Royalty Pool from 654 during 2006 to 660 effective December 31, 2006.

Trade Marks' earnings before income taxes increased by $152,000 to $153,000 for the quarter compared to $1,000 for the first quarter of 2006. The increase in earnings is primarily due to the higher royalty income. Trade Marks' net loss for the quarter decreased by $111,000 to a loss of $145,000 for the quarter compared to a loss of $256,000 for the first quarter of 2006.

The Fund's net earnings for the quarter were $1,973,000 or 23.7¢ per unit compared to $1,924,000 or 23.1¢ for the same quarter in 2006. The increase in the Fund's earnings are due primarily to the same store sales growth and increase in the number of restaurants in the Royalty Pool and corresponding decrease in Trade Marks' loss.

Distributable cash available to pay distributions to unitholders and dividends on Class A and B preferred shares and common shares increased by $240,000 or 7.4% to $3,481,000 for the quarter. This increase in distributable cash was generated through growth in royalty income and a net reduction in cash taxes and expenses of $48,000.

FINANCIAL HIGHLIGHTS

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

(dollars in thousands except per unit amounts)	**Period from Jan 1, 2007 to Mar 25, 2007**	Period from Jan 1, 2006 to Mar 26, 2006
Same store sales growth	**3.6%**	8.9%
Number of restaurants in the Royalty Pool	**660**	654
Sales reported by the restaurants in the Royalty Pool	**$128,114**	$121,717
Royalty income	**$3,843**	$3,651
General and administrative expenses	**$251**	$254
Net third party interest expense	**$111**	$128
Large corporations tax	**-**	$28
Trade Marks' net loss	**($145)**	($256)
The Fund's net earnings	**$1,973**	$1,924
The Fund's basic and diluted earnings per unit (8,340,000 units)	**$0.237**	$0.231
Total distributable cash generated for distributions and dividends (1)	**$3,481**	$3,241
Distributable cash per equivalent unit (2007 – 13,437,868 units; 2006 – 13,138,455 units)	**$0.259**	$0.247
Monthly distributions declared per unit (8,340,000 units)	**$0.200**	$0.186
Special distribution declared per unit (8,340,000 units)	**$0.080**	-

(1) 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 dividends from its investment in the common shares of Trade Marks.

The Fund's distributions to unitholders are based on its net cash receipts, being interest on the A&W notes and dividends on common shares received by the Fund from Trade Marks, less minimal expenses of the Fund which are limited to bank charges.

The Fund is not currently taxed on any income that is distributed to unitholders. Income tax obligations related to the distributions by the Fund are obligations of the unitholders. On October 31, 2006, the Federal Department of Finance proposed modifications to income tax rules for income trusts that would result in the Fund becoming taxable beginning in the year 2011. If these changes are enacted as proposed, cash available for distributions to unitholders will be reduced beginning in 2011 by the amount of income tax paid or payable by the Fund.

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 from Food Services 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 3% of the sales reported to Food Services by A&W restaurants in the Royalty Pool (the Licence and Royalty Agreement). In the event that a restaurant in the Royalty Pool closes, Food Services pays the royalties that would have been paid 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 on January 5 of each year (and December 31, 2006 rather than January 5, 2007) to reflect sales from new A&W restaurants, net of the sales of any A&W restaurants that have permanently closed. Trade Marks pays Food Services for the additional royalty stream related to the sales of the net new restaurants, based on a formula set out in the Licence and Royalty Agreement. The formula provides for a payment to Food Services based on 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, generally accepted accounting principles (GAAP) stipulate 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 25, 2007		December 31, 2006	
	#	$	#	$
Class A shares - at cost	2,779,975	27,800	2,779,975	27,800
Class B shares - at cost:				
January 5, 2003 adjustment	452,469	5,108	452,469	5,108
January 5, 2004 adjustment	495,681	5,210	495,681	5,210
January 5, 2005 adjustment	511,337	6,197	511,337	6,197
January 5, 2006 adjustment	558,993	6,915	558,993	6,915
December 31, 2006 adjustment	299,413	3,560	299,413	3,560
	2,317,893	26,990	2,317,893	26,990
Accrued dividends		347		-
	5,097,868	55,137	5,097,868	54,790

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 as follows:

(dollars in thousands)	The Fund		Food Services		Total	
	#	%	#	%	#	$
February 15, 2002	8,340,000	75.0%	2,780,000	25.0%	11,120,000	1
January 5, 2003 adjustment		-2.9%	452,469	2.9%	452,469	-
January 5, 2004 adjustment		-3.0%	495,681	3.0%	495,681	-
January 5, 2005 adjustment		-2.8%	511,337	2.8%	511,337	-
January 5, 2006 adjustment		-2.8%	558,993	2.8%	558,993	-
December 31, 2006 adjustment		-1.4%	299,413	1.4%	299,413	1,713
	8,340,000	62.1%	5,097,893	37.9%	13,437,893	1,714

Summary

Trade Marks earns royalty income from Food Services and distributes its available cash by way of dividends on its shares held by the Fund and Food Services, 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 dividends to Food Services. Food Services' consolidated financial statements are included as a supplement to this report.

Adoption of New Accounting Standards

On January 1, 2007, the Fund and Trade Marks adopted CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, along with two companion standards, Section 1530, *Comprehensive Income,* and Section 3865, *Hedges,* and the amendments to CICA handbook sections and accounting guidelines resulting from the issuance of these sections. The adoption of these new standards had no impact on the Fund's or Trade Marks' financial results.

Basis of Consolidation

The Fund has determined that Trade Marks is a "Variable Interest Entity" (VIE) and that Food Services is the "primary beneficiary" of Trade Marks, as these terms are defined in the Canadian Institute of Chartered Accountants' (CICA) Accounting Guideline AcG-15 "Consolidation of Variable Interest Entities".

AcG-15 addresses when an enterprise should consolidate another entity in its financial statements. Under CICA Handbook Section 1590, an enterprise generally consolidates another entity when it controls the entity through a majority voting interest. AcG-15 clarifies this guidance when the entity being consolidated is a VIE which is defined to be an entity that, by design, does not have sufficient equity at risk to finance its activities without additional subordinated financial support. If the entity being consolidated is a VIE, under AcG-15, the "primary beneficiary" of that entity should consolidate the VIE and not necessarily the shareholder with the majority voting interest. As a result, the Fund does not consolidate Trade Marks, but instead accounts for its investment in Trade Marks using the equity method. Food Services' consolidated financial statements include the accounts of Trade Marks. Non-consolidated financial statements of Trade Marks are presented for information purposes to the unitholders of the Fund.

EXPANSION OF THE ROYALTY POOL

On December 31, 2006, the number of A&W restaurants for which royalties are paid to Trade Marks was increased by 19 new restaurants less 13 restaurants which permanently closed during 2006. Trade Marks paid Food Services $5,273,000, by issuance of 299,413 Class B shares of Trade Marks valued at $3,560,000 and 299,413 common shares of Trade Marks valued at $1,713,000. A final adjustment to the number of shares issued will be made in December 2007 based upon the actual annual sales of the new restaurants. Until then, twenty percent of the shares will be held in escrow.

After the December 31, 2006 adjustment to the Royalty Pool, the number of restaurants in the Royalty Pool increased to 660, and Food Services owns the equivalent of 37.9% 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 25, 2007 (1)		December 31, 2006	
	#	%	#	%
Fund units held by public unitholders	8,340,000	62.1	8,340,000	62.1
Trade Marks' Class A and B preferred shares held by Food Services: (2)				
Class A(3)	2,779,975	20.7	2,779,975	20.7
Class B(4) (5)	2,317,893	17.2	2,317,893	17.2
	5,097,868	37.9	5,097,868	37.9
Total equivalent units	13,437,868	100.0	13,437,868	100.0

Notes:

(1) Information is current as at May 1, 2007.

(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.

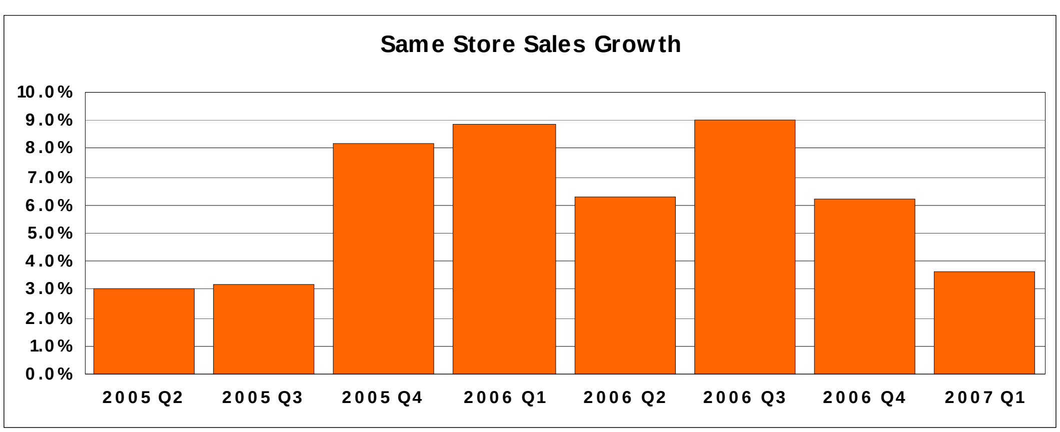
(5) Before the 299,413 shares issued as consideration for the December 31, 2006 adjustment to the Royalty Pool, the total equivalent units were 13,138,455 of which 63.5% were held by public unitholders and 36.5% were held by Food Services.

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 was 3.6% for the first quarter of 2007 compared to the first quarter of 2006. Same store sales growth has now been positive for 16 consecutive quarters. In the first quarter of 2007, sales results were compared to very strong sales in the first quarter of the prior year. The first quarter of 2006 saw very mild weather which positively impacted sales. Weather this year was much more typical. In addition, 2006 results benefited from the payment of a rebate to all residents of Alberta by its Provincial Government.

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

INCOME

During the first quarter, the Fund earned interest income from Trade Marks on the A&W notes of $2,063,000, a decrease of $25,000 from the first quarter of 2006 as there was one less day in the first quarter of 2007.

The Fund's share of Trade Marks' net loss for the quarter was $90,000 for the quarter compared to $164,000 for the first quarter of 2006. The Fund's ownership interest in Trade Marks was 62.1% in 2007 and 63.5% in 2006. Trade Marks' income and expenses are discussed in detail below.

Royalty income earned by Trade Marks from Food Services in the first quarter was $3,843,000 based on sales of $128,114,000 reported by the A&W restaurants in the Royalty Pool. This is an increase of 5.3% over royalty income of $3,651,000 and sales of $121,717,000 during the same quarter of 2006. The increase is due to the combined impact of the additional 6 restaurants in the Royalty Pool and the same store sales increase of 3.6%.

EXPENSES AND TAXES

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

(dollars in thousands)	**Period from Jan 1, 2007 to Mar 25, 2007**	Period from Jan 1, 2006 to Mar 26, 2006
General and administrative	**$251**	$254
Amortization of deferred financing fees	**4**	4
Interest on term loan	**134**	137
Interest income	**(23)**	(9)
Interest on A&W notes	**2,063**	2,088
Dividends on Class A&B preferred shares[(1)]	**1,261**	1,176
Large corporations tax	**-**	28
Future income taxes	**298**	229

(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, decreased by $3,000 to $251,000, compared to $254,000 in 2006.

Trade Marks' interest expense on its term loan decreased by $3,000 to $134,000 for the quarter which was one day shorter than the same quarter of 2006. Interest income for the quarter was $14,000 higher than the same quarter in 2006 due to the increase in surplus distributable cash. Interest on the A&W notes was $2,063,000 in the first quarter, a decrease of $25,000 over the first quarter of 2006 due to the difference in the number of days in the quarter.

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 $85,000, from $1,176,000 in the first quarter of 2006 to $1,261,000 in 2007. The increase is due to the additional Class B shares which were issued on December 31, 2006. Of the $1,261,000 accrued dividends, $914,000 was declared payable to Food Services in the quarter, leaving a balance of dividends accrued but not yet declared of $347,000. Dividends accrued but not yet declared are included with the Class A and B shares on Trade Marks' balance sheet.

There is no Large Corporations Tax expense for 2007 compared to $28,000 in the first quarter of 2006. The 2006 Large Corporations Tax provision was reversed in the second quarter when the federal government announced in June 2006 that this tax was being eliminated retroactive to January 1, 2006. Future income taxes, a non-cash expense, increased by $69,000 for the quarter. The increase is attributable to the increase in earnings before taxes for the first quarter.

NET EARNINGS

The Fund's net earnings for the first quarter were $1,973,000 or 23.7¢ per unit compared to $1,924,000 or 23.1¢ for the same quarter in 2006. The increase in the Fund's net earnings was due to a smaller loss for the period by Trade Marks and corresponding equity pick-up of the loss by the Fund, offset by lower interest income.

Trade Marks' earnings before income taxes increased by $152,000 to $153,000. The higher earnings before income taxes for the quarter were due to the $192,000 increase in royalty income, $20,000 decrease in general and administrative and term loan interest expense, $25,000 decrease in interest on the A&W notes, offset by the $85,000 increase in accrued Class A and B preferred share dividends. Trade Marks' net loss decreased by $111,000 to a loss of $145,000 for the quarter compared to a loss of $256,000 for the first quarter of 2006.

DISTRIBUTABLE CASH

The distributable cash measure is provided as it identifies the amount of actual cash available to pay distributions to unitholders and dividends to Food Services. Distributable cash is not an earnings measure recognized by GAAP and therefore may not be comparable to similar measures presented by other issuers. 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 and changes in non-cash working capital.

The following chart reconciles distributable cash to the most directly comparable measure calculated in accordance with GAAP, cash flows from operating activities including changes in non-cash working capital balances:

(dollars in thousands except per unit amounts)	**Period from Jan 1, 2007 to Mar 25, 2007**	Period from Jan 1, 2006 to Mar 26, 2006
Trade Marks' cash flow from operating activities	**$1,282**	$987
Add Changes in accrued dividends	**(347)**	26
Dividends on Class A & B preferred shares	**1,261**	1,176
Changes in non-cash working capital(1)	**(778)**	(1,036)
Distributable cash – Trade Marks	**1,418**	1,153
The Fund's cash flow from operating activities	**1,552**	1,523
Add: Changes in non-cash working capital(1)	**511**	565
Distributable cash – the Fund	**2,063**	2,088
Total distributable cash	**$3,481**	$3,241
Cumulative surplus – beginning of period	**3,517**	1,692
Distributable cash for unitholders at current distribution rate (2007 - $1.20 per unit, 2006 - $1.116 per unit)	**(2,303)**	(2,167)
Distributable cash for Food Services at current distribution rate (2007 - $1.20 per share, 2006 - $1.116 per share)	**(1,408)**	(1,221)
Special distribution paid to unitholders ($0.08 per unit)	**(667)**	-
Equivalent special dividend paid to Food Services ($0.08 per share)	**(408)**	-
Cumulative surplus – end of period	**$2,212**	$1,545
Distributable cash per equivalent unit	**$0.259**	$0.247
Number of equivalent units	**13,437,868**	13,138,455
Monthly distributions declared per unit (8,340,000 units)	**$0.200**	$0.186
Special distributions declared per unit (8,340,000 units)	**$0.080**	-

(1) Distributable cash is adjusted to exclude changes in non-cash working capital as Trade Marks' and the Fund's working capital requirements are not permanent and are primarily due to the timing of payments between related parties.

Total distributable cash increased by $240,000 to $3,481,000 for the quarter due to the increase in royalty income and decrease in cash taxes and expenses discussed previously.

Distributable cash for unitholders increased to $2,303,000 from $2,167,000 for the quarter due to the increase in distributions from an annualized rate of $1.116 per unit in the first quarter of 2006 to the current annualized rate of $1.20.

Distributable cash for dividends to Food Services increased to $1,408,000 from $1,221,000 for the quarter. The increase is due to the additional common and Class B preferred shares issued to Food Services on December 31, 2006 as a result of the annual adjustment to the Royalty Pool and the increase in the annual distribution rate.

The amount of cash distributed to unitholders and Food Services in the quarter in monthly distributions and dividends was $0.200 per equivalent unit compared to distributable cash generated of $0.259. In addition, in February 2007 a special distribution of $667,000 or $0.080 per unit was paid to unitholders and an equivalent special dividend of $408,000 or $0.080 per common share was paid to Food Services, bringing the total amount of cash distributed to $0.280 per equivalent unit.

At the end of the quarter there was a cumulative surplus of distributable cash of $2,212,000 compared to a cumulative surplus of $3,517,000 at the end of 2006. The Fund will continue to periodically review distribution levels and distribute available cash in order to maximize returns to unitholders and maintain uniformity of distributions.

DISTRIBUTIONS TO UNITHOLDERS

During the quarter ended March 25, 2007, the Fund declared monthly distributions to unitholders totaling $1,668,000 or $0.200 per unit, compared to $1,551,000 or $0.186 per unit in the same quarter of 2006. Also during the quarter, the Fund declared a special distribution to unitholders of $667,000 or $0.080 per unit. The dates and amounts of these distributions are as follows:

(dollars in thousands except per unit amounts)	Declaration date	Payment date	Amount	Per unit
January 2007	February 6, 2007	February 28, 2007	$ 834	$0.100
Special Distribution	February 6, 2007	February 28, 2007	667	0.080
February 2007	March 6, 2007	March 30, 2007	834	0.100
			$2,335	$0.280

The distribution for December 2006 of $834,000, which was paid on January 31, 2007, was declared and recorded for income tax purposes in 2006, the period in which it was earned. Therefore, only two monthly distributions were declared during the quarter ended March 25, 2007.

The February 2007 distribution of $834,000 which was declared on March 6, 2007 and paid on March 30, 2007 is reported as a current liability at March 25, 2007.

On April 3, 2007, the Fund declared the March 2007 monthly distribution to unitholders of $0.100 per unit or $834,000, payable on April 30, 2007.

DIVIDENDS ON TRADE MARKS' COMMON SHARES

During the quarter, Trade Marks declared monthly dividends on its common shares totaling $280,000 or $0.0208 per share, of which $174,000 was earned by the Fund and $106,000 was earned by Food Services. The February 2007 dividend of $140,000 which was declared on March 6, 2007 and paid on March 30, 2007 is reported as a current liability of Trade Marks at March 25, 2007. The Fund's share of $87,000 is reported as a receivable by the Fund at March 25, 2007.

Also during the quarter Trade Marks declared a dividend on common shares of $1,075,000 or $0.080 per share, of which $667,000 was earned by the Fund and $408,000 was earned by Food Services. This dividend was associated with the Fund's special distribution of $0.080 per unit.

On April 3, 2007, Trade Marks declared a dividend on common shares of $140,000 or $0.0104 per share, payable to Food Services and the Fund on April 30, 2007.

DIVIDENDS ON TRADE MARKS’ CLASS A AND B PREFERRED SHARES

During the quarter, Trade Marks declared monthly dividends on its Class A and B preferred shares totaling $914,000 or $0.1792 per share. The February 2007 dividends of $457,000 which were declared on March 6, 2007 and paid to Food Services on March 30, 2007 are reported as a current liability of Trade Marks at March 25, 2007.

On April 3, 2007, Trade Marks declared dividends on Class A and B preferred shares of $457,000 or $0.0896 per share, payable to Food Services on April 30, 2007.

SUMMARY OF QUARTERLY RESULTS

(dollars in thousands except per unit amounts)	Q1 2007	Q4 2006	Q3 2006	Q2 2006
Number of restaurants in the Royalty Pool (1)	660	654	654	654
Royalty income	$3,843	$5,745	$4,492	$4,069
The Fund’s interest income	$2,063	$2,751	$2,064	$2,063
The Fund’s net earnings	$1,973	$4,355	$2,467	$2,262
Basic and diluted earnings per unit	$0.237	$0.522	$0.296	$0.271
Distributable cash	$3,481	$5,490	$4,339	$3,930
Number of equivalent units (2)	13,437,868	13,138,455	13,138,455	13,138,455
Distributable cash per equivalent unit	$0.259	$0.418	$0.330	$0.299
Distributions declared	$2,335	$3,311	$2,410	$2,360
Monthly distributions declared per unit (8,340,000 units)	$0.200	$0.397	$0.289	$0.283
Special distribution declared per unit	$0.080	-	-	-
Number of days in the quarter	84	112	84	84

(dollars in thousands except per unit amounts)	Q1 2006	Q4 2005	Q3 2005	Q2 2005
Number of restaurants in the Royalty Pool (1)	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 (2)	13,138,455	12,579,462	12,579,462	12,579,462
Distributable cash per equivalent unit	$0.247	$0.388	$0.298	$0.272
Distributions declared	$1,552	$3,002	$2,252	$2,252
Monthly distributions declared per unit (8,340,000 units)	$0.186	$0.360	$0.270	$0.270
Special distribution declared	-	-	-	-
Number of days in the quarter	85	111	84	84

(1) The net six new restaurants added to the Royalty Pool on December 31, 2006 are excluded for purposes of presenting 2006 results as they were not in the Royalty Pool during 2006.
(2) The number of equivalent units for 2006 excludes the 299,413 Class B and common shares issued by Trade Marks on December 31, 2006.

SEASONALITY

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

LIQUIDITY AND CAPITAL RESOURCES

The Fund 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 sufficient financial resources to fund its working capital requirements and to meet its cash flow needs including ongoing common share dividends. Trade Marks has a demand operating loan facility of up to $2,000,000 which bears interest at bank prime rate plus 0.5% and is repayable on demand. As at March 25, 2007, 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, however HSBC Bank Canada has indicated a willingness to extend the term beyond this date. The term loan 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 Trade Marks' 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	$10,000	$0	$0	$0

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 is payable monthly in arrears.

The Fund and Trade Marks have no other contractual or purchase obligations except as described under the section Related Party Transactions and Balances. The Fund and Trade Marks do not have any capital expenditures; their operating and administrative expenses are expected to be stable and reasonably predictable and are considered to be in the ordinary course of business.

OFF-BALANCE SHEET ARRANGEMENTS

The Fund and Trade Marks have no off-balance sheet arrangements, with the exception of the interest rate swap discussed previously.

RELATED PARTY TRANSACTIONS AND BALANCES

Trade Marks' interest expense and the Fund's interest income on the A&W notes for the quarter was $2,063,000 (2006 - $2,088,000), of which $1,301,000 is receivable by the Fund from Trade Marks at March 25, 2007 (December 31, 2006 - $761,000).

Royalty income of $3,843,000 (2006 - $3,651,000) was earned by Trade Marks from Food Services for the year, of which $1,337,000 is receivable by Trade Marks at March 25, 2007 (December 31, 2006 - $1,499,000).

As at March 25, 2007, $65,000 (December 31, 2006 - $36,000) 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. Trade Marks has arranged for management, administrative and accounting services to be provided by Food Services at no cost 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 25, 2007.

FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash, due from Trade Marks, investment in Trade Marks, distribution payable to unitholders, and due to Trade Marks. 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 $9,000 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 cash and cash equivalents, the term loan, operating line of credit, the A&W notes payable and the Class A and B preferred shares, which bear interest as disclosed previously.

CHANGES IN TAX RULES

On October 31, 2006, the Federal Department of Finance proposed modifications to income tax rules for income trusts that would result in income earned by the Fund becoming taxable in a manner similar to income earned by a corporation. The application of these rules will be delayed to the 2011 taxation year for trusts that were publicly traded prior to November 1, 2006. However, the proposed rules indicate that any "undue expansion" of an income trust would cause the deferral to 2011 to be lost. On December 15, 2006, the Department of Finance released guidelines as to what would be considered "normal growth" as opposed to "undue expansion". On December 21, 2006, the Department of Finance issued for public comment the draft legislation to implement these proposals.

If these changes are enacted as proposed, and provided the Fund is not considered to have undergone an "undue expansion", the Fund will be subject to taxation beginning January 1, 2011 and cash available for distributions to unitholders will be reduced by the amount of income tax paid or payable by the Fund. The Fund will be required to account for income taxes and future income taxes, similar to a corporation. Financial statement earnings and distributable cash will be significantly affected.

If these changes are enacted as proposed, and the Fund is considered to have undergone an "undue expansion", the Fund may become subject to taxation prior to January 1, 2011.

The full implications to the Fund as a result of these proposed changes cannot be determined at this time since detailed legislation has not been tabled nor finalized by the government. There is no assurance that the draft legislation will be enacted in the manner proposed or at all. There can also be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts and Specified Investment Flow-Throughs will not be further changed in a manner which adversely affects the holders of units.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Fund's and Trade Marks' financial reporting and the preparation of its financial statements for external purposes in accordance with GAAP. There have been no material changes to the internal controls during the period covered by this Management Discussion and Analysis that have had a material effect on the Fund's internal control over financial reporting.

RISKS AND UNCERTAINTIES

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

For further risks and uncertainties, the reader is directed to the Changes in Tax Rules section above.

OUTLOOK

A&W continued to enjoy good results based on the performance of its key strategic initiatives. A&W is a strategy driven company whose mission is "to become the number one choice of the baby boomer generation."

During the first quarter, A&W's focus on building the breakfast daypart continued to yield good results. Advertising is an important driver of success in the quick service industry and A&W has enjoyed good success with recent campaigns. This continues to be an important area of focus in the coming months.

The Cruisin' the Dub program was a big success in 2006, with over 1,300 Cruisin' the Dub events held across Canada. This program is building in momentum in 2007, and many more Canadians will experience the rich heritage of A&W, the drive-in era, and A&W's great food at Cruisin' the Dub events in 2007.

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 25, 2007

Balance Sheets
Unaudited
(in thousands of dollars)

		March 25 2007		December 31 2006
Assets				
Current assets				
Cash	**$**	**59**	$	2
Due from A&W Trade Marks Inc. (note 4)		**1,388**		847
		1,447		849
Investment in A&W Trade Marks Inc. (note 2)		**76,179**		77,110
	$	**77,626**	$	77,959
Liabilities				
Current liabilities				
Distribution payable to Unitholders (note 3)	**$**	**834**	$	834
Due to A&W Trade Marks Inc. (note 4)		**65**		36
		899		870
Unitholders' Equity				
Capital contributions		**77,115**		77,115
Accumulated earnings		**46,427**		44,454
Accumulated distributions (note 3)		**(46,815)**		(44,480)
		76,727		77,089
	$	**77,626**	$	77,959

Subsequent event (note 5).

See accompanying notes to these financial statements.

A&W Revenue Royalties Income Fund

Statements of Earnings and Accumulated Earnings

Unaudited

(in thousands of dollars, except per Unit amounts)

	Period from Jan 1, 2007 to Mar 25, 2007	Period from Jan 1, 2006 to Mar 26, 2006
Interest income	**$ 2,063**	$ 2,088
Equity in loss of A&W Trade Marks Inc.	**(90)**	(164)
Net earnings for the period	**1,973**	1,924
Accumulated earnings - beginning of period	**44,454**	33,446
Accumulated earnings - end of period	**$ 46,427**	$ 35,370
Basic and diluted earnings per Unit (8,340,000 Units)	**$ 0.237**	$ 0.231

See accompanying notes to these financial statements.

A&W Revenue Royalties Income Fund

Statements of Cash Flows

Unaudited
(in thousands of dollars)

	Period from Jan 1, 2007 to Mar 25, 2007	Period from Jan 1, 2006 to Mar 26, 2006
Cash flows from operating activities		
Net earnings for the period	**$ 1,973**	$ 1,924
Items not affecting cash		
Equity in loss of A&W Trade Marks Inc.	**90**	164
	2,063	2,088
Net changes in non-cash working capital	**(511)**	(565)
	1,552	1,523
Cash flows from investing activities		
Dividends received from A&W Trade Marks Inc.	**840**	29
Cash flows from financing activities		
Distributions paid to Unitholders	**(2,335)**	(1,526)
Increase in cash for the period	**57**	26
Cash - beginning of period	**2**	-
Cash - end of period	**$ 59**	$ 26
Supplementary cash flow information		
Interest received	**$ 1,523**	$ 1,523

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 25, 2007
Unaudited
(figures in tables are expressed in thousands of dollars, except per Unit amounts)

1. Nature of operations and basis of presentation

Organization and nature of business

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

Basis of presentation

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, 2006 except as noted below. 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, 2006 and the annual audited financial statement of Trade Marks for the year ended December 31, 2006, and the interim unaudited financial statements of Trade Marks for the first quarter ended March 25, 2007.

Fiscal year

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' 2006 fiscal year ended December 31, 2006 (2005 – January 1, 2006). To align its financial reporting with that of Food Services, the Fund's first quarter of 2007 ended March 25, 2007 (2006 – March 26, 2006), 12 weeks after Food Services' fiscal year end.

Adoption of new accounting standards

On January 1, 2007, the Fund adopted CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, along with two companion standards, Section 1530, Comprehensive Income, and Section 3865, Hedges, and the amendments to CICA handbook sections and accounting guidelines resulting from the issuance of these sections. The adoption of these new standards had no impact on the Fund's financial results.

2. Investment in A&W Trade Marks Inc.

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

	March 25, 2007	December 31, 2006
Common shares	$ 1	$ 1
A&W notes receivable	83,399	83,399
Cumulative equity in loss	(6,877)	(6,787)
Cumulative dividends	(1,634)	(793)
Dilution gain	1,290	1,290
	$76,179	$77,110

The Fund's 62% (2006 – 62%) 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. 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 Royalty Pool is adjusted in January of each year (except in 2006 when the Royalty Pool was adjusted on January 5, 2006 and December 31, 2006, and 2007 in which there is no adjustment) 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. In accordance with Canadian generally accepted accounting principles, a dilution gain was recognized in 2006 due to the value ascribed to the common shares issued by Trade Marks to Food Services on December 31, 2006.

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
Annual adjustments:					
January 5, 2003		-2.9%	452,469	2.9%	452,469
January 5, 2004		-3.0%	495,681	3.0%	495,681
January 5, 2005		-2.8%	511,337	2.8%	511,337
January 5, 2006		-2.8%	558,993	2.8%	558,993
December 31, 2006		-1.4%	299,413	1.4%	299,413
	8,340,000	62.1%	5,097,893	37.9%	13,437,893

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. The A&W notes are unsecured debt obligations of Trade Marks and are subordinated to all other indebtedness and liabilities of Trade Marks.

3. Distributions

During the quarter ended March 25, 2007, the Fund declared monthly distributions to Unitholders totaling $1,668,000 or $0.200 per Unit. Also during the quarter, the Fund declared a special distribution to Unitholders of $667,000 or $0.080 per Unit. The dates and amounts of these distributions are as follows:

Month	Declaration date	Payment date	Amount	Per Unit
January 2007	February 6, 2007	February 28, 2007	$ 834	$ 0.100
Special Distribution	February 6, 2007	February 28, 2007	667	0.080
February 2007	March 6, 2007	March 30, 2007	834	0.100
			2,335	$ 0.280
Accumulated distributions - beginning of period			44,480	
Accumulated distributions - end of period			$ 46,815	

The distribution for December 2006 of $834,000, which was paid on January 31, 2007, was declared and recorded for income tax purposes in 2006, the period in which it was earned. Therefore, only two monthly distributions were declared during the quarter ended March 25, 2007.

The February 2007 distribution of $834,000 which was declared on March 6, 2007 and paid on March 30, 2007 is reported as a current liability at March 25, 2007.

4. Related party transactions and balances

During the quarter, interest income of $2,063,000 (2006 - $2,088,000) was earned from Trade Marks on the A&W notes receivable, of which $1,301,000 is receivable at March 25, 2007 (December 31, 2006 - $761,000).

During the quarter, dividend income of $841,000 (2005 - $57,000) was earned from Trade Marks, of which $87,000 is receivable at March 25, 2007 (December 31, 2006 - $86,000).

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

5. Subsequent event

On April 3, 2007, the Fund declared a distribution to Unitholders of $0.100 per Unit or $834,000, payable on April 30, 2007 to Unitholders of record as at April 15, 2007.

A&W Trade Marks Inc.
Financial Statements

For the first quarter ended March 25, 2007

Balance Sheets
Unaudited
(in thousands of dollars)

		March 25 2007		December 31 2006
Assets				
Current assets				
Cash and cash equivalents	**$**	**3,298**	$	3,368
Accounts receivable (note 7)		**1,402**		1,547
Corporate taxes recoverable		**65**		65
Prepaid interest		**82**		90
		4,847		5,070
Intangible assets (note 2)		**149,459**		149,459
	$	**154,306**	$	154,529
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (note 7)	**$**	**1,529**	$	931
Dividends payable (notes 5 and 6)		**597**		567
Term loan (note 3)		**9,981**		-
		12,107		1,498
Term loan (note 3)		**-**		9,977
Future income taxes		**11,455**		11,157
A&W notes payable (note 4)		**83,399**		83,399
Class A and Class B preferred shares (note 5)		**55,137**		54,790
		162,098		160,821
Shareholders' Deficiency				
Common shares (note 6)		**1,714**		1,714
Deficit		**(9,506)**		(8,006)
		(7,792)		(6,292)
	$	**154,306**	$	154,529

Subsequent events (note 10).

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.

A&W Trade Marks Inc.

Statements of Loss and Deficit

Unaudited
(in thousands of dollars)

		Period from Jan 1, 2007 to Mar 25, 2007		Period from Jan 1, 2006 to Mar 26, 2006
Gross sales reported by A&W restaurants in the Royalty Pool	**$**	**128,114**	$	121,717
Royalty income	**$**	**3,843**	$	3,651
Expenses				
General and administrative		**251**		254
Amortization of deferred financing fees		**4**		4
Interest expense				
- term loan and other (note 9)		**111**		128
- A&W notes payable		**2,063**		2,088
- Class A and B preferred share dividends		**1,261**		1,176
		3,690		3,650
Earnings before income taxes		**153**		1
Provision for income taxes				
Large corporations tax		**-**		28
Future income taxes		**298**		229
		298		257
Net loss for the period		**(145)**		(256)
Deficit - beginning of period		**(8,006)**		(8,139)
Dividends declared		**(1,355)**		(89)
Deficit - end of period	**$**	**(9,506)**	$	(8,484)

See accompanying notes to these financial statements.

A&W Trade Marks Inc.

Statements of Cash Flows

Unaudited

(in thousands of dollars)

	Period from Jan 1, 2007 to Mar 25, 2007		Period from Jan 1, 2006 to Mar 26, 2006	
Cash flows from operating activities				
Net loss for the period	**$**	**(145)**	$	(256)
Items not affecting cash				
Amortization of deferred financing fees		**4**		4
Provision for future income taxes		**298**		229
Change in accrued dividends		**347**		(26)
		504		(49)
Changes in non-cash working capital		**778**		1,036
		1,282		987
Cash flows from financing activities				
Dividends paid on common shares		**(1,352)**		(44)
(Decrease) increase in cash for the period		**(70)**		943
Cash - beginning of period		**3,368**		1,624
Cash - end of period	**$**	**3,298**	$	2,567
Supplementary cash flow information				
Interest paid on term loan and A&W notes payable	**$**	**(1,614)**	$	(1,669)
Dividends paid on Class A and B preferred shares	**$**	**(887)**	$	(797)
Taxes paid	**$**	**-**	$	(39)
Non-cash financing activities				
Issuance of Class B preferred and common shares	**$**	**-**	$	6,915

See accompanying notes to these financial statements.

A&W Trade Marks Inc.
Notes to the Interim Financial Statements

For the first quarter ended March 25, 2007
Unaudited
(figures in tables are expressed in thousands of dollars)

1. Nature of operations and basis of presentation

Nature of operations

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) (62%) and Food Services (38%).

Basis of presentation

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, 2006 except as noted below. 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, 2006 and the annual audited financial statements of the Fund for the year ended December 31, 2006, and the interim unaudited financial statements of the Fund for the first quarter ended March 25, 2007.

Fiscal year

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' 2006 fiscal year ended December 31, 2006 (2005 – January 1, 2006). To align its financial reporting with that of Food Services, Trade Marks' first quarter of 2007 ended March 25, 2007 (2006 – March 26, 2006), 12 weeks after Food Services' fiscal year end.

Adoption of new accounting standards

On January 1, 2007, Trade Marks adopted CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, along with two companion standards, Section 1530, Comprehensive Income, and Section 3865, Hedges, and the amendments to CICA handbook sections and accounting guidelines resulting from the issuance of these sections. The adoption of these new standards had no impact on Trade Marks' financial results.

2. 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 Royalty Pool is adjusted in January of each year (except 2006 when the Royalty Pool was adjusted on January 5, 2006 and December 31, 2006, and 2007 in which there is no adjustment) to reflect sales from new A&W restaurants, net of the sales of any A&W restaurants that have permanently closed. The Balance of the purchase price will be reduced by all amounts Trade Marks is required to pay Food Services in respect of these 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:

				Share consideration			
	New restaurants	**Closed restaurants**	**Royalty Pool**	**Common shares**	**Class A shares**	**Class B shares**	**Amount $**
Initial consideration							
Cash	585	-	585	-	-	-	84,876
Shares	-	-	-	2,780,000	2,779,975	-	27,800
Future income taxes	-	-	-	-	-	-	8,080
	585	-	585	2,780,000	2,779,975	-	120,756
Adjustments:							
January 5, 2003	27	(8)	19	452,469	-	452,469	5,108
January 5, 2004	28	(12)	16	495,681	-	495,681	5,210
January 5, 2005	27	(9)	18	511,337	-	511,337	6,197
January 5, 2006	27	(11)	16	558,993	-	558,993	6,915
December 31, 2006	19	(13)	6	299,413	-	299,413	5,273
	713	(53)	660	5,097,893	2,779,975	2,317,893	149,459

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 December 31, 2006, the number of A&W restaurants for which royalties are paid to Trade Marks was increased by 19 new restaurants, less 13 restaurants that permanently closed during 2006. Trade Marks paid Food Services $5,273,000, by issuance of 299,413 Class B preferred shares valued at $3,560,000 and 299,413 common shares valued at $1,713,000, as initial consideration for the estimated royalty stream from the 6 net restaurants added to the Royalty Pool. A final adjustment to the share consideration will be made in December 2007 based upon the actual annual sales reported by the new restaurants. Until then, 20% of the shares will be held in escrow.

3. 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 25, 2007, the full amount of the facility was available.

Trade Marks' term loan is comprised of:

	March 25, 2007	December 31, 2006
	$	$
Term loan	10,000	10,000
Deferred financing fees	(19)	(23)
	9,981	9,977

The term loan is repayable on March 15, 2008, however HSBC Bank Canada has advised that it will consider extending the loan beyond that date, subject to certain conditions. The term loan bears interest at bank prime rate plus between 0% and 0.5% depending on specified financial ratios. Interest only is payable monthly, providing 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 has been provided as security for the demand operating facility and term loan.

4. 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 is payable monthly in arrears.

The A&W notes are unsecured debt obligations of Trade Marks and are subordinated to all other indebtedness and liabilities of Trade Marks.

5. Class A and Class B preferred shares

The preferred shares are owned by Food Services and comprise:

	#	$	#	$
Class A shares - at cost	2,779,975	27,800	2,779,975	27,800
Class B shares - at cost:				
January 5, 2003 adjustment	452,469	5,108	452,469	5,108
January 5, 2004 adjustment	495,681	5,210	495,681	5,210
January 5, 2005 adjustment	511,337	6,197	511,337	6,197
January 5, 2006 adjustment	558,993	6,915	558,993	6,915
December 31, 2006 adjustment	299,413	3,560	299,413	3,560
	2,317,893	26,990	2,317,893	26,990
Accrued dividends		347		-
	5,097,868	55,137	5,097,868	54,790

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 its Class A and B preferred shares totaling $914,000 or $0.1792 per share. The February dividends of $457,000 which were declared on March 6, 2007 and paid to Food Services on March 30, 2007 are reported as a current liability at March 25, 2007. The December 2006 dividends of $430,000 were declared in December 2006 and paid to Food Services on January 31, 2007.

6. 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
January 5, 2003 adjustment		-2.9%	452,469	2.9%	452,469	-
January 5, 2004 adjustment		-3.0%	495,681	3.0%	495,681	-
January 5, 2005 adjustment		-2.8%	511,337	2.8%	511,337	-
January 5, 2006 adjustment		-2.8%	558,993	2.8%	558,993	-
December 31, 2006 adjustment		-1.4%	299,413	1.4%	299,413	1,713
	8,340,000	62.1%	5,097,893	37.9%	13,437,893	1,714

During the quarter, Trade Marks declared monthly dividends on its common shares totaling $280,000 or $0.0208 per share. The February 2007 dividend of $140,000 which was declared on March 6, 2007 and paid to Food Services and the Fund on March 30, 2007 is reported as a current liability as at March 25, 2007. The December 2006 dividend of $137,000 was declared in December 2006 and paid on January 31, 2007.

Also during the quarter, Trade Marks declared a dividend on its common shares of $1,075,000 or $0.0800 per share which was paid on February 28, 2007.

7. Related party transactions and balances

During the quarter, royalty income of $3,843,000 (2006 - $3,651,000) was earned from Food Services, of which $1,337,000 is receivable at March 25, 2007 (December 31, 2006 - $1,499,000).

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 $2,063,000 (2006 - $2,088,000), of which $1,301,000 is payable to the Fund at March 25, 2007 (December 31, 2006 - $761,000).

Included in accounts receivable is $65,000 (December 31, 2006 – $36,000) due from the Fund without interest and on demand.

8. 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.

9. Term loan and other interest

	Period from Jan 1, 2007 to Mar 25, 2007	Period from Jan 1, 2006 to Mar 26, 2006
	$	$
Interest expense	134	137
Interest income	(23)	(9)
	111	128

10. Subsequent events

On April 3, 2007, Trade Marks declared dividends on its Class A and B preferred shares of $457,000 or $0.0896 per share, payable to Food Services on April 30, 2007. On April 3, 2007, Trade Marks declared a dividend on its common shares of $140,000 or $0.0104 per share, payable to Food Services and the Fund on April 30, 2007.

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.

Q1/2007

Consolidated Financial Statements

For the first quarter ended
March 25, 2007

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 1, 2007 to March 25, 2007

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 1, 2007 and should be read in conjunction with the interim unaudited consolidated financial statements for A&W Food Services of Canada Inc. for the quarter ended March 25, 2007 and the annual audited consolidated financial statements for the year ended December 31, 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 38% ownership interest in A&W Trade Marks Inc., a “variable interest entity” in which Food Services is the “primary beneficiary” as these terms are defined in the Canadian Institute of Chartered Accountants’ Accounting Guideline AcG-15 “Consolidation of Variable Interest Entities”.
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.

To align its financial reporting with the business cycle of its operations, Food Services uses a fiscal year comprising a 52 or 53 week period ending the Sunday nearest December 31. The fiscal 2006 year was 52 weeks and ended December 31, 2006 (2005 – 52 weeks ended January 1, 2006) and the Food Services’ first quarter ends 12 weeks after its fiscal year end.

Same Store Sales

Same store sales at A&W restaurants grew by 3.6% in the first quarter of 2007. This marks the 16th consecutive quarter of positive same store sales growth. The strong same store sales increases were driven by the continued success of Food Services' strategy which is focused on becoming "the number one burger choice of the baby boomer generation".

System Sales

For the 12 weeks ended March 25, 2007, total system sales for all A&W restaurants in Canada were $131,538,000, an increase of $8,624,000 or 7.0% from the same period in 2006. This increase was due to the increase in the number of restaurants from 663 to 676 and the 3.6% same store sales growth.

New Restaurant Development and Restaurant Closures

Food Services opened four new franchised restaurants in the first quarter of 2007, compared to two new restaurants in the first quarter of 2006. Two low volume restaurants were closed compared to three in the same period in 2006.

Consolidated Financial Highlights

(dollars in thousands)	**12 week period ended Mar 25, 2007**	12 week period ended Mar 26, 2006
System sales	**$131,538**	$122,914
System sales growth	**7.0%**	11.6%
Same store sales growth	**3.6%**	8.9%
New restaurants opened	**4**	2
Restaurants closed	**2**	3
Number of restaurants	**676**	663
Franchising & corporate restaurant revenue	**$12,639**	$10,308
Direct costs and administrative expenses	**$9,514**	$7,347
Earnings before interest, amortization, taxes and non-controlling interests	**$3,125**	$2,961
Net earnings (loss)	**$705**	($513)

Overview

Food Services is the franchisor of the A&W restaurant chain in Canada and derives revenues from franchise fees, sales in corporately operated 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 restaurants operated corporately 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 3% 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 (except in 2006 when the Royalty Pool was adjusted on January 5, 2006 and December 31, 2006, and 2007 in which there is no adjustment) to reflect sales from new A&W restaurants added to the Royalty Pool, net of the sales of any A&W restaurants that have permanently closed. Trade Marks pays Food Services for the additional royalty stream related to the sales of the net new restaurants, based on a formula set out in the Licence and Royalty Agreement. The formula provides for a payment to Food Services based on 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 fifth adjustment to the Royalty Pool took place on December 31, 2006. The number of A&W restaurants for which royalties are paid increased by 19 new restaurants less 13 restaurants which permanently closed during 2006. Food Services was paid $5,273,000, by issuance of 299,413 Class B preferred shares of Trade Marks valued at $3,560,000 and 299,413 common shares of Trade Marks valued at $1,713,000, as initial consideration for the estimated royalty stream from the 6 net new restaurants added to the Royalty Pool. A final adjustment to the number of shares issued will be made in December 2007 based upon the actual annual sales of the new restaurants. Until then, 20% of the shares will be held in escrow.

After this adjustment to the Royalty Pool, the number of restaurants in the Royalty Pool increased to 660, and Food Services owns the equivalent of 37.9% of the common shares of Trade Marks with the majority interest held by the Fund as follows:

(dollars in thousands)	The Fund		Food Services		Total	
	#	%	#	%	#	$
February 15, 2002	8,340,000	75.0%	2,780,000	25.0%	11,120,000	1
January 5, 2003 adjustment		-2.9%	452,469	2.9%	452,469	-
January 5, 2004 adjustment		-3.0%	495,681	3.0%	495,681	-
January 5, 2005 adjustment		-2.8%	511,337	2.8%	511,337	-
January 5, 2006 adjustment		-2.8%	558,993	2.8%	558,993	
December 31, 2006 adjustment		-1.4%	299,413	1.4%	299,413	1,713
	8,340,000	62.1%	5,097,893	37.9%	13,437,893	1,714

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

(dollars in thousands)	March 25, 2007		December 31, 2006	
	#	$	#	$
Class A shares - at cost	2,779,975	27,800	2,779,975	27,800
Class B shares - at cost:				
January 5, 2003 adjustment	452,469	5,108	452,469	5,108
January 5, 2004 adjustment	495,681	5,210	495,681	5,210
January 5, 2005 adjustment	511,337	6,197	511,337	6,197
January 5, 2006 adjustment	558,993	6,915	558,993	6,915
December 31, 2006 adjustment	299,413	3,560	299,413	3,560
	2,317,893	26,990	2,317,893	26,990
Accrued dividends		347		-
	5,097,868	55,137	5,097,868	54,790

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 investment in Trade Marks, owns the equivalent of 38% of the units of the Fund.

Basis of Consolidation

As a result of the Canadian Institute of Chartered Accountants' Accounting Guideline AcG-15 "Consolidation of Variable Interest Entities", Food Services is required to consolidate the accounts of Trade Marks. All intercompany accounts and transactions are eliminated in the consolidated financial statements. 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 and the Fund. 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 first quarter report for the quarter ended March 25, 2007 (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.

Adoption of New Accounting Standards

On January 1, 2007, Food Services adopted CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, along with two companion standards, Section 1530, *Comprehensive Income,* and Section 3865, *Hedges,* and the amendments to CICA handbook sections and accounting guidelines resulting from the issuance of these sections. The adoption of these standards had no impact on Food Services' financial results.

2007 First Quarter Operating Results

Revenue

Food Services' first quarter franchising and corporate revenues increased by $2,331,000 to $12,639,000, from $10,308,000 in the first quarter of 2006. Franchising revenue was $10,517,000 compared to $8,734,000 for the same quarter in the prior year. The increase of $1,783,000 was due to the system sales growth resulting in higher sales of materials to franchisees and distributors, and higher fees and sales of equipment for new restaurant openings. Corporate restaurant revenue was $2,122,000 for the first quarter of 2007 compared to $1,574,000 for the first quarter of 2006. The increase of $548,000 was due to sales growth in the eight Ottawa corporate restaurants plus the sales from six restaurants being operated corporately while held for refranchising. Three of these restaurants were refranchised during the quarter and a further two have now been refranchised.

Expenses and Operating Contribution Margin

Direct costs and administrative expenses increased by $2,167,000 to $9,514,000 for the first quarter of 2007 compared to $7,347,000 for the first quarter of 2006. The increase is primarily attributable to the costs of operating restaurants held for refranchising. In addition, as a result of the system sales growth, there was an increase in sales and therefore an increase in costs of materials and supplies sold to franchisees or distributors. The operating contribution margin for the quarter decreased from 28.7% for 2006 to 24.7% for 2007, due primarily to the costs of operating restaurants held for refranchising.

Interest Expense

Interest expense is comprised primarily of Trade Marks' interest expense on the A&W notes payable and Trade Marks' interest expense on its term loan. Trade Marks' interest on the A&W notes was $2,063,000 for the first quarter of 2007 compared to $2,088,000 for 2006, and interest on its term loan was $134,000 compared to $137,000 for 2006. The decrease in interest expense resulted from there being one less day in Trade Marks' fiscal quarter in 2007. Trade Marks' interest income was $23,000 or $14,000 higher than last year due to the increase in its surplus cash. Food Services' interest income was $41,000, an increase of $2,000 over 2006.

Income Taxes

Income tax expense decreased by $1,074,000 due to the provision last year for taxes payable on the remaining portion of the capital gain on the 2002 sale of the trade-marks which had been deferred until 2006.

Non-controlling Interests

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

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' loss was $90,000 for 2007 compared to $164,000 last year. The decrease in Trade Marks' loss was primarily due to higher royalty income.

Net Earnings

Net earnings for the quarter increased by $1,218,000, from a loss of $513,000 in 2006 to earnings of $705,000 in 2007. The increase in earnings was due primarily to the lower income tax provision in 2007.

Liquidity and Capital Resources

Food Services is primarily a franchise business with 665 of its 676 restaurants franchised. Food Services has minimal capital requirements related to its corporate restaurants and head office. Future restaurant growth will continue to be funded by franchisees although Food Services may from time to time choose to open new corporate restaurants in the Ottawa market. Food Services has sufficient capital resources to fund the expansion of corporate restaurants and has no long term debt obligations. Food Services has sufficient cash on hand to meet its obligations and has a demand operating loan available of up to $5,000,000 to fund its working capital requirements and for general corporate purposes. The 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 25, 2007, the full amount of the facility was available.

Trade Marks has sufficient financial resources to fund its working capital requirements and to meet its cash flow needs including ongoing common share dividends. Trade Marks has a demand operating loan facility of up to $2,000,000 which bears interest at bank prime rate plus 0.5% and is repayable on demand. As at March 25, 2007, 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, however HSBC Bank Canada has advised that it will consider extending the loan beyond that date, subject to certain conditions. The term loan 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 Trade Marks' 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 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 is payable monthly in arrears.

The liabilities of Trade Marks, including 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 except as described under the section Related Party Transactions and Balances. 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.

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	$10,000	$0	$0	$0
A&W notes payable	$83,399	$0	$0	$0	$83,399

Off-Balance Sheet Arrangements

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

Related Party Transactions and Balances

Trade Marks' interest expense on the A&W notes for the first quarter of 2007 was $2,063,000 (2006 - $2,088,000), of which $1,301,000 is payable to the Fund by Trade Marks at March 25, 2007 (December 31, 2006 - $761,000).

Included in accounts receivable is $65,000 (December 31, 2006 - $36,000) 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 in the administration of the Fund. Trade Marks has arranged for management, administrative and accounting services to be provided by Food Services at no cost until 2011.

During the quarter, Trade Marks declared monthly dividends on its common shares totaling $280,000 (2006 - $89,000) of which $174,000 was earned by the Fund and $106,000 was earned by Food Services. The February 2007 dividend of $140,000 was declared on March 6, 2007 and paid on March 30, 2007, and the Fund's share of $87,000 is reported as a current liability at March 25, 2007.

Also during the quarter, Trade Marks declared and paid a dividend on its common shares of $1,075,000, of which $667,000 was earned by the Fund and $408,000 was earned by Food Services.

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 first quarter of 2007 was $3,843,000 (2006 - $3,651,000), of which $1,337,000 is payable by Food Services to Trade Marks at March 25, 2007 (December 31, 2006 - $1,499,000);
- dividends accrued by Trade Marks on its Class A and B preferred shares were $1,261,000 (2006 - $1,176,000) of which $914,000 (2006 - $1,202,000) was declared payable by Trade Marks to Food Services during the quarter. Of the $914,000, $457,000 was paid during the quarter and $457,000 is payable at March 25, 2007 (December 31, 2006 - $430,000). Dividends on Class A and B preferred shares accrued but not yet declared total $347,000 (December 31, 2006 - $nil).

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 25, 2007.

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 $9,000 unfavourable.

It is not practicable to determine the fair value of the net liabilities due to 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 lines of credit and Trade Marks' term loan and A&W notes payable, which bear interest as disclosed previously, and cash and cash equivalents and the long-term notes receivable.

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's marketing and advertising, menu and product development, and restaurant design are focused on A&W's mission to "be the number one burger choice of the baby boomer generation . . ." Further information on these initiatives is contained in the Fund's Management Discussion and Analysis for the quarter ended March 25, 2007.

In 2007, Food Services intends to continue to pursue new restaurant development in Ontario, Quebec and Atlantic Canada. Implementation of the new profit management system for A&W franchisees will continue.

Subsequent Events

On April 3, 2007, Trade Marks declared a dividend on common shares of $140,000, of which $53,000 is payable to Food Services and $87,000 is payable to the Fund on April 30, 2007. On April 3, 2007, Trade Marks declared a dividend on Class A and B preferred shares of $457,000, payable to Food Services on April 30, 2007.

On May 1, 2007, Food Services declared a dividend on its common shares of $3,000,000, payable to its shareholder on May 3, 2007.

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 25, 2007

Consolidated Balance Sheets
Unaudited
(in thousands of dollars)

		March 25 2007		December 31 2006
Assets				
Current assets				
Cash and cash equivalents	**$**	**6,233**	$	6,060
Accounts receivable		**6,318**		9,759
Inventories		**755**		1,024
Prepaid expenses		**103**		215
Income taxes recoverable		**260**		-
Future income taxes		**482**		497
		14,151		17,555
Intangible assets		**81,916**		81,916
Future income taxes		**5,420**		5,736
Property, plant and equipment		**1,273**		1,375
Notes receivable		**324**		338
	$	**103,084**	$	106,920
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**12,747**	$	15,166
Deposits on franchise and equipment sales		**1,676**		1,221
Term loan (note 4)		**9,981**		-
Income taxes payable		**-**		1,820
		24,404		18,207
Term loan (note 4)		**-**		9,977
Net liabilities due to A&W Revenue Royalties Income Fund (note 3)		**76,179**		77,110
Long-term liabilities		**6,602**		6,499
Non-controlling interest		**269**		202
		107,454		111,995
Shareholders' Deficiency				
Capital stock		**10,500**		10,500
Deficit		**(14,870)**		(15,575)
		(4,370)		(5,075)
	$	**103,084**	$	106,920

Subsequent events (note 7).

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 Statements of Earnings and Deficit

Unaudited
(in thousands of dollars)

	12 Week Period Ended Mar 25, 2007	12 Week Period Ended Mar 26, 2006
Revenue		
Franchising	**$ 10,517**	$ 8,734
Corporate restaurants	**2,122**	1,574
	12,639	10,308
Direct costs and administrative expenses	**9,514**	7,347
Earnings before the following:	**3,125**	2,961
Interest expense (note 6)	**2,133**	2,177
Amortization of deferred financing fees	**4**	4
Amortization of property, plant and equipment	**102**	107
Earnings before income taxes and non-controlling interests	**886**	673
Provision for (recovery of) income taxes		
Current	**(127)**	1,047
Future income taxes	**331**	231
	204	1,278
Earnings (loss) for the period before non-controlling interests	**682**	(605)
Non-controlling interest in A&W Root Beer Beverages of Canada Inc.	**(67)**	(72)
A&W Revenue Royalties Income Fund's interest in loss of A&W Trade Marks Inc.	**90**	164
Net earnings (loss) for the period	**705**	(513)
Deficit - beginning of period	**(15,575)**	(11,385)
Refundable dividend tax paid	**-**	(1,192)
Deficit - end of period	**$ (14,870)**	$ (13,090)

See accompanying notes to these financial statements.

Consolidated Statements of Cash Flows
Unaudited
(in thousands of dollars)

	12 Week Period Ended Mar 25, 2007	12 Week Period Ended Mar 26, 2006
Cash flows from operating activities		
Net earnings (loss) for the period	**$ 705**	$ (513)
Items not affecting cash		
Amortization of deferred financing fees	**4**	4
Amortization of property, plant and equipment	**102**	107
Future income taxes	**331**	231
Loss on disposal of property, plant and equipment	**-**	2
Increase in long-term liabilities	**103**	36
Non-controlling interest in A&W Root Beer Beverages of Canada Inc.	**67**	72
A&W Revenue Royalties Income Fund's interest in loss of A&W Trade Marks Inc.	**(90)**	(164)
	1,222	(225)
Net changes in non-cash working capital	**(223)**	5,690
	999	5,465
Cash flows from investing activities		
Decrease in notes receivable	**14**	13
Purchase of property, plant and equipment	**-**	(96)
	14	(83)
Cash flows from financing activities		
Refundable dividend tax	**-**	(1,192)
Dividends paid to A&W Revenue Royalties Income Fund	**(840)**	(29)
	(840)	(1,221)
Increase in cash and cash equivalents	**173**	4,161
Cash and cash equivalents - beginning of period	**6,060**	4,238
Cash and cash equivalents - end of period	**$ 6,233**	$ 8,399
Supplementary cash flow information		
Net interest paid	**$ (1,552)**	$ (1,630)
Net income taxes paid	**$ (1,953)**	$ (814)

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 25, 2007
Unaudited
(figures in tables are expressed in thousands of dollars)

1. Nature of operations and basis of presentation

Nature of operations

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

Basis of presentation

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 except as noted below. 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, its 60% owned subsidiary, A&W Root Beer Beverages of Canada Inc. (Beverages) and its 38% ownership interest in A&W Trade Marks Inc. (Trade Marks), a "variable interest entity" in which Food Services is the "primary beneficiary" as these terms are defined in the Canadian Institute of Chartered Accountants' Accounting Guideline AcG-15 "Consolidation of Variable Interest Entities". The non-controlling interests comprise 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 December 31, 2006.

Fiscal year

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

Adoption of new accounting standards

On January 1, 2007, Food Services adopted CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, along with two companion standards, Section 1530, Comprehensive Income, and Section

3865, Hedges, and the amendments to CICA handbook sections and accounting guidelines resulting from the issuance of these sections. The adoption of these new standards had no impact on Food Services' financial results.

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
Adjustments:					
January 5, 2003		-2.9%	452,469	2.9%	452,469
January 5, 2004		-3.0%	495,681	3.0%	495,681
January 5, 2005		-2.8%	511,337	2.8%	511,337
January 5, 2006		-2.8%	558,993	2.8%	558,993
December 31, 2006		-1.4%	299,413	1.4%	299,413
	8,340,000	62.1%	5,097,893	37.9%	13,437,893

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

	March 25, 2007	December 31, 2006
A&W notes payable	$83,399	$83,399
The Fund's equity interest in A&W Trade Marks Inc.	(7,220)	(6,289)
	$76,179	$77,110

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 is payable monthly in arrears.

The A&W notes are unsecured debt obligations of Trade Marks and are subordinated to all other indebtedness and liabilities of Trade Marks.

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 25, 2007, the full amount of the facility was available. Food

Services' operating facility is secured by the Class A shares and 2,780,000 common shares of Trade marks owned by Food Services.

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 25, 2007, the full amount of the facility was available.

Trade Marks' term loan is comprised of:

	March 25, 2007	December 31, 2006
Term loan	$ 10,000	$ 10,000
Deferred financing fees	(19)	(23)
	$ 9,981	$ 9,977

The term loan is repayable on March 15, 2008 however HSBC Bank Canada has advised that it will consider extending the loan beyond that date, subject to certain conditions. The term loan 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 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 has been provided as security for Trade Marks' demand operating loan facility and term loan.

5. Related party transactions and balances

Trade Marks' interest expense on the A&W notes for the quarter ended March 25, 2007 was $2,063,000 (2006 - $2,088,000), of which $1,301,000 is payable to the Fund at March 25, 2007 (December 31, 2006 - $761,000).

Included in accounts receivable is $65,000 (December 31, 2006 - $36,000) due from the Fund without interest and due on demand.

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.

During the quarter, Trade Marks declared monthly dividends on its common shares totaling $280,000 (2006 - $89,000) of which $174,000 was earned by the Fund and $106,000 was earned by Food Services. The February 2007 dividend of $140,000 was declared on March 6, 2007 and paid on March 30, 2007, and the Fund's share of $87,000 is reported as a current liability at March 25, 2007.

Also during the quarter, Trade Marks declared and paid a dividend on its common shares of $1,075,000, of which $667,000 was earned by the Fund and $408,000 was earned by Food Services.

6. Interest expense

	12 Week Period Ended Mar 25, 2007	12 Week Period Ended Mar 26, 2006
Interest		
Interest income	$ (64)	$ (48)
Term loan	134	137
A&W notes payable	2,063	2,088
	$ 2,133	$ 2,177

7. Subsequent events

On April 3, 2007, Trade Marks declared a dividend on its common shares of $140,000, payable to Food Services and the Fund on April 30, 2007.

On May 1, 2007, Food Services declared a dividend on its common shares of $3,000,000, payable to its shareholder on May 3, 2007.

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

Tel: 604-988-2141
www. aw.ca