

A&W Revenue Royalties Income Fund

Q1

First Quarter Report to Unitholders
for the period ended
March 23, 2008

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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 23, 2008. I am delighted to report that it was an excellent quarter for the Fund driven by a 6.3% same store sales increase. The same store sales increase coupled with the increase in the number of restaurants in the Royalty Pool to 676 effective January 5, 2008, resulted in an 8.1% increase in royalty income and 8.7% increase in distributable cash.

The source of revenue for the Fund is through its 60% 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) based on 3% of the sales of the A&W restaurants in the Royalty Pool. Effective January 5, 2008, the pool was expanded from 660 restaurants to 676, reflecting the addition of 23 new restaurants opened between September 2006 and September 2007, adjusted for 7 restaurants which closed during 2007.

The first quarter of 2008 marks the 20th straight quarter of same store sales growth. The strong sales in the first quarter of 2008 were achieved in the face of very challenging market conditions. Most of Canada experienced a more severe winter in 2008, as compared to previous years. Bad weather generally negatively impacts food service revenues. In addition, the Easter weekend fell in the first quarter this year, as compared to the second quarter in 2007, and generally, the Easter weekend negatively impacts sales in quick service restaurants. There were several key drivers of sales in A&W restaurants during the quarter. One of the most important was the limited time introduction of the A&W Sirloin Burger. Consistent with A&W's strategy of delivering the best tasting burger in Canada, A&W was the first chain to bring a 100% Sirloin Burger to the market place. It was extremely well received, generating strong incremental customer traffic.

Another notable achievement was the growth in distributable cash per unit, which increased from 25.9 cents to 27.2 cents for the first quarter of 2008 as compared to the first quarter of 2007.

Finally, during the first quarter a Special Distribution of 10 cents per unit was paid, reflecting the strong performance of the Fund during the past year and its strong cash position. In summary, we are pleased with the sales growth of the A&W restaurants in the Royalty Pool and the performance of the Fund. We are delighted that our unitholders have been able to share in that growth through two distribution increases in the past year as well as the Special Distribution.

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

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, 2008 to March 23, 2008 and is dated April 29, 2008. It should be read in conjunction with the Fund's interim unaudited financial statements for the quarter ended March 23, 2008 and the annual audited financial statements for the year ended December 31, 2007. In addition, readers are directed to the interim unaudited financial statements of A&W Trade Marks Inc. (Trade Marks) for the quarter ended March 23, 2008 and the annual audited financial statements for the year ended December 31, 2007. 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 2008 results are not directly comparable to 2007 due to the increase in the number of restaurants in the Royalty Pool from 660 during 2007 to 676 effective January 5, 2008. In addition, the first quarter of 2008 is not directly comparable to the first quarter of 2007 as there were 83 days in Q1 2008 compared to 84 days in Q1 2007. Same store sales growth is based on an equal number of days in each quarter.

OVERALL PERFORMANCE

Same store sales growth for the A&W restaurants in the Royalty Pool was 6.3% for the quarter compared to the first quarter of 2007. Royalty income for the quarter increased by \$313,000 or 8.1% over the same quarter in 2007, due to the same store sales growth and the increase in the number of restaurants in the Royalty Pool from 660 during 2007 to 676 effective January 5, 2008.

Trade Marks' net earnings for the quarter increased by \$201,000 from a loss of \$145,000 for the first quarter of 2007 to earnings of \$56,000 for the first quarter of 2008. The increase in Trade Mark's earnings is due primarily to the higher royalty income, less higher Class A and B preferred share dividends.

The Fund's net earnings for the quarter were \$2,673,000 or 32.1¢ per unit compared to \$1,973,000 or 23.7¢ per unit for the same quarter in 2007. The increase in the Fund's earnings resulted from its share of the increase in Trade Marks' earnings and from a dilution gain recognized in the quarter due to the value ascribed to the common shares issued by Trade Marks to A&W Food Services of Canada Inc. (Food Services) on January 5, 2008.

Distributable cash available to pay distributions to unitholders and dividends on Class A and B preferred shares and common shares increased by 8.7% to \$3,785,000 for the quarter. This increase in distributable cash was generated primarily through growth in royalty income.

FINANCIAL HIGHLIGHTS

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

(dollars in thousands except per unit amounts)	Period from Jan 1, 2008 to Mar 23, 2008	Period from Jan 1, 2007 to Mar 25, 2007
Same store sales growth	6.3%	3.6%
Number of restaurants in the Royalty Pool	676	660
Sales reported by the restaurants in the Royalty Pool	\$138,539	\$128,114
Royalty income	\$4,156	\$3,843
General and administrative expenses	\$240	\$251
Net third party interest expense	\$106	\$111
Trade Marks' net earnings (loss)	\$56	(\$145)
The Fund's net earnings	\$2,673	\$1,973
The Fund's basic and diluted earnings per unit (8,340,000 units)	\$0.321	\$0.237
Total distributable cash generated for distributions and dividends ⁽¹⁾	\$3,785	\$3,481
Distributable cash per equivalent unit (2008 – 13,924,371 units; 2007 – 13,473,911 units)	\$0.272	\$0.259
Monthly distributions declared per unit (8,340,000 units)	\$0.212	\$0.200
Special distribution declared per unit (8,340,000 units)	\$0.100	\$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 June 12, 2007, the Federal Department of Finance enacted new tax

rules for income trusts that result in the Fund becoming taxable beginning in 2011. Therefore cash available for distributions to unitholders will be reduced beginning in 2011 by the amount of income tax paid or payable by the Fund. (See Risks and Uncertainties – Federal Tax Announcement).

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 current remaining Balance of \$4,644,000 will be reduced by the consideration paid by Trade Marks to Food Services for the final adjustment to the January 5, 2008 Royalty Pool amendment and for the January 5, 2009 Royalty Pool amendment.

The Royalty Pool is adjusted on January 5th 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 23, 2008		December 31, 2007	
	#	\$	#	\$
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	335,456	3,989	335,456	3,989
January 5, 2008 adjustment	450,460	5,023	-	-
	2,804,396	32,442	2,353,936	27,419
Accrued dividends		361		-
	5,584,371	60,603	5,133,911	55,219

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		-1.6%	335,456	1.6%	335,456	1,919
January 5, 2008 adjustment		-2.0%	450,460	2.0%	450,460	995
	8,340,000	59.9%	5,584,396	40.1%	13,924,396	2,915

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 and income tax 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 structures of the Fund and Trade Marks is that, provided Food Services holds an ownership interest in Trade Marks, Trade Marks pays interest to the Fund on the A&W notes in priority to preferred share 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, 2008, the Fund and Trade Marks adopted three new accounting standards:

- CICA Handbook Section 1535 "Capital Disclosures" which requires the disclosure of information related to the objectives, policies and processes for managing capital.
- CICA Handbook Section 3862 "Financial Instruments – Disclosures" which requires disclosure of information related to the significance of financial instruments to the Fund's and Trade Marks' performance and information related to the risks of its use of financial instruments.
- CICA Handbook Section 3031 "Inventories" which prescribes the accounting treatment for inventories and provides guidance on the determination of cost and subsequent recognition as an expense.

The adoption of these new standards had no impact on the Fund's and Trade Marks' financial results.

Future Accounting Changes

On January 1, 2009, the Fund and Trade Marks will adopt accounting standard CICA Handbook Section 3064 "Goodwill and Intangible Assets" which replaces CICA Handbook Section 3062 "Goodwill and Intangible Assets" and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and startup costs and requires that these costs be expensed as incurred. The adoption of this new standard is not expected to have an impact on the Fund's and Trade Marks' financial results.

Basis of Consolidation

The Fund, Trade Marks and Food Services have adopted the CICA Accounting Guideline 15 "Consolidation of Variable Interest Entities" (AcG-15).

AcG-15 expands upon existing accounting guidance in CICA Handbook Section 1590 that addresses when an enterprise should consolidate another entity in its financial statements. Under CICA 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 "Variable Interest Entity" (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.

The Fund and Food Services have determined that Trade Marks is a VIE and that Food Services is the "primary beneficiary" of Trade Marks. 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 January 5, 2008, the number of A&W restaurants for which royalties are paid to Trade Marks was increased by 23 new restaurants less 7 restaurants which permanently closed during 2007. The estimated annual sales of the 23 new A&W restaurants are \$23,156,000 and annual sales for the seven permanently closed restaurants were \$2,232,000. The net sales of \$20,924,000 translate into estimated additional annual royalty payments to Trade Marks of \$628,000 on the basis of the royalty of 3% of sales. The royalty revenue for the purposes of calculating the additional shares is \$581,000 or 92.5%. The consideration paid by Trade Marks to Food Services for this estimated additional royalty stream is \$6,018,000, by issuance of 450,460 Class B shares valued at \$5,023,000 and 450,460 common shares of Trade Marks valued at \$995,000. A final adjustment to the share consideration will be made in December 2008 based upon the actual annual sales reported by the new restaurants. Until then, 20% of the shares will be held in escrow.

After the January 5, 2008 adjustment to the Royalty Pool, the number of restaurants in the Royalty Pool increased to 676, and Food Services owns the equivalent of 40% 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 23, 2008		December 31, 2007	
	#	%	#	%
Fund units held by public unitholders	8,340,000	59.9	8,340,000	61.9
Trade Marks' Class A and B preferred shares held by Food Services: ⁽¹⁾				
Class A ⁽²⁾	2,779,975	20.0	2,779,975	20.6
Class B ⁽³⁾	2,804,396	20.1	2,353,936	17.5
	5,584,371	40.1	5,133,911	38.1
Total equivalent units	13,924,371	100.0	13,473,911	100.0

(1) 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.

(2) Represents Food Services' initial 25% equivalent ownership of the Fund, prior to the issuance of the Class B preferred shares.

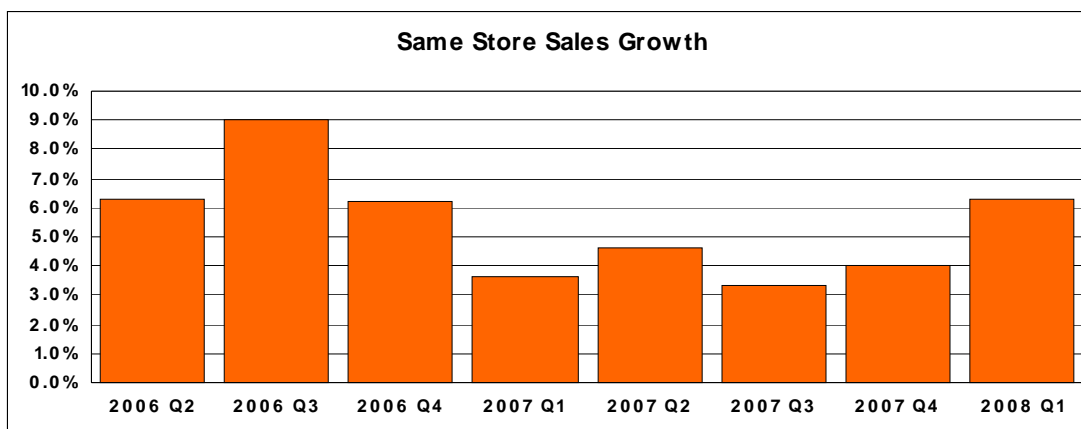
(3) Represents Class B preferred shares issued to Food Services as consideration for annual adjustments to the Royalty Pool.

SAME STORE SALES GROWTH

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

Same store sales growth was 6.3% for the first quarter of 2008 compared to the same quarter of 2007. Same store sales growth has now been positive for 20 consecutive quarters.

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



RESULTS OF OPERATIONS

INCOME

During the first quarter, the Fund earned interest income from Trade Marks on the A&W notes of \$2,033,000, a decrease of \$30,000 from 2007 as there was one less day in the first quarter of 2008.

The Fund's share of Trade Marks' earnings was \$34,000 for the quarter compared to a loss of \$90,000 for the quarter last year. The Fund's ownership interest in Trade Marks was 59.9% in 2008 and 61.9% in 2007. Trade Marks' income and expenses are discussed in detail below.

In accordance with GAAP, a dilution gain of \$606,000 was recognized in the quarter due to the value ascribed to the 450,460 common shares issued by Trade Marks to Food Services as initial consideration for the sixth Royalty Pool adjustment on January 5, 2008. There was no dilution gain in the first quarter of 2007 as the fifth Royalty Pool adjustment took place on December 31, 2006 rather than January 5, 2007.

Royalty income earned by Trade Marks from Food Services in the quarter was \$4,156,000 based on sales of \$138,539,000 reported by the A&W restaurants in the Royalty Pool. This was an increase of 8.1% over royalty income of \$3,843,000 and sales of \$128,114,000 during the same quarter of 2007. The increase is due to the combined impact of the additional net 16 restaurants in the Royalty Pool and the same store sales increase of 6.3%.

EXPENSES AND TAXES

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

(dollars in thousands)	Period from Jan 1, 2008 to Mar 23, 2008	Period from Jan 1, 2007 to Mar 25, 2007
General and administrative	\$240	\$251
Amortization of deferred financing fees	5	4
Interest on term loan	133	134
Interest income	(27)	(23)
Interest on A&W notes	2,033	2,063
Dividends on Class A&B preferred shares ⁽¹⁾	1,361	1,261
Future income taxes	355	298

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

General and administrative expenses in the first quarter, including expenses for the Fund under the administration agreement between Trade Marks and the Fund, decreased by \$11,000 to \$240,000, compared to \$251,000 in the first quarter of 2007.

Trade Marks' interest expense on its term loan was \$133,000 for the first quarter compared to \$134,000 last year. Interest income was \$4,000 higher than 2007 for the quarter due to the increase in surplus cash. Interest on the A&W notes was \$2,033,000 for the quarter which was \$30,000 lower than 2007 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 \$100,000, from \$1,261,000 in the first quarter of 2007 to \$1,361,000 in 2008. The increase is due to the additional Class B shares issued on January 5, 2008.

Future income taxes, a non-cash expense, increased by \$57,000 for the quarter due to the increase in earnings before taxes for the quarter.

NET EARNINGS AND COMPREHENSIVE INCOME (LOSS)

The Fund's net earnings for the first quarter were \$2,673,000 or 32.1¢ per unit compared to \$1,973,000 or 23.7¢ for the same quarter in 2007. The increase in the Fund's net earnings is due to an increase in Trade Marks' earnings and corresponding equity pick-up of the earnings by the Fund and a dilution gain recorded in 2008.

Trade Marks' net earnings increased by \$201,000 to \$56,000 for the quarter compared to a loss of \$145,000 for the first quarter of 2007. The increase in net earnings for the quarter was due primarily to the increase in royalty income, offset by the increase in the accrued Class A and B preferred share dividends.

In accordance with CICA Handbook Section 3865 “Hedges”, which became effective January 1, 2007, an “other comprehensive loss” of \$234,000 was recorded by Trade Marks in the quarter to reflect the change in the fair value of the interest rate swap agreement, net of tax. There was no “other comprehensive loss” recorded in 2007 as the change in the value of the interest rate swap was not material. Trade Marks’ comprehensive loss (net earnings plus other comprehensive loss) for the quarter was \$178,000, compared to a comprehensive loss of \$145,000 for 2007.

The Fund’s share of Trade Marks’ “other comprehensive loss” was \$140,000, therefore the Fund’s comprehensive income for the period was \$2,533,000 compared to comprehensive income of \$1,973,000 for 2007.

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.

The chart below 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, 2008 to Mar 23, 2008	Period from Jan 1, 2007 to Mar 25, 2007
Trade Marks’ cash flow from operating activities	\$1,485	\$1,282
Add: Changes in accrued dividends	(361)	(347)
Dividends on Class A & B preferred shares	1,361	1,261
Changes in non-cash working capital	(708)	(778)
Financing fees	(25)	-
Distributable cash – Trade Marks	1,752	1,418
The Fund’s cash flow from operating activities	1,521	1,552
Add: Changes in non-cash working capital	512	511
Distributable cash – the Fund	2,033	2,063
Total distributable cash	\$3,785	\$3,481
Cumulative surplus – beginning of period	4,117	3,517
Distributable cash for unitholders at current average distribution rate (2008 - \$1.272 per unit, 2007 - \$1.200 per unit)	(2,406)	(2,303)
Distributable cash for Food Services at current average distribution rate (2008 - \$1.272 per share, 2007 - \$1.200 per share)	(1,611)	(1,408)
Special distribution paid to unitholders	(834)	(667)
Equivalent special dividend paid to Food Services	(558)	(408)
Cumulative surplus – end of period	\$2,493	\$2,212
Distributable cash per equivalent unit	\$0.272	\$0.259
Number of equivalent units	13,924,371	13,473,911
Monthly distributions declared per unit (8,340,000 units)	\$0.212	\$0.200
Special distributions declared per unit (8,340,000 units)	\$0.100	\$0.080
Payout ratio (excluding special distribution)	77.9%	77.5%
Payout ratio (including special distribution)	114.7%	108.5%

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. Dividends on Trade Marks' Class A and B preferred shares are added back in order to show the total distributable cash available to pay distributions to unitholders and dividends to Food Services on a fully-diluted basis. Changes in non-cash working capital are excluded as Trade Marks' and the Fund's working capital requirements are not permanent and are primarily due to the timing of payments between related parties. No deduction is made for capital expenditures as neither the Fund nor Trade Marks have any capital expenditures. There are no restrictions on distributions arising from compliance with financial covenants.

With respect to the guidance issued by CICA on the measurement and disclosure of distributable cash in income trusts and other flow-through entities, the Fund and Trade Marks believe that this Management Discussion and Analysis provides appropriate disclosure to unitholders.

Total distributable cash increased by \$304,000 to \$3,785,000 for the quarter due to the increase in royalty income discussed previously.

Distributable cash for unitholders increased to \$2,406,000 from \$2,303,000 for the quarter due to the increase in the distribution rate to \$0.106 per unit per month in the first quarter of 2008 from \$0.100 unit per month in the first quarter of 2007.

Distributable cash for dividends to Food Services increased to \$1,611,000 from \$1,408,000 for the quarter. The increase is due to the additional common and Class B preferred shares issued to Food Services on January 5, 2008 for the adjustment to the Royalty Pool and the increase in the distribution rate.

The amount of cash distributed in the quarter to unitholders and Food Services in monthly distributions and dividends was \$0.212 per equivalent unit compared to distributable cash generated of \$0.272. In addition, in February 2008 a Special Distribution of \$834,000 or \$0.100 per unit was paid to unitholders and an equivalent special dividend of \$558,000 or \$0.100 per common share was paid to Food Services, bringing the total amount of cash distributed in the quarter to \$0.312 per equivalent unit.

At the end of the quarter there was a cumulative surplus of distributable cash of \$2,493,000 compared to a cumulative surplus of \$4,117,000 at the end of 2007.

DISTRIBUTIONS TO UNITHOLDERS

During the quarter ended March 23, 2008, the Fund declared monthly distributions to unitholders totaling \$1,768,000 or \$0.212 per unit, compared to \$1,668,000 or \$0.200 per unit in the same quarter of 2007. Also during the quarter, the Fund declared and paid a Special Distribution to unitholders of \$834,000 or \$0.100 per unit. The date and amounts of these distributions are as follows:

(dollars in thousands except per unit amounts)	Declaration date	Payment date	Amount	Per unit
January 2008	February 6, 2008	February 29, 2008	\$ 884	\$0.106
Special Distribution February 2008	February 6, 2008	February 29, 2008	834	0.100
	March 5, 2008	March 31, 2008	884	0.106
			\$2,602	\$0.312

The December 2007 distribution of \$884,000 which was declared on December 15, 2007 and paid on January 31, 2008 was declared and recorded for income tax purposes in 2007, the period in which it was earned. Therefore, only two monthly distributions were declared during the quarter ended March 23, 2008.

The February 2008 distribution of \$884,000 which was declared on March 5, 2008 and paid on March 31, 2008 is reported as a current liability at March 23, 2008.

On April 4, 2008, the Fund declared the March 2008 monthly distribution to unitholders of \$0.106 per unit or \$884,000, payable on April 30, 2008.

TAX TREATMENT OF DISTRIBUTIONS

Of the \$0.312 per unit in distributions declared year to date, \$0.1792 per unit or 57.4% will be taxable to unitholders as other investment income and \$0.1328 per unit or 42.6% will be designated as non-eligible dividends.

DIVIDENDS ON TRADE MARKS' COMMON SHARES

During the quarter, Trade Marks declared monthly dividends on its common shares of \$458,000 or \$0.0328 per share, of which \$274,000 was earned by the Fund and \$184,000 was earned by Food Services. The February 2008 dividend of \$229,000 which was declared on March 5, 2008 and paid on March 31, 2008 is reported as a current liability of Trade Marks at March 23, 2008. The Fund's share of \$137,000 is reported as a receivable by the Fund at March 23, 2008.

Also during the quarter, Trade Marks declared and paid a dividend on common shares of \$1,392,000 or \$0.100 per share, of which \$834,000 was earned by the Fund and \$558,000 was earned by Food Services. This dividend was associated with the Fund's Special Distribution of \$0.100 per unit.

On April 4, 2008, Trade Marks declared a dividend on common shares of \$229,000 or \$0.0164 per share, payable to Food Services and the Fund on April 30, 2008.

DIVIDENDS ON TRADE MARKS' CLASS A AND B PREFERRED SHARES

During the quarter, Trade Marks declared dividends on its Class A and B preferred shares of \$1,000,000 or \$0.1792 per share. The February 2008 dividends of \$500,000 which were declared on March 5, 2008 and paid to Food Services on March 31, 2008 are reported as a current liability of Trade Marks at March 23, 2008.

On April 4, 2008, Trade Marks declared dividends on Class A and B preferred shares of \$500,000 or \$0.0896 per share, payable to Food Services on April 30, 2008.

SUMMARY OF QUARTERLY RESULTS

(dollars in thousands except per unit amounts)	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Number of restaurants in the Royalty Pool	676	660	660	660
Royalty income	\$4,156	\$6,194	\$4,761	\$4,365
The Fund's interest income	\$2,033	\$2,775	\$2,064	\$2,064
The Fund's net earnings	\$2,673	\$3,792	\$2,520	\$2,325
Basic and diluted earnings per unit	\$0.321	\$0.455	\$0.302	\$0.279
Distributable cash	\$3,785	\$5,928	\$4,599	\$4,202
Number of equivalent units	13,924,371	13,473,911	13,473,911	13,473,911
Distributable cash per equivalent unit	\$0.272	\$0.440	\$0.341	\$0.312
Distributions declared	\$2,602	\$3,511	\$2,552	\$2,502
Monthly distributions declared per unit (8,340,000 units)	\$0.212	\$0.421	\$0.306	\$0.300
Special distribution declared per unit	\$0.100	-	-	-
Number of days in the quarter	83	113	84	84
(dollars in thousands except per unit amounts)	Q1 2007	Q4 2006	Q3 2006	Q2 2006
Number of restaurants in the Royalty Pool	660	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	13,473,911	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	\$0.080	-	-	-
Number of days in the quarter	84	112	84	84

SEASONALITY

Sales in the quick service restaurant industry fluctuate seasonally. In freestanding restaurants, weather impacts sales. In shopping centres, sales fluctuate due to higher traffic during 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 23, 2008, the full amount of the facility was available.

On January 4, 2008, Trade Marks renewed its \$10,000,000 term loan with HSBC Bank Canada. The term loan bears interest at bank prime rate plus between 0.0% and 0.5% depending on specified financial ratios and is repayable on February 18, 2011. 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. Trailing EBITDA as at March 23, 2008 was \$18,984,000.

Trade Marks uses an interest rate swap agreement to manage risks from fluctuations in interest rates. The interest rate swap agreement matures February 18, 2011 and fixes the interest rate on the term loan at 5.82% per annum. The interest rate swap agreement is considered to be a cash flow hedge and in accordance with CICA Handbook Section 3865 “Hedges”, qualifies for hedge accounting. Changes in the fair value of the interest rate swap agreement, to the extent it is an effective hedge, are recorded in other comprehensive earnings (loss) and are only recognized in earnings when the hedged item is realized. Any ineffectiveness in the hedging relationship is recognized in earnings immediately.

The fair value of the interest rate swap as at March 23, 2008 is \$292,000 unfavourable and is recorded in other comprehensive earnings (loss), net of tax.

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

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

The 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 \$2,033,000 (2007 - \$2,063,000), of which \$1,273,000 (December 31, 2007 - \$761,000) is receivable by the Fund from Trade Marks at March 23, 2008.

Royalty income of \$4,156,000 (2007 - \$3,843,000) was earned by Trade Marks from Food Services for the quarter, of which \$1,523,000 (December 31, 2007 - \$1,632,000) is receivable by Trade Marks at March 23, 2008.

As at March 23, 2008, \$36,000 (December 31, 2007 - \$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, 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 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 23, 2008.

FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash, amounts due from Trade Marks, investment in Trade Marks, distribution payable to unitholders, and amounts 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 except for the investment in Trade Marks where the Fund is exposed to credit risk arising from the concentration of its investment in one entity. 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.

All of the Fund's financial instruments are non-interest bearing, except for the A&W notes receivable which bear interest as disclosed previously and cash which earns interest at market rates.

The fair values of Trade Marks' 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 \$292,000 unfavourable. It is not practicable to determine the fair value of the A&W notes payable and Class A and B preferred shares given the many terms and conditions that would influence such a determination.

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

CAPITAL DISCLOSURE

The Fund's capital currently consists of unitholders' equity. The Fund's capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient cash and cash equivalents to pay distributions to its unitholders, after satisfaction of its income tax obligations. The Fund manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Fund may adjust the amount of distributions paid to its unitholders.

Trade Marks' capital currently consists of shareholders' deficiency (excluding the accumulated other comprehensive loss arising from changes in the fair value of the interest rate swap, net of tax) plus the Class A and B preferred shares. Trade Marks' capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient cash and cash equivalents to pay dividends on its common shares to its shareholders, after satisfaction of its debt service and income tax obligations, provisions for administration expenses of Trade Marks and the Fund, and retention of reasonable working capital reserves. Trade Marks manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Trade Marks may adjust the amount of dividends paid to shareholders.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Fund's 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

Federal Tax Announcement

On June 12, 2007, Bill C-52 passed third reading in the House of Commons. In part, Bill C-52 imposes a new tax on certain flow-through entities, referred to as “specified investment flow-through entities” (SIFTS), which includes income trusts. The new income tax rules for SIFTS mean that income earned by the Fund will become taxable in a manner similar to income earned by a corporation.

The application of these rules is delayed to the 2011 taxation year for trusts that were publicly traded prior to November 1, 2006. Provided the Fund is not considered to have undergone an “undue expansion” during the interim period, 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. Financial statement earnings will also be significantly affected.

The full implications to the Fund as a result of Bill C-52 cannot be determined at this time since detailed guidance has not yet been released by the government. Based on information released to date, the applicable income tax rate in 2011 would be 31.5%, but this is subject to change between now and 2011. There can also be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts and SIFTS will not be further changed in a manner which adversely affects the holders of units.

Effective June 12, 2007, income trusts and SIFTS are required to recognize future income taxes based on temporary differences that are expected to reverse after 2011. The Fund’s and Trade Marks’ structure means that Trade Marks has already been accounting for future income taxes, and there is no impact on the Fund’s financial statements.

The Restaurant Industry

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, its operating costs, 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. Any significant event that adversely affects consumption of hamburgers, chicken, fries and soft drinks, such as, increased food and labour costs, changing tastes or health concerns, publicity from any food borne illness, economic conditions, the availability of experienced management and hourly employees, and government

regulations concerning smoking bans, menu labelling or disclosure and drive-thru restrictions, could adversely impact the sales of A&W restaurants and consequently, the amount of the royalty payable to Trade Marks. In addition, factors such as harmonization of GST with provincial sales taxes would effectively add a new tax on restaurant meals in British Columbia, Saskatchewan and Manitoba. This 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.

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

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

OUTLOOK

A&W continued to enjoy good results based on the performance of its key strategic initiatives which include differentiating the A&W brand through successful advertising and marketing campaigns, menu innovation, facilities design and expanding to serve customers in new markets. A&W is a strategy driven company whose mission is “to be the number one burger choice of the baby boomer generation.”

A&W believes that the reason people choose A&W burgers over its competitors is because A&W has better tasting burgers. To build its reputation for having Canada's best tasting burger, A&W introduced a new beef patty and toasting

equipment in 2007 and improved the way burgers are showcased in its restaurants with new food photography. A new TV ad launched in the first quarter of 2008 communicates that an A&W burger is something special – a burger you can “lose yourself in”.

Another innovation in the first quarter was the limited time introduction of the A&W Sirloin Burger. A&W was the first chain to bring a 100% Sirloin Burger to the market place. It was extremely well received, generating strong incremental customer traffic.

FORWARD LOOKING INFORMATION

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

The forward-looking information in this Management Discussion and Analysis includes, but is not limited to: Food Services’ strategy to focus on baby boomer customers; Food Services’ Mission “to be the number one burger choice of the baby boomer generation”; Food Services’ key strategic initiatives designed to ensure its long term growth and success in the future; Food Services’ commitment to extending its reputation for being the best burger chain in Canada; Food Services’ plans to differentiate the A&W brand through advertising and marketing campaigns, menu innovation, facilities design and expanding to serve customers in new markets; and Food Services’ focus on key strategic initiatives to drive a high level of innovation in all areas of business.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the general risks that affect the restaurant industry will not arise; no changes in competition; no increases in food and labour costs; no changes in consumer taste or health concerns; no publicity from any food borne illness; no changes in economic conditions; no changes in availability of experienced management and hourly employees; no changes in government regulations concerning smoking bans, menu labelling, drive-thru restrictions and elimination of trans fats; the continued availability of quality raw materials; continued additional franchise sales and maintenance of franchise operations; no closures of A&W restaurants that materially affect the amount of the Royalty; franchisees duly pay franchise fees and other amounts; no new or increased or harmonization of sales taxes; continued availability of key personnel; continued ability to preserve intellectual property; Food Services is able to grow same store sales; Food Services is able to maintain and grow the current system of franchises; Food Services is able to locate new retail sites in prime locations; Food Services is able to obtain qualified operators to become A&W franchisees; no material litigation or other complaints; Food Services continues to pay the Royalty; Trade Marks continues to pay its obligations under the A&W Notes and pay dividends on the common shares; Trade Marks can continue to comply with its obligations under its credit arrangements; and, Trade Marks’ performance does not fluctuate such that cash distributions are affected.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: general risks that affect the restaurant industry; competition; changes in consumer taste; increases in food and labour costs; changes in consumer taste or health concerns; publicity from any food-borne illness; changes in economic conditions; changes in availability of experienced management and hourly employees; changes in government regulations concerning smoking bans, menu labelling, drive-thru restrictions and elimination of trans fats; availability and quality of raw materials; dependence on additional franchise sales and franchise operations; the closure of A&W restaurants may affect the amount of the Royalty; dependence on A&W franchisees’ ability to pay franchise fees and other amounts; the impact of new or increased or harmonization of sales taxes upon gross sales; dependence

on key personnel; dependence on intellectual property; Food Services' ability to grow same store sales; Food Services' ability to maintain and grow the current system of franchises; Food Services' ability to locate new retail sites in prime locations; Food Services' ability to obtain qualified operators to become A&W franchisees; potential litigation and other complaints; dependence of the Fund on Trade Marks and Food Services; dependence of Trade Marks on Food Services; risks related to leverage and restrictive covenants; the risk that cash distributions are not guaranteed and will fluctuate with Trade Marks' performance; risks relating to the nature of units; risks relating to the distribution of securities on redemption or termination of the Fund; the Fund may issue additional Units diluting existing unitholders' interests; changes in investment eligibility and penalties for foreign property; and proposed changes to the Canadian federal income tax treatment of publicly listed trusts and other income tax matters, all as more particularly described in this Management Discussion and Analysis under the heading "Risks and Uncertainties".

All forward-looking information in this Management Discussion and Analysis is qualified in its entirety by this cautionary statement and, except as required by law, the Fund undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

A&W Revenue Royalties Income Fund

Financial Statements

For the first quarter ended March 23, 2008

Balance Sheets

Unaudited
(in thousands of dollars)

	March 23 2008	December 31 2007
Assets		
Current assets		
Cash	\$ 29	\$ 3
Due from A&W Trade Marks Inc. (note 4)	1,410	897
	<u>1,439</u>	<u>900</u>
Investment in A&W Trade Marks Inc. (note 2)	76,211	76,819
	<u>\$ 77,650</u>	<u>\$ 77,719</u>
Liabilities		
Current liabilities		
Distribution payable to Unitholders (note 3)	\$ 884	\$ 884
Due to A&W Trade Marks Inc. (note 4)	36	36
	<u>920</u>	<u>920</u>
Unitholders' Equity:		
Capital contributions	77,115	77,115
Accumulated earnings	57,737	55,064
Accumulated distributions (note 3)	(57,982)	(55,380)
Accumulated other comprehensive loss	(140)	-
	<u>76,730</u>	<u>76,799</u>
	<u>\$ 77,650</u>	<u>\$ 77,719</u>

Subsequent event (note 7)

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, 2008 to Mar 23, 2008	Period from Jan 1, 2007 to Mar 25, 2007
Interest income	\$ 2,033	\$ 2,063
Equity in earnings (loss) of A&W Trade Marks Inc.	34	(90)
Dilution gain	606	-
Net earnings for the period	2,673	1,973
Accumulated earnings - beginning of period	55,064	44,454
Accumulated earnings - end of period	\$ 57,737	\$ 46,427
Basic and diluted earnings per Unit (8,340,000 Units)	\$ 0.321	\$ 0.237

See accompanying notes to these financial statements.

A&W Revenue Royalties Income Fund

Statements of Comprehensive Income

Unaudited

(in thousands of dollars)

	Period from Jan 1, 2008 to Mar 23, 2008	Period from Jan 1, 2007 to Mar 25, 2007
Net earnings for the period	\$ 2,673	\$ 1,973
Other comprehensive loss, net of income taxes		
Equity in change in fair value of A&W Trade Marks Inc.'s interest rate swap	(140)	-
Comprehensive income for the period	\$ 2,533	\$ 1,973

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, 2008 to Mar 23, 2008	Period from Jan 1, 2007 to Mar 25, 2007
Cash flows from operating activities		
Net earnings for the period	\$ 2,673	\$ 1,973
Items not affecting cash		
Equity in (earnings) loss of A&W Trade Marks Inc.	(34)	90
Dilution gain	(606)	-
	2,033	2,063
Net changes in non-cash working capital	(512)	(511)
	1,521	1,552
Cash flows from investing activities		
Dividends received from A&W Trade Marks Inc.	1,107	840
Cash flows from financing activities		
Distributions paid to Unitholders	(2,602)	(2,335)
Increase in cash for the period	26	57
Cash - beginning of period	3	2
Cash - end of period	\$ 29	\$ 59
Supplementary cash flow information		
Interest received	\$ 1,521	\$ 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 23, 2008

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 its annual audited financial statements for the year ended December 31, 2007 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, 2007, the annual audited financial statement of Trade Marks for the year ended December 31, 2007, and the interim unaudited financial statements of Trade Marks for the quarter ended March 23, 2008.

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 on the Sunday nearest December 31, therefore Food Services' 2007 fiscal year ended December 30, 2007 (2006 – December 31, 2006). To align its financial reporting with that of Food Services, the Fund's first quarter of 2008 ended March 23, 2008 (2007 – March 25, 2007), 12 weeks after Food Services' fiscal year end.

Adoption of new accounting standards

On January 1, 2008, the Fund adopted three new accounting standards:

- CICA Handbook Section 1535 "Capital Disclosures" which requires the disclosure of information related to the objectives, policies and processes for managing capital. Disclosures required by this standard are included in Note 6.

- CICA Handbook Section 3862 “Financial Instruments – Disclosures” which requires disclosure of information related to the significance of financial instruments to the Fund’s performance and information related to the risks of its use of financial instruments. Disclosures required by this standard are included in Note 5.
- CICA Handbook Section 3031 “Inventories” which prescribes the accounting treatment for inventories and provides guidance on the determination of cost and subsequent recognition as an expense.

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 23, 2008	December 31, 2006
Common shares	\$1	\$1
A&W notes receivable	83,399	83,399
Cumulative equity in loss	(5,235)	(5,269)
Cumulative dividends	(3,836)	(2,728)
Cumulative dilution gain	2,022	1,416
Cumulative equity in other comprehensive loss	(140)	-
	<u>\$76,211</u>	<u>\$76,819</u>

The Fund’s 60% (December 31, 2007 – 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 was 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 GAAP, a dilution gain was recognized in 2007 and 2008 due to the value ascribed to the common shares issued by Trade Marks to Food Services as a result of the adjustments to the Royalty Pool.

In accordance with CICA Handbook Section 3865 “Hedges”, changes in the fair value of Trade Marks’ interest rate swap agreement, net of tax, are

recorded in Trade Marks' other comprehensive income (loss), and the Fund's 60% share is recorded in the Fund's other comprehensive income.

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		-1.6%	335,456	1.6%	335,456
January 5, 2008		-2.0%	450,460	2.0%	450,460
	8,340,000	59.9%	5,584,396	40.1%	13,924,396

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 23, 2008, the Fund declared monthly distributions to Unitholders totaling \$1,768,000 or \$0.212 per Unit. Also during the quarter, the Fund declared a special distribution to Unitholders of \$834,000 or \$0.100 per Unit. The dates and amounts of these distributions are as follows:

Month	Declaration date	Payment date	Amount	Per Unit
January 2008	February 6, 2008	February 29, 2008	\$ 884	\$ 0.106
Special Distribution	February 6, 2008	February 29, 2008	834	0.100
February 2008	March 5, 2008	March 31, 2008	884	0.106
			2,602	\$ 0.312
Accumulated distributions - beginning of period			55,380	
Accumulated distributions - end of period			\$ 57,982	

The February 2008 distribution of \$884,000 which was declared on March 5, 2008 and paid on March 31, 2008 is reported as a current liability at March 23, 2008.

4. Related party transactions and balances

During the quarter, interest income of \$2,033,000 (2007 - \$2,063,000) was earned from Trade Marks on the A&W notes receivable, of which \$1,273,000 (December 31, 2007 - \$761,000) is receivable at March 23, 2008.

Dividends of \$1,108,000 (2007 - \$841,000) were earned from Trade Marks in the quarter, of which \$137,000 (December 31, 2007 - \$136,000) is receivable at March 23, 2008.

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.

Included in current liabilities is \$36,000 (December 31, 2007 - \$36,000) due to Trade Marks without interest and on demand.

5. Financial Instruments

The Fund's activities do not expose it to financial risks, except for its investment in Trade Marks where the Fund is exposed to credit risk arising from the concentration of its investment in one entity. 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. 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.

All of the Fund's financial instruments are non-interest bearing, except for the A&W notes receivable which bear interest as disclosed in note 2 and cash which earns interest at market rates.

6. Capital Disclosure

The Fund's capital currently consists of unitholders' equity. The Fund's capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient cash and cash equivalents to pay distributions to its unitholders, after satisfaction of its income tax obligations. The Fund manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Fund may adjust the amount of distributions paid to its unitholders.

7. Subsequent event

On April 4, 2008, the Fund declared a distribution to Unitholders of \$0.106 per Unit or \$884,000, payable on April 30, 2008 to Unitholders of record as at April 15, 2008.

A&W Trade Marks Inc.

Financial Statements

For the first quarter ended March 23, 2008

Balance Sheets

Unaudited
(in thousands of dollars)

	March 23 2008	December 31 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 3,658	\$ 4,039
Accounts receivable (note 7)	1,559	1,682
Prepaid interest	81	104
Future income taxes	1,217	1,376
	6,515	7,201
Intangible assets (note 2)	156,112	150,094
	\$ 162,627	\$ 157,295
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	\$ 1,496	\$ 974
Dividends payable (notes 5 and 6)	729	680
	2,225	1,654
Term loan (note 3)	10,268	9,996
Future income taxes	13,924	13,786
A&W notes payable (note 4)	83,399	83,399
Class A and Class B preferred shares (note 5)	60,603	55,219
	170,419	164,054
Shareholders' deficiency:		
Common shares (note 6)	2,915	1,920
Deficit	(10,473)	(8,679)
Accumulated other comprehensive loss	(234)	-
	(7,792)	(6,759)
	\$ 162,627	\$ 157,295

Subsequent events (note 12)

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 Earnings (Loss) and Deficit**

Unaudited

(in thousands of dollars)

	Period from Jan 1, 2008 to Mar 23, 2008	Period from Jan 1, 2007 to Mar 25, 2007
Gross sales reported by A&W restaurants in the Royalty Pool	\$ 138,539	\$ 128,114
Royalty income	\$ 4,156	\$ 3,843
Expenses		
General and administrative	240	251
Interest expense		
- term loan and other (note 9)	111	115
- A&W notes payable	2,033	2,063
- Class A and B preferred share dividends	1,361	1,261
	3,745	3,690
Earnings before income taxes	411	153
Provision for future income taxes	355	298
Net earnings (loss) for the period	56	(145)
Deficit - beginning of period	(8,679)	(8,006)
Dividends declared on common shares	(1,850)	(1,355)
Deficit - end of period	\$ (10,473)	\$ (9,506)

See accompanying notes to these financial statements.

A&W Trade Marks Inc.

Statements of Comprehensive Loss

Unaudited

(in thousands of dollars)

	Period from Jan 1, 2008 to Mar 23, 2008	Period from Jan 1, 2007 to Mar 25, 2007
Net earnings (loss) for the period	\$ 56	\$ (145)
Other comprehensive loss, net of income taxes		
Change in fair value of the interest rate swap	(234)	-
Comprehensive loss for the period	\$ (178)	\$ (145)

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, 2008 to Mar 23, 2008	Period from Jan 1, 2007 to Mar 25, 2007
Cash flows from operating activities		
Net earnings (loss) for the period	\$ 56	\$ (145)
Items not affecting cash		
Amortization of deferred financing fees	5	4
Provision for future income taxes	355	298
Change in accrued dividends	361	347
	777	504
Changes in non-cash working capital	708	778
	1,485	1,282
Cash flows from financing activities		
Financing fees paid	(25)	-
Dividends paid on common shares	(1,841)	(1,352)
	(1,866)	(1,352)
Decrease in cash for the period	(381)	(70)
Cash - beginning of period	4,039	3,368
Cash - end of period	\$ 3,658	\$ 3,298
Supplementary cash flow information		
Interest paid on term loan and A&W notes payable	\$ (1,606)	\$ (1,614)
Dividends paid on Class A and B preferred shares	\$ (960)	\$ (887)
Non-cash financing activities		
Issuance of Class B preferred and common shares	\$ 6,018	\$ -

See accompanying notes to these financial statements.

A&W Trade Marks Inc.

Notes to the Interim Financial Statements

For the first quarter ended March 23, 2008

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) (60%) and Food Services (40%).

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 its annual audited financial statements for the year ended December 31, 2007 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, 2007, the annual audited financial statements of the Fund for the year ended December 31, 2007, and the interim unaudited financial statements of the Fund for the quarter ended March 23, 2008.

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 on the Sunday nearest December 31, therefore Food Services' 2007 fiscal year ended December 30, 2007 (2006 – December 31, 2006). To align its financial reporting with that of Food Services, Trade Marks' first quarter of 2008 ended March 23, 2008 (2007 – March 25, 2007), 12 weeks after Food Services' fiscal year end.

Adoption of new accounting standards

On January 1, 2008, Trade Marks adopted three new accounting standards:

- CICA Handbook Section 1535 “Capital Disclosures” which requires the disclosure of information related to the objectives, policies and processes for managing capital. Disclosures required by this standard are included in Note 11.
- CICA Handbook Section 3862 “Financial Instruments – Disclosures” which requires disclosure of information related to the significance of financial instruments to the company’s performance and information related to the risks of its use of financial instruments. Disclosures required by this standard are included in Note 10.
- CICA Handbook Section 3031 “Inventories” which prescribes the accounting treatment for inventories and provides guidance on the determination of cost and subsequent recognition as an expense.

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 was 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:

	New restaurants	Closed restaurants	Royalty Pool	Share consideration			Amount \$
				Common shares	Class A shares	Class B shares	
Initial consideration							
Cash	585	-	585	-	-	-	84,876
Shares	-	-	-	2,780,000	2,779,975	-	27,800
Future income taxes	-	-	-	-	-	-	8,080
	585	-	585	2,780,000	2,779,975	-	120,756
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	335,456	-	335,456	5,908
January 5, 2008	23	(7)	16	450,460	-	450,460	6,018
	736	(60)	676	5,584,396	2,779,975	2,804,396	156,112

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

On January 5, 2008, the number of A&W restaurants for which royalties are paid to Trade Marks was increased by 23 new restaurants, less 7 restaurants that permanently closed during 2007. Trade Marks paid Food Services \$6,018,000, by issuance of 450,460 Class B preferred shares valued at \$5,023,000 and 450,460 common shares valued at \$995,000, as initial consideration for the estimated royalty stream from the 16 net restaurants added to the Royalty Pool. A final adjustment to the share consideration will be made in December 2008 based upon the actual annual sales reported by the new restaurants.

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 23, 2008, the full amount of the facility was available.

On January 4, 2008, Trade Marks renewed its \$10,000,000 term loan with HSBC Bank Canada. The term loan bears interest at bank prime rate plus between 0% and 0.5% depending on specified financial ratios and is repayable on February 18, 2011. 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.

Trade Marks uses an interest rate swap agreement to manage risks from fluctuations in interest rates. The interest rate swap agreement matures February 18, 2011 and fixes the interest rate on the term loan at 5.82% per annum. The interest rate swap agreement is considered to be a cash flow hedge and in accordance with CICA Handbook Section 3865 "Hedges", qualifies for hedge accounting. Changes in the fair value of the interest rate swap

agreement, to the extent it is an effective hedge, are recorded in other comprehensive earnings (loss) and are only recognized in earnings when the hedged item is realized. Any ineffectiveness in the hedging relationship is recognized in earnings immediately.

The fair value of the interest rate swap as at March 23, 2008 is \$292,000 unfavourable, and is recorded in other comprehensive income (loss), net of tax.

Trade Marks' term loan is comprised of:

	March 23, 2008	December 31, 2007
	\$	\$
Term loan	10,000	10,000
Deferred financing fees	(24)	(4)
Change in the fair value of the interest rate swap	292	-
	10,268	9,996

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:

	March 23, 2008		December 31, 2007	
	#	\$	#	\$
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	335,456	3,989	335,456	3,989
January 5, 2008 adjustment	450,460	5,023	-	-
	2,804,396	32,442	2,353,936	27,419
Accrued dividends		361		-
	5,584,371	60,603	5,133,911	55,219

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. 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 \$1,000,000 or \$0.1792 per share. The February dividends of \$500,000 which were declared on March 5, 2008 and paid to Food Services on March 31, 2008 are reported as a current liability at March 23, 2008.

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		-1.6%	335,456	1.6%	335,456	1,919
January 5, 2008 adjustment		-2.0%	450,460	2.0%	450,460	995
	8,340,000	59.9%	5,584,396	40.1%	13,924,396	2,915

During the quarter, Trade Marks declared monthly dividends on its common shares totaling \$458,000 or \$0.0328 per share. The February 2008 dividend of \$229,000 which was declared on March 5, 2008 and paid to Food Services and the Fund on March 31, 2008 is reported as a current liability as at March 23, 2008. Also during the quarter, Trade Marks declared and paid a common share dividend of \$1,392,000 or \$0.10 per share.

7. Related party transactions and balances

During the quarter, royalty income of \$4,156,000 (2007 - \$3,843,000) was earned from Food Services, of which \$1,523,000 (December 31, 2007 - \$1,632,000) is receivable at March 23, 2008

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 \$2,033,000 (2007 - \$2,063,000), of which \$1,273,000 (December 31, 2007 - \$761,000) is payable to the Fund at March 23, 2008.

Included in accounts receivable is \$36,000 (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

	Jan 1, 2008 to Mar 23, 2008	Jan 1, 2007 to Mar 25, 2007
	\$	\$
Interest expense	133	134
Interest income	(27)	(23)
Amortization of deferred financing fees	5	4
	111	115

10. Financial instruments

Fair values

The 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 \$292,000 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.

Credit risk exposure

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.

Interest rate exposures

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 elsewhere in these financial statements and cash and cash equivalents which earn interest at market rates.

11. Capital disclosure

Trade Marks' capital currently consists of shareholders' deficiency (excluding the accumulated other comprehensive loss arising from changes in the fair value of the interest rate swap, net of tax) plus the Class A and B preferred shares. Trade Marks' capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient cash and cash equivalents to pay dividends on its common shares to its shareholders, after satisfaction of its debt service and income tax obligations, provisions for administration expenses of Trade Marks and the Fund, and retention of reasonable working capital reserves. Trade Marks manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Trade Marks may adjust the amount of dividends paid to shareholders.

12. Subsequent events

On April 4, 2008, Trade Marks declared dividends on its Class A and B preferred shares of \$500,000 or \$0.0896 per share, payable to Food Services on April 30, 2008. On April 4, 2008, Trade Marks declared a dividend on its common shares of \$229,000 or \$0.0164 per share, payable to Food Services and the Fund on April 30, 2008.

Unitholder Information

Corporate Head Office

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

Registrar and Transfer Agent

Computershare Investor Services Inc.

Mailing Address

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

Market Information

Units Listed:
Toronto Stock Exchange
Symbol: AW.UN

A&W Revenue Royalties Income Fund Board of Trustees

John R. McLernon ⁽¹⁾
Conrad A. Pinette ⁽¹⁾
Carl P. Vanderspek ⁽¹⁾

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A&W Trade Marks Inc. Board of Directors

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Conrad A. Pinette ⁽²⁾
Carl P. Vanderspek ⁽²⁾
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Committees of the Board
⁽¹⁾ Audit Committee and
⁽²⁾ Governance Committee



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A&W Food Services of Canada Inc.

Q1/2008

**Consolidated Financial
Statements**

For the first quarter ended
March 23, 2008

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 December 31, 2007 to March 23, 2008

This report and the unaudited interim 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 for the quarter ended March 23, 2008. This report is dated April 29, 2008 and should be read in conjunction with the unaudited interim consolidated financial statements for A&W Food Services of Canada Inc. for the quarter ended March 23, 2008 and the audited annual consolidated financial statements for A&W Food Services of Canada Inc. for the year ended December 30, 2007. 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 40% 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 (CICA) Accounting Guideline 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 on the Sunday nearest December 31. The fiscal 2007 year was 52 weeks and ended December 30, 2007 (2006 – 52 weeks ended December 31, 2006) and Food Services’ first quarter ends 12 weeks after its fiscal year end.

Same Store Sales

Same store sales at A&W restaurants grew by 6.3% in the first quarter of 2008. This marks the 20th consecutive quarter of positive same store sales growth.

System Sales

For the 12 weeks ended March 23, 2008, total system sales for all A&W restaurants in Canada were \$142,786,000, an increase of \$11,248,000 or 8.6% from the same period in 2007. This increase was due to the increase in the number of restaurants from 676 to 685 and the 6.3% same store sales growth.

New Restaurant Development and Restaurant Closures

Food Services opened two new A&W restaurants in the first quarter of 2008, compared to four new restaurants opened in the first quarter of 2007. No restaurants were closed in the quarter compared to two closures in the same quarter last year. As at March 23, 2008, there were 685 A&W restaurants in Canada, of which 674 were operated by franchisees, nine were corporately owned and operated in the Ottawa region, and two were operated corporately while being held for refranchising.

Consolidated Financial Highlights

(dollars in thousands)	12 week period ended March 23, 2008	12 week period ended March 25, 2007
System sales	\$142,786	\$131,538
System sales growth	8.6%	7.0%
Same store sales growth	6.3%	3.6%
New restaurants opened	2	4
Restaurants closed	-	2
Number of restaurants	685	676
Franchising & corporate restaurant revenue	\$12,891	\$12,580
Direct costs and administrative expenses	\$8,854	\$9,455
Earnings before interest, amortization, taxes and non-controlling interests	\$4,037	\$3,125
Net earnings	\$1,250	\$705

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 was 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.

Expansion of the Royalty Pool

The sixth expansion of the Royalty Pool took place on January 5, 2008. The number of A&W restaurants for which royalties are paid to Trade Marks was increased by 23 new restaurants less 7 restaurants which permanently closed during 2007. The estimated annual sales of the 23 new A&W restaurants are \$23,156,000 and annual sales for the seven permanently closed restaurants were \$2,232,000. The net sales of \$20,924,000 translate into estimated additional annual royalty payments to Trade Marks of \$628,000 on the basis of the royalty of 3% of sales. The royalty revenue for the purposes of calculating the additional shares is \$581,000 or 92.5%. The consideration paid by Trade Marks to Food Services for this estimated additional royalty stream is \$6,018,000, by issuance of 450,460 Class B shares valued at \$5,023,000 and 450,460 common shares of Trade Marks valued at \$995,000. A final adjustment to the share consideration will be made in December 2008 based upon the actual annual sales reported by the new restaurants. Until then, 20% of the shares will be held in escrow.

After the January 5, 2008 expansion of the Royalty Pool, the number of restaurants in the Royalty Pool increased to 676, and Food Services owns 40.1% 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		-1.6%	335,456	1.6%	335,456	1,919
January 5, 2008 adjustment		-2.0%	450,460	2.0%	450,460	995
	8,340,000	59.9%	5,584,396	40.1%	13,924,396	2,915

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

(dollars in thousands)	March 23, 2008		December 30, 2007	
	#	\$	#	\$
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	335,456	3,989	335,456	3,989
January 5, 2008 adjustment	450,460	5,023	-	-
	2,804,396	32,442	2,353,936	27,419
Accrued dividends		361		-
	5,584,371	60,603	5,133,911	55,219

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 40% of the units of the Fund.

Basis of Consolidation

Food Services, the Fund and Trade Marks have adopted the CICA Accounting Guideline 15 "Consolidation of Variable Interest Entities" (AcG-15).

AcG-15 expands upon existing accounting guidance in CICA Handbook Section 1590 that addresses when an enterprise should consolidate another entity in its financial statements. Under CICA 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 "Variable Interest Entity" (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.

The Fund and Food Services have determined that Trade Marks is a VIE and that Food Services is the “primary beneficiary” of Trade Marks. As a result, Food Services consolidates Trade Marks, and the Fund accounts for its investment in Trade Marks using the equity method.

As a result of AcG-15, all intercompany accounts and transactions between Food Services and Trade Marks 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 quarterly report for the quarter ended March 23, 2008, (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, 2008, Food Services adopted three new accounting standards:

- CICA Handbook Section 1535 “Capital Disclosures” which requires the disclosure of information related to the objectives, policies and processes for managing capital.
- CICA Handbook Section 3862 “Financial Instruments – Disclosures” which requires disclosure of information related to the significance of financial instruments to the company’s performance and information related to the risks of its use of financial instruments.
- CICA Handbook Section 3031 “Inventories” which prescribes the accounting treatment for inventories and provides guidance on the determination of cost and subsequent recognition as an expense.

The adoption of these new standards had no impact on Food Services’ financial results.

Future Accounting Changes

On January 1, 2009, Food Services will adopt accounting standard CICA Handbook Section 3064 “Goodwill and Intangible Assets” which replaces CICA Handbook Section 3062 “Goodwill and Intangible Assets” and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and

intangible assets. The new standard also provides guidance for the treatment of pre-production and startup costs and requires that these costs be expensed as incurred. The adoption of this new standard is not expected to have an impact on Food Services' financial results.

2008 Operating Results

Revenue

Food Services' revenue for the first quarter of 2008 was \$12,891,000, compared to \$12,580,000 for the first quarter of 2007. Franchising revenue increased by \$51,000 from \$10,458,000 for the first quarter of 2007 to \$10,509,000 for the first quarter of 2008. The increase due to the system sales growth and resulting higher fees from franchisees and higher sales of materials to franchisees and distributors, was offset by lower revenue for new restaurant openings. Corporate restaurant revenue was \$2,382,000 for the first quarter of 2008 compared to \$2,122,000 for the same quarter of 2007. The increase of \$260,000 was due to same store sales growth in the Ottawa corporate restaurants plus sales from the new freestanding restaurant opened in Ottawa in December 2007, less lower sales from restaurants being operated corporately while held for refranchising. During the first quarter of 2007, seven restaurants were operated corporately until they were refranchised and in the first quarter of 2008, two restaurants are being held for refranchising.

Expenses and Operating Contribution Margin

Direct costs and administrative expenses decreased by \$601,000 to \$8,854,000 for the first quarter of 2008 compared to \$9,455,000 for the same quarter in 2007. The decrease was due primarily to lower costs for new restaurant openings, timing of spending on strategic initiatives and lower costs of operating restaurants held for refranchising. The operating contribution margin improved from 24.8% for 2007 to 31.3% for 2008 as direct costs and administrative expenses decreased while revenue increased. Earnings before interest, amortization, taxes and non-controlling interests increased by \$912,000 to \$4,037,000 for the first quarter of 2008 from \$3,125,000 for the same quarter in 2007 due to the higher operating contribution margin.

Interest Expense

Interest expense is comprised primarily of Trade Marks' interest expense on its term loan and the A&W notes payable.

	12 Week Period Ended Mar 23, 2008	12 Week Period Ended Mar 25, 2007
Interest		
Interest income	\$ (52)	\$ (64)
Term loan	133	134
A&W notes payable	2,033	2,063
Amortization of deferred financing fees	5	4
	<u>\$ 2,119</u>	<u>\$ 2,137</u>

The decrease in Trade Marks' interest expense on its term loan and A&W notes resulted from there being one less day in Trade Marks' fiscal quarter in 2008.

Income Taxes

Income tax expense increased by \$195,000 from \$204,000 for the first quarter of 2007 to \$399,000 for the first quarter of 2008 due to the higher earnings before taxes.

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' earnings was \$34,000 for the first quarter of 2008 compared to a loss of \$90,000 for the same quarter of 2007. The increase in Trade Marks' earnings was primarily due to higher royalty income.

Net Earnings and Comprehensive Income

Net earnings for the quarter increased by \$545,000, from \$705,000 in 2007 to \$1,250,000 in 2008.

In accordance with CICA Handbook Section 3865 "Hedges" which became effective January 1, 2007, an "other comprehensive loss" of \$94,000 was recorded in the quarter to reflect the change in the fair value of Trade Marks' interest rate swap agreement, net of tax and the Fund's equity interest. There was no "other comprehensive loss" recorded in 2007 as the change in the value of the interest rate swap was not material. Food Services' comprehensive income for the quarter was \$1,156,000, compared to comprehensive income of \$705,000 for 2007.

Liquidity and Capital Resources

Food Services is primarily a franchise business with 674 of its 685 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 23, 2008, 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 23, 2008, the full amount of the facility was available.

On January 4, 2008, Trade Marks renewed its \$10,000,000 term loan with HSBC Bank Canada. The term loan bears interest at bank prime rate plus between 0.0%

and 0.5% depending on specified financial ratios and is repayable on February 18, 2011. 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. Trailing EBITDA as at March 23, 2008 was \$18,984,000.

Trade Marks uses an interest rate swap agreement to manage risks from fluctuations in interest rates. The interest rate swap agreement matures February 18, 2011 and fixes the interest rate on the term loan at 5.82% per annum. The interest rate swap agreement is considered to be a cash flow hedge and in accordance with CICA Handbook Section 3865 “Hedges”, qualifies for hedge accounting. Changes in the fair value of the interest rate swap agreement, to the extent it is an effective hedge, are recorded in other comprehensive earnings (loss) and are only recognized in earnings when the hedged item is realized. Any ineffectiveness in the hedging relationship is recognized in earnings immediately.

The fair value of the interest rate swap as at March 23, 2008 is \$292,000 unfavourable and is recorded in other comprehensive earnings (loss), net of tax and the Fund’s equity interest.

A general security agreement over the assets of Trade Marks was provided as security for the 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	\$0	\$10,000	\$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 quarter was \$2,033,000 (2007 - \$2,063,000), of which \$1,273,000 (December 30, 2007 - \$761,000) is payable to the Fund by Trade Marks at March 23, 2008.

Included in accounts receivable is \$36,000 (December 30, 2007 - \$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 of \$458,000 (2007 - \$280,000) or \$0.0328 per share, of which \$274,000 was earned by the Fund and \$184,000 was earned by Food Services. The February 2008 dividend of \$229,000 was declared on March 5, 2008 and paid on March 31, 2008, and the Fund's share of \$137,000 (December 30, 2007 - \$136,000) is reported as a current liability at March 23, 2008.

Also during the quarter, Trade Marks declared and paid a dividend on its common shares of \$1,392,000 or \$0.100 per share, of which \$834,000 was earned by the Fund and \$558,000 was earned by Food Services.

During the quarter, Food Services contracted with Air 700 Ltd. for rental of a private plane and crew for business travel. A shareholder, director and officer of Food Services who is also a director of Trade Marks, and a director of Trade Marks are shareholders of Air 700 Ltd. The cost of the services provided under the contract during the quarter totalled \$111,000 (2007 - \$75,000) and was negotiated on normal commercial terms. At March 23, 2008, \$117,000 (December 30, 2007 - \$116,000) is payable to Air 700 Ltd. 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:

- during the quarter, royalty income of \$4,156,000 (2007 - \$3,843,000) was earned by Trade Marks from Food Services, of which \$1,523,000 (December 30, 2007 - \$1,632,000) is payable by Food Services to Trade Marks at March 23, 2008.
- during the quarter, dividends of \$1,361,000 (2007 - \$1,261,000) were accrued by Trade Marks on its Class A and B preferred shares held by Food Services, of which \$1,000,000 (2007 - \$914,000) was declared payable by Trade Marks to Food Services during the quarter. The February 2008 dividends of \$500,000 which were declared on March 5, 2008 and paid to Food Services on March 31, 2008 are a current liability of Food Services as at March 23,

2008 (December 30, 2007 - \$460,000). Dividends accrued but not yet declared total \$361,000 (December 30, 2007 - \$nil).

- Trade Marks' issuance to Food Services of 450,460 Class B shares valued at \$5,023,000 and 450,460 common shares valued at \$995,000 as initial consideration for the January 5, 2008 expansion of the Royalty Pool.

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 23, 2008.

Financial Instruments

The fair values of cash and cash equivalents, accounts receivable and 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 \$292,000 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, the notes receivable which bear interest at varying rates up to 14.8% and cash and cash equivalents which earn interest at market rates.

Capital Disclosure

Food Services' capital currently consists of shareholders' deficiency. Food Services' capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient cash and cash equivalents to ensure the growth of the business and fund its investing activities, and pay dividends on its common shares to its shareholders, after satisfaction of its debt service and income tax obligations, provisions for direct costs and administration expenses, and retention of reasonable working capital reserves. Food Services manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk

characteristics of the underlying assets. In order to maintain or adjust the capital structure, Food Services may adjust the amount of dividends paid to its shareholders.

Risks and Uncertainties

The success of Food Services is dependent on the ability of Food Services to (i) grow same store sales, (ii) maintain and grow the current system of franchises, (iii) locate new retail sites in prime locations and (iv) obtain qualified operators to become A&W franchisees. Sales are subject to a number of factors that affect the restaurant industry generally and the quick service segment of this industry in particular, including the highly competitive nature of the industry, traffic patterns, demographic considerations, and the type, number and proximity of competing quick service restaurants. Any significant event that adversely affects consumption of hamburgers, chicken, fries and soft drinks, such as increased food and labour costs, changing tastes or health concerns, publicity from any food borne illness, economic conditions, the availability of experienced management and hourly employees, and government regulations concerning smoking bans, menu labelling or disclosure and drive-thru restrictions, could adversely impact the sales of A&W restaurants. In addition, factors such as harmonization of GST with provincial sales taxes would effectively add a new tax on restaurant meals in British Columbia, Saskatchewan and Manitoba. This 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.

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 strategy is focused on its mission "to be the number one burger choice of the baby boomer generation." A&W's strategic initiatives include differentiating the A&W brand through successful advertising and marketing campaigns, menu innovation, facilities design and expanding to serve customers in new markets. Further information on these initiatives is contained in the Fund's Management Discussion and Analysis for the quarter ended March 23, 2008.

Subsequent Events

On April 4, 2008, Trade Marks declared dividends on its Class A and B preferred shares of \$500,000 and a dividend on common shares of \$229,000, payable on April 30, 2008.

FORWARD LOOKING INFORMATION

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

The forward-looking information in this report includes, but is not limited to: Food Services' Mission and strategy to focus on becoming "the number one burger choice of the baby boomer generation"; Food Services' plans to differentiate the A&W brand through advertising and marketing campaigns, menu innovation, facilities design and expanding to serve customers in new markets; and Food Services' plans to pursue new restaurant development in 2008 with emphasis on Ontario and Atlantic Canada.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the general risks that affect the restaurant industry will not arise; no changes in competition; no increases in food and labour costs; no changes in consumer taste or health concerns; no publicity from any food borne illness; no changes in economic conditions; no changes in availability of experienced management and hourly employees; no changes in government regulations concerning smoking bans, menu labelling, drive-thru restrictions and elimination of trans fats; the continued availability of quality raw materials; continued additional franchise sales and maintenance of franchise operations; no closures of A&W restaurants that materially affect the amount of the Royalty; franchisees duly pay franchise fees and other amounts; no new or increased or harmonization of sales taxes; continued availability of key personnel; continued ability to preserve intellectual property; Food Services is able to grow same store sales; Food Services is able to maintain and grow the current system of franchises; Food Services is able to locate new retail sites in prime locations; Food Services is able to obtain qualified operators to become A&W franchisees; no material litigation or other complaints; Food Services continues to pay the Royalty; Trade Marks continues to pay its obligations under the A&W Notes and pay dividends on the common shares; Trade Marks can continue to comply with its obligations under its credit arrangements; and, Trade Marks' performance does not fluctuate such that cash distributions are affected.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: general risks that affect the restaurant industry; competition; changes in consumer taste; increases in food and labour costs; changes in consumer taste or health concerns; publicity from any food-borne illness; changes in economic conditions; changes in availability of experienced management and hourly employees; changes in government regulations concerning smoking bans, menu labelling, drive-thru restrictions and elimination of trans fats; availability and quality of raw materials; dependence on additional franchise sales and franchise operations; the closure of A&W restaurants may affect the amount of the Royalty; dependence on A&W franchisees' ability to pay franchise fees and other amounts; the impact of new or increased or harmonization of sales taxes upon gross sales; dependence

on key personnel; dependence on intellectual property; Food Services' ability to grow same store sales; Food Services' ability to maintain and grow the current system of franchises; Food Services' ability to locate new retail sites in prime locations; Food Services' ability to obtain qualified operators to become A&W franchisees; potential litigation and other complaints; dependence of the Fund on Trade Marks and Food Services; dependence of Trade Marks on Food Services; risks related to leverage and restrictive covenants; the risk that cash distributions are not guaranteed and will fluctuate with Trade Marks' performance; risks relating to the nature of units; risks relating to the distribution of securities on redemption or termination of the Fund; the Fund may issue additional units diluting existing unitholders' interests; changes in investment eligibility and penalties for foreign property; and proposed changes to the Canadian federal income tax treatment of publicly listed trusts and other income tax matters, all as more particularly described in this report under the heading "Risks and Uncertainties".

All forward-looking information in this report is qualified in its entirety by this cautionary statement and, except as required by law, Food Services undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

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

For the first quarter ended March 23, 2008

Consolidated Balance Sheets

Unaudited
(in thousands of dollars)

	March 23 2008	December 30 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 7,560	\$ 7,331
Accounts receivable	8,143	11,073
Inventories	1,052	620
Prepaid expenses	159	149
Income taxes recoverable	665	480
Future income taxes	1,552	1,711
	19,131	21,364
Intangible assets	82,779	82,066
Future income taxes	1,797	2,021
Property, plant and equipment	2,408	2,445
Notes receivable	222	237
	\$ 106,337	\$ 108,133
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 13,399	\$ 17,338
Deposits on franchise and equipment sales	2,294	1,209
	15,693	18,547
Net liabilities due to A&W Revenue Royalties Income Fund (note 3)	76,211	76,819
Term loan (note 4)	10,268	9,996
Long-term liabilities	7,056	6,951
Obligations under capital leases	44	-
Non-controlling interest	184	95
	109,456	112,408
Shareholders' Deficiency		
Capital stock	10,500	10,500
Deficit	(13,525)	(14,775)
Accumulated other comprehensive loss	(94)	-
	(3,119)	(4,275)
	\$ 106,337	\$ 108,133

Subsequent event (note 9)

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 23, 2008	12 Week Period Ended Mar 25, 2007
Revenue		
Franchising	\$ 10,509	\$ 10,458
Corporate restaurants	2,382	2,122
	12,891	12,580
Direct costs and administrative expenses	8,854	9,455
Earnings before the following:	4,037	3,125
Interest expense (note 6)	2,119	2,137
Amortization of property, plant and equipment	146	102
Earnings before income taxes and non-controlling interests	1,772	886
Provision for income taxes		
Current	65	(127)
Future income taxes	334	331
	399	204
Earnings for the period before non-controlling interests	1,373	682
Non-controlling interest in A&W Root Beer Beverages of Canada Inc.	(89)	(67)
A&W Revenue Royalties Income Fund's interest in (earnings) loss of A&W Trade Marks Inc.	(34)	90
Net earnings for the period	1,250	705
Deficit - beginning of period	(14,775)	(15,575)
Deficit - end of period	\$ (13,525)	\$ (14,870)

See accompanying notes to these financial statements.

Consolidated Statements of Comprehensive Income

Unaudited

(in thousands of dollars)

	12 Week Period Ended Mar 23, 2008	12 Week Period Ended Mar 25, 2007
Net earnings for the period	\$ 1,250	\$ 705
Other comprehensive loss, net of income taxes		
Change in fair value of the interest rate swap	(234)	-
A&W Revenue Royalties Income Fund's interest in other comprehensive loss of A&W Trade Marks Inc.	140	-
Comprehensive loss for the period	(94)	-
Comprehensive income for the period	\$ 1,156	\$ 705

See accompanying notes to these financial statements.

Consolidated Statements of Cash Flows

Unaudited

(in thousands of dollars)

	12 Week Period Ended Mar 23, 2008	12 Week Period Ended Mar 25, 2007
Cash flows from operating activities		
Net earnings for the period	\$ 1,250	\$ 705
Items not affecting cash		
Amortization of deferred financing fees	5	4
Amortization of property, plant and equipment	146	102
Future income taxes	334	331
Gain on disposal of property, plant and equipment	(6)	-
Increase in long-term liabilities	105	103
Decrease in obligation under capital lease	(4)	-
Non-controlling interest in A&W Root Beer Beverages of Canada Inc.	89	67
A&W Revenue Royalties Income Fund's interest in earnings (loss) of A&W Trade Marks Inc.	34	(90)
	1,953	1,222
Net changes in non-cash working capital	(566)	(223)
	1,387	999
Cash flows from investing activities		
Decrease in notes receivable	15	14
Purchase of property, plant and equipment	(47)	-
Proceeds from disposal of property, plant and equipment	6	-
	(26)	14
Cash flows from financing activities		
Dividends paid to A&W Revenue Royalties Income Fund	(1,107)	(840)
Financing fees paid	(25)	-
	(1,132)	(840)
Increase in cash and cash equivalents	229	173
Cash and cash equivalents - beginning of period	7,331	6,060
Cash and cash equivalents - end of period	\$ 7,560	\$ 6,233
Supplementary cash flow information		
Net interest paid	\$ (1,564)	\$ (1,552)
Net income taxes paid	\$ (250)	\$ (1,953)
Non-cash investing activities		
Non-cash acquisition of assets through capital leases	\$ (62)	\$ -

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 23, 2008

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 its 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 40% 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 30, 2007.

Fiscal year

Food Services uses a fiscal year comprising a 52 or 53 week period ending on the Sunday nearest December 31, therefore Food Services’ 2007 fiscal year ended December 30, 2007 (2006 – December 31, 2006). Food Services’ first quarter ends 12 weeks after its fiscal year end.

Adoption of new accounting standards

On January 1, 2008, Food Services adopted three new accounting standards:

- CICA Handbook Section 1535 “Capital Disclosures” which requires the disclosure of information related to the objectives, policies and processes

for managing capital. Disclosures required by this standard are included in Note 8.

- CICA Handbook Section 3862 “Financial Instruments – Disclosures” which requires disclosure of information related to the significance of financial instruments to the company’s performance and information related to the risks of its use of financial instruments. Disclosures required by this standard are included in Note 7.
- CICA Handbook Section 3031 “Inventories” which prescribes the accounting treatment for inventories and provides guidance on the determination of cost and subsequent recognition as an expense.

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		-1.6%	335,456	1.6%	335,456
January 5, 2008		-2.0%	450,460	2.0%	450,460
	8,340,000	59.9%	5,584,396	40.1%	13,924,396

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

	March 23, 2008	December 30, 2007
A&W notes payable	\$ 83,399	\$ 83,399
The Fund’s equity interest in A&W Trade Marks Inc.	(7,048)	(6,580)
The Fund’s equity interest in A&W Trade Marks Inc.’s accumulated other comprehensive loss	(140)	-
	\$ 76,211	\$ 76,819

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 23, 2008, 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 23, 2008, the full amount of the facility was available.

On January 4, 2008, Trade Marks renewed its \$10,000,000 term loan with HSBC Bank Canada. The new term loan is repayable on February 18, 2011 and bears interest at bank prime rate plus between 0% and 0.5% depending on specified financial ratios of Trade Marks. Interest only is payable monthly, provided that 12 month trailing earnings before interest, taxes, depreciation and amortization (EBITDA) at any time 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.

Trade Marks uses an interest rate swap agreement to manage risks from fluctuations in interest rates. The interest rate swap agreement matures February 18, 2011 and fixes the interest rate on the term loan at 5.82% per annum. The interest rate swap agreement is considered to be a cash flow hedge and in accordance with CICA Handbook Section 3865 "Hedges", qualifies for hedge accounting. Changes in the fair value of the interest rate swap agreement, to the extent it is an effective hedge, are recorded in other comprehensive earnings (loss) and are only recognized in earnings when the hedged item is realized. Any ineffectiveness in the hedging relationship is recognized in earnings immediately.

The fair value of the interest rate swap as at March 23, 2008 is \$292,000 unfavourable, and is recorded in other comprehensive income (loss), net of tax and the Fund's equity interest.

Trade Marks' term loan is comprised of:

	March 23, 2008	December 30, 2007
Term loan	\$10,000	\$10,000
Deferred financing fees	(24)	(4)
Change in the fair value of the interest rate swap	292	-
	<u>\$10,268</u>	<u>\$9,996</u>

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 was \$2,033,000 (2007 - \$2,063,000), of which \$1,273,000 (December 30, 2007 - \$761,000) is payable to the Fund at March 23, 2008.

Included in accounts receivable is \$36,000 (December 30, 2007 - \$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, Food Services contracted with Air 700 Ltd. for rental of a private plane and crew for business travel. A shareholder, director and officer of Food Services who is also a director of Trade Marks, and a director of Trade Marks are shareholders of Air 700 Ltd. The cost of the services provided under the contract during the quarter totalled \$111,000 (2007 - \$75,000) and was negotiated on normal commercial terms. At March 23, 2008, \$117,000 (December 30, 2007 - \$116,000) is payable to Air 700 Ltd. by Food Services.

During the quarter, Trade Marks declared monthly dividends on its common shares totaling \$458,000 (2007 - \$280,000) of which \$274,000 (2007 - \$174,000) was earned by the Fund and \$184,000 (2007 - \$106,000) was earned by Food Services. The February 2008 dividend of \$229,000 was paid on March 31, 2008, and the Fund's share of \$137,000 is reported as a current liability at March 23, 2008.

Also during the quarter, Trade Marks declared and paid a common share dividend of \$1,392,000 (2007 - \$1,075,000), of which \$834,000 was earned by the Fund and \$558,000 was earned by Food Services.

6. Interest expense

	12 Week Period Ended Mar 23, 2008	12 Week Period Ended Mar 25, 2007
Interest		
Interest income	\$ (52)	\$ (64)
Term loan	133	134
A&W notes payable	2,033	2,063
Amortization of deferred financing fees	5	4
	<u>\$ 2,119</u>	<u>\$ 2,137</u>

7. Financial instruments

The fair values of cash and cash equivalents, accounts receivable and 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 \$292,000 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 elsewhere in the consolidated financial statements, the notes receivable which bear interest at varying rates up to 14.8% and cash and cash equivalents which earn interest at market rates.

8. Capital disclosure

Food Services' capital currently consists of shareholders' deficiency. Food Services' capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient cash and cash equivalents to ensure the growth of the business and fund its investing activities, and pay dividends on its common shares to its shareholders, after satisfaction of its debt service and income tax obligations, provisions for direct costs and administration expenses, and retention of reasonable working capital reserves. Food Services manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Food Services may adjust the amount of dividends paid to its shareholders.

9. Subsequent event

On April 4, 2008, Trade Marks declared a dividend on its common shares of \$229,000, payable to Food Services and the Fund on April 30, 2008.



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