

A&W Revenue Royalties Income Fund

Q2

Second Quarter Report to Unitholders
for the period ended
June 15, 2003

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To our Unitholders

On behalf of the Board of Trustees, I am pleased to present the results of the A&W Revenue Royalties Income Fund for the second quarter ended June 15, 2003. The Fund continues to deliver expected distributions, as it has for each of the 17 months since its inception.

A&W's same store sales increased 2.5% for the quarter against the same quarter in 2002, resulting in a positive year-to-date increase of 0.3%.

These positive second quarter results were achieved despite unexpected and extraordinary challenges. In addition to a war in Iraq and the threat of global terrorism, consumer concern over Severe Acute Respiratory Syndrome ("SARS") and Bovine Spongiform Encephalopathy ("BSE") depressed restaurant industry sales across the country, creating what many have referred to as the "perfect storm". Once again, even in difficult market conditions, A&W's strategy continues to outperform the industry.

These impressive results in the face of unprecedented challenges are a powerful testament to the three pillars on which the stability of the Fund are founded: strategy and brand, climate, and experienced management.

A&W anticipates economic conditions will remain uncertain through the balance of 2003, and the Canadian Restaurant and Foodservices Association is projecting the industry will not achieve growth in 2003. Despite this outlook, we are confident A&W's mission to become "the number one choice of the baby boomers" will continue to result in superior performance versus the industry. The Fund remains on track to deliver its anticipated annual distribution of \$1.08 per unit.

Sincerely,

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

Management Discussion and Analysis

Highlights

(in thousands of dollars, except per unit amounts)

	12 week period ended June 15, 2003	12 week period ended June 16, 2002	Period from Jan. 1, 2003 to June 15, 2003	Period from Feb. 15, 2002 to June 16, 2002
Number of restaurants in the royalty pool	604	585	604	585
Gross sales reported by restaurants in the pool	\$ 105,522	\$ 98,236	\$ 192,513	\$ 140,526
Royalty income	3,165	2,947	5,775	4,216
Expenses	1,154	925	2,322	1,291
Net earnings for the period	1,779	1,801	3,113	2,623
Basic earnings per trust unit	0.213	0.216	0.373	0.315
Distributions declared per trust unit	0.27	0.27	0.45	0.308

OVERVIEW

The Fund owns the A&W trade-marks and licences their use by A&W Food Services of Canada Inc. (“Food Services”), which operates the A&W restaurant and soft drink beverages businesses. The trade-marks comprise some of the best-known brand names in the Canadian food service industry. Distributions to unitholders are based on top-line revenues and are thereby isolated from many of the factors that can influence an operating business.

In return for licencing Food Services to use its trade-marks, the Fund receives royalties of 3% of gross sales from A&W restaurants in the royalty pool across Canada.

New restaurants are added to the royalty pool at the beginning of each year. Effective January 5, 2003, the number of restaurants for which royalties are paid to the Fund was increased to include the revenues from 27 new restaurants, less eight permanently closed restaurants, bringing the total number of restaurants in the royalty pool to 604.

The Fund pays Food Services for the additional royalty stream of the gross sales, based upon a formula set out in the licence agreement. The formula, designed to be accretive to unitholders, is based on the amount of sales from the net new restaurants and the yield on the units of the Fund, and provides for a payment to Food Services on the basis of 92.5% of the amount.

The Fund’s expenses comprise general and administration expenses, interest on long-term debt, Class A and B share dividends and amortization of deferred financing fees.

Food Services owns 28% of the units of the Fund on a fully-consolidated basis. Quarterly statements for Food Services are included as a supplement to this report.

SECOND QUARTER OPERATING RESULTS

Gross sales reported by restaurants in the royalty pool increased by 7.4%, from \$98,236,000 in 2002 to \$105,522,000 in 2003. This increase results from the combined impact of the additional 19 restaurants in the royalty pool, as well as a 2.5% same store sales increase for the quarter. This increase is remarkable given the challenges presented by BSE and SARS.

Royalty income, as the result of the increase in gross sales, increased from \$2,947,000 in 2002 to \$3,165,000 in 2003.

Expenses for the quarter were \$1,154,000, including interest of \$951,000, for an increase of \$229,000 over the second quarter 2002. The major component of the increase is an increase in dividends, due to Food Services’ increased equivalent ownership in the Fund to 28%, and a change in the accrual of dividends for the quarter.

As a result, earnings are modestly down by \$22,000 from \$1,801,000 in 2002 to \$1,779,000 in 2003.

Distributions to Unitholders

(in thousands of dollars)

	For the 12 weeks ended June 15, 2003	For the 12 weeks ended June 16 2002
Net earnings for the period	\$ 1,779	\$ 1,801
Add		
Amortization of deferred financing fees	31	34
Future income taxes	172	132
Class A and B share dividends	809	607
Distributable cash	\$ 2,791	\$ 2,574
Distributable cash available for fund units	\$ 2,063	\$ 2,064
Distributable cash available for dividends	728	510
	\$ 2,791	\$ 2,574

Cash available for distribution to unitholders was \$2,063,000, the same as last year.

Distributions of \$0.27 were declared, the same as last year. Distributions paid were \$0.27 compared to \$0.218 last year, due to the partial period from the Fund's inception in February 2002.

YEAR-TO-DATE OPERATING RESULTS

In reviewing year-to-date results, readers should be aware that 2003 results are not directly comparable to last year due to the fact that the Fund commenced operations on February 15, 2002.

The Fund earned royalty income of \$5,775,000 based on gross sales of \$192,513,000, compared to \$4,216,000 royalty income on \$140,526,000 gross sales for the prior year. The increases in royalty income of \$1,559,000 and gross sales of \$51,987,000 are due to the higher number of restaurants in the royalty pool – 604 this year compared to 585 last year; same store sales growth year-to-date of 0.3%; and the prior year being a partial period starting February 15.

Year-to-date expenses have increased \$1,031,000, up to \$2,322,000 compared to \$1,291,000 in 2002.

- General and administrative expenses increased by \$201,000 due to first time costs associated with year end, e.g. Annual Report and Annual General Meeting.
- Class A and B share dividends increased by \$711,000:
 - \$233,000 due to Food Services' increased equivalent ownership in the Fund to 28%;
 - \$118,000 due to a change in accrual of dividends; and
 - \$360,000 due to the partial year in 2002 which began on February 15th.

Net earnings for the Fund year-to-date total \$3,113,000. This is an increase of \$490,000 over 2002 due to the partial year in 2002.

Distributions to Unitholders

(in thousands of dollars)

	Period from January 1, 2003 to June 15, 2003	Period from February 15, 2002 to June 16, 2002
Net earnings for the period	\$ 3,113	\$ 2,623
Add		
Amortization of deferred financing fees	62	49
Future income taxes	220	187
Class A and B share dividends	1,592	881
Distributable cash	\$ 4,987	\$ 3,740
Distributable cash available for fund units	\$ 4,077	\$ 2,997
Distributable cash available for dividends	910	743
	\$ 4,987	\$ 3,740
Dividends accrued and unpaid on Class A and B shares	\$ 523	\$ 263

Cash available for distribution to unitholders totalled \$4,077,000 compared to \$2,997,000 in 2002. This increase of \$1,080,000 was due to the partial year in 2002.

Dividends to Food Services are subordinated to distributions to unitholders. Subordinated dividends are projected to be \$595,000 at year end 2003. The major contributor to this level of subordinated dividend was an increase, over estimate, of \$325,000 in Fund administrative expenses for outside services, such as legal, accounting, regulatory fees and unitholder communications. In addition, the 1.4% same store sales decrease in 2002 contributed \$182,000 to the arrears. A&W is committed to getting every penny it can into unitholders hands. Accordingly, in response to the Fund's first year experience with administrative costs, aggressive steps have been taken to reduce such costs in all areas.

Distributions of \$0.45 were declared in 2003, an increase over the \$0.308 declared last year due to the partial year.

Distributions paid were \$0.45, up over the \$0.218 paid in 2002 due to the partial year.

OUTLOOK

The A&W Revenue Royalties Income Fund has now met its targeted distributions for each of the 17 months since inception, and is on target to continue meeting expected distributions through the balance of 2003. While the second quarter was difficult due to

the effects of SARS, BSE and other economic conditions, same-store sales performance was strong in the quarter, bringing year-to-date sales into positive territory with a gain in market share.

Major strategic thrusts underway in 2003 include:

New Menu Boards

Testing of a new design for menu boards in 2002 showed positive sales growth of 2%. These new menu boards have now been approved as a standard for A&W restaurants and are to be installed in substantially all restaurants in 2003.

Restaurant Re-imaging

A&W's new restaurant design incorporates a number of features aimed at triggering the baby boomers' favourite memories of A&W. The control group of re-imaged restaurants continues to experience sales increases of 5%. Re-imaged to date are 85 restaurants, with 25 in progress and a further 52 signed up. The capital for re-imaging is provided by restaurant operators.

Climate Goal Program Extension

A&W's Climate Goal program, which creates a work environment of trust and mutual respect, continues to be extended and strengthened in all operating restaurants. This gives A&W a competitive advantage in attracting, retaining and motivating restaurant teams committed to providing outstanding food and service.

New Advertising and Promotions

A&W continues to develop and refine new advertising and promotional campaigns based on research which shows Canadian baby boomers have strong positive emotional memories of A&W, as well as a preference for A&W's food and A&W Root Beer.

Though economic conditions are forecast to remain weak in 2003, A&W remains optimistic that its three pillars of trust – strategy and brand, climate, and experienced management – will advance its mission “to become the number one choice of baby boomers”.

Certain statements in this presentation may be forward-looking in nature. These include references to liquidity, earnings and anticipated earnings from growth in same store sales and new restaurant openings. Actual results may differ from those expressed or implied in these forward-looking statements.

The “forward-looking” statements contained in this presentation are subject to a number of risk factors, including the ability of A&W Food Services of Canada to implement its marketing strategies, the opening of new A&W Restaurants, general economic and business conditions, financial and political instability, and other factors disclosed previously and from time to time in the Fund's public filings. Any forward-looking statements in this presentation should be evaluated in light of these important factors.

Consolidated Balance Sheet

Unaudited

(in thousands of dollars)

As at	June 15, 2003	December 31, 2002
ASSETS		
Current assets		
Cash and cash equivalents	\$ —	\$ 490
Accounts receivable	2,139	1,266
Prepaid interest	64	25
	2,203	1,781
Intangible assets (note 3)	126,261	120,756
Deferred financing fees	230	292
	\$ 128,694	\$ 122,829
LIABILITIES		
Current liabilities		
Bank indebtedness	\$ 827	\$ —
Accounts payable and accrued liabilities	258	474
Corporate taxes payable	20	250
Dividends payable on Class A and B shares	214	—
Distributions payable to unitholders	751	751
	2,070	1,475
Term loan	10,000	10,000
Future income taxes	7,084	6,864
A&W Trade Marks Inc. Class A and B shares (notes 3 and 4)	33,828	28,138
	52,982	46,477
Unitholders' equity	75,712	76,352
	\$ 128,694	\$ 122,829

Consolidated Statement of Earnings

Unaudited

(in thousands of dollars, except per unit amounts)

	12 week period ended June 15, 2003	12 week period ended June 16, 2002 (note 2)	Period from Jan. 1, 2003 to June 15, 2003	Period from Feb. 15, 2002 to June 16, 2002 (note 2)
Gross sales reported by A&W restaurants	\$105,522	\$ 98,236	\$192,513	\$140,526
Royalty income	\$ 3,165	\$ 2,947	\$ 5,775	\$ 4,216
Expenses				
General and administrative	172	150	390	\$ 189
Amortization of deferred financing fees	31	34	62	49
Interest expense				
- long-term bank loan	142	134	278	172
- Class A and B share dividends	809	607	1,592	881
	1,154	925	2,322	1,291
Earnings before income taxes	2,011	2,022	3,453	2,925
Provision for income taxes				
Large corporations tax	60	89	120	115
Future income taxes	172	132	220	187
	232	221	340	302
Net earnings for the period	\$ 1,779	\$ 1,801	\$ 3,113	\$ 2,623
Basic and diluted earnings per Trust Unit (8,340,000 Units)	\$ 0.213	\$ 0.216	\$ 0.373	\$ 0.315

Consolidated Statement of Unitholders' Equity

Unaudited

(in thousands of dollars)

	12 week period ended June 15, 2003	12 week period ended June 16, 2002	Period from Jan. 1, 2003 to June 15, 2003	Period from Feb. 15, 2002 to June 16, 2002
Balance – beginning of period	\$ 76,185	\$ 77,655	\$ 76,352	\$ —
Issue of Trust Units	—	—	—	77,152
Earnings	1,779	1,801	3,113	2,623
Distribution declared	(2,252)	(2,252)	(3,753)	(2,571)
Balance – end of period	\$ 75,712	\$ 77,204	\$ 75,712	\$ 77,204

Consolidated Statement of Cash Flows

Unaudited

(in thousands of dollars)

	12 week period ended June 15, 2003	12 week period ended June 16, 2002 (note 2)	Period from Jan. 1, 2003 to June 15, 2003	Period from Feb. 15, 2002 to June 16, 2002 (note 2)
Cash flows from operating activities				
Net earnings for the period	\$ 1,779	\$ 1,801	\$ 3,113	\$ 2,623
Items not affecting cash				
Amortization	31	34	62	49
Provision for future income taxes	172	132	220	187
Accrued Class A and B share dividends	72	(11)	185	263
	2,054	1,956	3,580	3,122
Net changes in non-cash working capital	(778)	(771)	(1,144)	(1,534)
	1,276	1,185	2,436	1,588
Cash flows from investing activities				
Acquisition	—	—	—	(84,896)
Cash flows from financing activities				
Distributions paid to Unitholders	(2,252)	(1,820)	(3,753)	(1,820)
Issuance of trust units	—	—	—	83,400
Cost of issuance	—	—	—	(8,064)
Term loan	—	—	—	10,000
Financing fees	—	—	—	(440)
	(2,252)	(1,820)	(3,753)	83,076
Decrease in cash and cash equivalents	(976)	(635)	(1,317)	(232)
Cash and cash equivalents – beginning of period	149	403	490	—
Cash and cash equivalents – end of period	\$ (827)	\$ (232)	\$ (827)	\$ (232)
Cash and cash equivalents consist of:				
Cash	5	22	5	22
Bank indebtedness	(832)	(254)	(832)	(254)
	\$ (827)	\$ (232)	\$ (827)	\$ (232)
Supplementary cash flow information				
Issuance of Class A and B shares as partial consideration for the A&W trade-marks (note3)	\$ —	\$ —	\$ 5,505	\$ 27,800
Interest paid	\$ (168)	\$ (153)	\$ (342)	\$ (216)
Class A and B share dividends paid	\$ (940)	\$ (618)	\$ (1,193)	\$ (618)



Notes to the Interim Consolidated Financial Statements

For the quarter ended June 15, 2003

Unaudited

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

1. BASIS OF PRESENTATION

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

These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2002.

2. COMPARATIVE FIGURES

The consolidated statements of earnings and cash flows for the period from February 15, 2002 to June 16, 2002 have been restated to reclassify the Class A share dividends as interest expense (previously reported as non-controlling interest).

3. INTANGIBLE ASSETS

On January 5, 2003, the number of A&W restaurants for which royalties are paid to the Fund was increased to include the revenues from 27 new restaurants, eight of which replaced restaurants permanently closed during 2002. A&W Trade Marks Inc. (Trade Marks) paid A&W Food Services of Canada Inc. (Food Services) \$5,505,000 through the issuance of 487,624 Class B shares of Trade Marks as initial consideration for the estimated additional royalty stream from the 19 net restaurants added to the royalty pool. A final adjustment to the Class B share consideration will be made in December 2003 based upon the 2003 annual gross sales reported by the new restaurants. Until the 2003 gross sales of the new restaurants are reported, 20% of the Class B shares are held in escrow.

The Class B shares comprise a portion of the \$40 million unpaid consideration on the acquisition of the A&W trade-marks which is recorded as an additional cost of the A&W trade-marks. The Class B shares have substantially the same terms as the Class A shares and are therefore classified as liabilities of the Fund and the cumulative dividends are classified as interest expense in the consolidated statement of earnings.

4. A&W TRADE MARKS INC. CLASS A AND B SHARES

The Class A and B shares are owned by Food Services and comprise:

	June 15, 2003	Dec. 31, 2002
A&W Trade Marks Inc. Class A shares – at cost	\$ 27,800	\$ 27,800
A&W Trademarks Inc. Class B shares – at cost (note 3)	5,505	—
Accrued dividends payable on Class A and B shares	523	338
	\$ 33,828	\$ 28,138

5. DISTRIBUTIONS

	12 week period ended June 15, 2003	12 week period ended June 16, 2002 (note 2)	Period from Jan. 1, 2003 to June 15, 2003	Period from Feb. 15, 2002 to June 16, 2002 (note 2)
Net earnings for the period	\$ 1,779	\$ 1,801	\$ 3,113	\$ 2,623
Add:				
Amortization of deferred financing fees	31	34	62	49
Future income taxes	172	132	220	187
Class A and B share dividends	809	607	1,592	881
Distributable cash	\$ 2,791	\$ 2,574	\$ 4,987	\$ 3,740
Distributable cash available for Trust Units	\$ 2,063	\$ 2,064	\$ 4,077	\$ 2,997
Distributable cash available for dividends	728	510	910	743
	\$ 2,791	\$ 2,574	\$ 4,987	\$ 3,740
Distributable cash per Trust Unit (8,340,000 Units)	\$ 0.247	\$ 0.247	\$ 0.489	\$ 0.359
Distribution declared per Trust Unit (8,340,000 Units)	\$ 0.270	\$ 0.270	\$ 0.450	\$ 0.308
Distribution paid per Trust Unit (8,340,000 Units)	\$ 0.270	\$ 0.218	\$ 0.450	\$ 0.218

UNITHOLDER INFORMATION

Corporate Head Office

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

Mailing Address

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A & W Revenue Royalties Income Fund Board of Trustees

John R. McLernon
Don A. James
Conrad A. Pinette

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* Audit Committee and
Governance Committee

Registrar and Transfer Agent

Computershare Trust Company
of Canada

MARKET INFORMATION

Units Listed:
Toronto Stock Exchange
Symbol: **AW.UN**

Investor Enquiries

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

Q2/2003

Financial Statements

For the second quarter ended
June 15, 2003

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



Financial Highlights

(in thousands of dollars)

	12-week period ended June 15, 2003	12-week period ended June 16, 2002	24-week period ended June 15, 2003	24-week period ended June 16, 2002
System sales	\$ 109,388	\$ 101,769	\$ 201,874	\$ 192,114
System sales %	7.5	—	5.1	—
Same-store sales %	2.5	—	0.3	—
New restaurants opened	5	6	9	8
Closures	0	4	3	5
Number of restaurants	619	600	619	600
Revenue	\$ 10,554	\$ 10,349	\$ 20,206	\$ 18,515
Operating costs & expenses	7,156	7,178	13,789	13,178
Royalty expense	3,166	2,947	5,852	4,216
Operating earnings	232	224	565	1,121
Net earnings for the period	928	599	2,040	13,939

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

A&W Food Services of Canada Inc. ("Food Services") is the franchisor of the A&W restaurant chain in Canada and derives revenues from franchise fees, sales in corporate-owned restaurants, sales of goods and services to franchised operators, initial and regrant franchise fees, lease guarantee fees and other fees. Food Services owns the equivalent of 28% of the units of the A&W Revenue Royalties Income Fund (the "Fund"), and receives dividend income from this source. A subsidiary of Food Services also receives revenue from the sale of flavour concentrate to a licensed bottler who produces and distributes A&W Root Beer for sale in retail grocery stores.

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

The royalty is adjusted in January of each year to reflect system sales from new restaurants, net of the sales of any A&W restaurants that have closed. Effective January 5, 2003, the number of restaurants for which royalties are paid to the Fund was increased to include the revenues from 27 new restaurants less eight permanently-closed restaurants, bringing the total restaurants in the royalty pool to 604. The Fund pays Food Services for any increase in the royalty from these new restaurants on the basis of a formula set out in the licence agreement.

On January 5, 2003, Food Services received \$5,505,000 through the issuance of 487,624 Class B shares of A&W Trade Marks Inc. as initial consideration for the estimated additional royalty stream from the 19 net restaurants added to the royalty pool.

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

Second Quarter Operating Results

The business faced extraordinary challenges in the second quarter as a result of the war in Iraq, Severe Acute Respiratory Syndrome ("SARS") and Bovine Spongiform Encephalitis ("BSE"). It is a testament to A&W's strategy and brand, climate and experienced management that results were strong in the face of these challenges.

Total system sales from all A&W restaurants in Canada, (both existing and newly opened) for the 12 weeks ended June 15, 2003 were \$109,388,000. This represents an increase of 7.5% over \$101,769,000 in the same period in 2002. This is as a result of an increase in the number of operating restaurants, as well as increased same store sales. Same store sales were up 2.5% during the quarter, reflecting A&W's ability to prevail over adverse conditions in the restaurant industry.

Total revenue (including franchise fees, sales in corporate-owned restaurants, sales of goods and services to franchised operators, initial and regrant franchise fees, lease guarantee and other fees and dividend income) was \$10,554,000. This represents an increase of \$205,000 over the same quarter last year. This increase is a result of positive variances in all types of franchising and corporate restaurant revenue, with the exception of sales of equipment to new restaurants and initial fees. While five restaurants opened in the quarter versus six a year ago, three of those five were conversions of operating restaurants acquired from another chain, and therefore did not involve initial franchise fees and equipment income that a traditional new restaurant opening does. Dividend income increased due to Food Services increasing its equivalent ownership in the Fund to 28% from 25%, and due to the timing of dividend declarations by the Fund.

Operating costs and expenses of \$7,156,000 were flat when compared to the same period in the prior year of \$7,178,000.

Royalty expense paid to the Fund for the use of the A&W trade-marks increased by \$219,000 from \$2,947,000 in 2002 to \$3,166,000 in 2003. This increase is due to the increased number of restaurants in the royalty pool, as well as the quarterly increase in same store sales of 2.5%.

Operating earnings remained relatively flat at \$232,000 compared to \$224,000 last year. Net earnings increased to \$928,000, compared to \$599,000 recorded in the second quarter of 2002. This increase is due to an income tax recovery and an increase in the amortization of the deferred gain on the sale of the A&W trade-marks, because of the net addition of 19 restaurants to the royalty pool.

Year-to-Date Operating Results

For the 24 weeks ended June 15, 2003, system sales for all A&W restaurants in Canada totalled \$201,874,000. This represents an increase of 5.1% over the same period in 2002, due primarily to the increased number of restaurants. Same store sales have increased by 0.3% year-to-date, which is a significant turnaround from -2.2% at the end of the first quarter.

Nine new restaurants have opened thus far in the year (six of which are traditional), compared to eight in the prior year. Year-to-date, three restaurants have closed.

Total revenue for the 24-week period was \$20,206,000, an increase of \$1,691,000 compared to the same period last year. This increase is a combination of increased revenue from all areas of the business and an increase in dividend income. The increase in dividend income of \$789,000 is due to timing differences (2002 being a partial year, as the Fund commenced operations February 15); the receipt of the 2002 dividends in 2003; and the increase to 28% equivalent ownership of the Fund from 25%.

Operating costs and expenses have increased in line with the increase in revenue from franchising and corporate restaurants.

The royalty expense paid to the Fund for the use of the trade-marks amounted to \$5,852,000 for the 24-week period compared to \$4,216,000 in 2002. The variance is due to the increased number of restaurants in the royalty pool and the fact that the first year of operation for the Fund began February 15, 2002.

As a result of the above, operating earnings decreased by \$556,000 (\$565,000 compared to \$1,121,000 in the same period in 2002).

Net earnings were \$2,040,000 compared to \$13,939,000 during the same period in 2002. This decrease in earnings reflects the sale of the A&W trade-marks to the Fund in February 2002. This transaction gave rise to unusual non-recurring expenses of \$2,027,000 in 2002, a tax liability of \$8,433,000 and recovery of future income taxes of \$24,577,000. Interest and amortization costs were also lower year-over-year, due to the sale in 2002 of the A&W trade-marks and the subsequent repayment of all long-term debt.

Outlook

The food service industry continued to face unexpected and challenging market conditions through the second quarter, with effects that will continue throughout the remainder of 2003. In addition to the war in Iraq, fear of terrorism and an economic downturn, Canada was hit with two health-related crises: SARS and BSE. Both affected tourism and the dining habits of consumers. A&W responded quickly to each, establishing and maintaining monitoring procedures, and by intensifying its advertising and promotional programs to respond to the market immediately and throughout the remainder of the year.

The strength of A&W's three pillars of strategy and brand, climate, and experienced management continues to produce system sales results which outpace the QSR industry.

System Sales Growth	%
QSR	
YTD April 30	+2.5
A&W	
YTD April 20	+3.9
YTD June 16	+5.1

With regard to same store sales, the limited published data available indicates that A&W continues to outperform the competition.

Food Services is currently focusing on a number of strategic initiatives aimed at accelerating progress toward the Mission "to become the number one choice of the baby boomers":

1. New Menu Boards

During 2003 A&W restaurants are to be refitted with new menu boards. The new boards have delivered a 2% increase in the average cheque in the control group of test restaurants. These new menu boards have now been approved as a standard for A&W restaurants and are to be installed in substantially all restaurants in 2003.

2. Restaurant Re-imaging

A&W is currently in the midst of a major restaurant re-imaging program. The re-imaging program incorporates a number of A&W design features which research has shown to have a strong connection with baby boomer consumers. Re-imaged restaurants in a control group of test restaurants have delivered sales gains of 5%. Eighty-five freestanding restaurants have now been re-imaged with new colours, graphics and signage, 25 are in progress and a further 52 have signed up to complete the program during the remainder of 2003.

3. Climate Goal Program Extension

A&W's Climate Goal program is a successful workplace initiative that has reduced employee turn-over and increased commitment to outstanding food and service. In 2003, A&W will continue to extend and strengthen the Climate Goal program in all A&W restaurants.

4. New Advertising and Promotional Campaign

A&W has conducted research that affirms Canadian baby boomers' strong connection to their memories of A&W and to A&W's outstanding food. A new advertising and promotional program focusing on these boomer connections has been developed and implemented in 2003.

5. New Restaurant Development

A&W plans to open 30 to 32 traditional new restaurants in 2003 and close 10 to 12 locations for a net gain of 18 to 22 restaurants. A&W continues to pursue new restaurant development in Ontario, Quebec and Atlantic Canada where consumer response has been particularly strong, with several recently-opened restaurants achieving record sales levels.

A&W faced unprecedented challenges in 2003. The continued superior competitive performance of A&W despite these challenges demonstrates the stability and strength of A&W's three pillars of strategy and brand, climate and experienced management.

Consolidated Balance Sheet

Unaudited
(in thousands of dollars)

As at	June 15, 2003	December 29, 2002
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,911	\$ 11,054
Accounts receivable	3,507	5,948
Inventories	859	846
Dividends receivable	214	258
Prepaid expenses and deferred charges	84	35
Future income taxes	188	207
	9,763	18,348
Investment in A&W Trade Marks Inc. (note 2)	33,305	27,800
Future income taxes	3,246	2,776
Property, plant and equipment	1,809	1,453
Notes receivable	282	373
	\$ 48,405	\$ 50,750
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,769	\$ 8,170
Accrued royalties payable	2,139	2,080
Income taxes payable	364	5,138
Deposits on franchise and equipment sales	1,968	843
	10,240	16,231
Deferred gain (note 2)	33,528	29,644
Long-term liabilities	5,396	5,180
Non-controlling interest	234	80
	49,398	51,135
SHAREHOLDERS' DEFICIENCY		
Capital stock	10,500	10,500
Deficit	(11,493)	(10,885)
	(993)	(385)
	\$ 48,405	\$ 50,750

Consolidated Statement of Earnings and Retained Earnings (Deficit)

Unaudited
(in thousands of dollars)

	12-week period ended June 15, 2003	12-week period ended June 16, 2002	24-week period ended June 15, 2003	24-week period ended June 16, 2002
Revenue				
Franchising	\$ 8,314	\$ 8,447	\$ 15,764	\$ 15,127
Corporate restaurants	1,503	1,390	3,035	2,770
Dividend income	737	512	1,407	618
	10,554	10,349	20,206	18,515
Operating costs and expenses	7,156	7,178	13,789	13,178
Royalty expense	3,166	2,947	5,852	4,216
	10,322	10,125	19,641	17,394
Operating earnings before the following:	232	224	565	1,121
Interest (note 3)	11	(11)	2	1,359
Amortization (note 3)	98	107	193	1,614
Non-recurring items (note 3)	—	2	—	2,027
Amortization of deferred gain	(811)	(657)	(1,621)	(1,116)
Earnings (loss) before income taxes and non-controlling interest	934	783	1,991	(2,763)
Provision for (recovery of) income taxes				
Current	(158)	(69)	248	7,663
Future income taxes	72	169	(451)	(24,508)
	(86)	100	(203)	(16,845)
Earnings for the period before non-controlling interest	1,020	683	2,194	14,082
Non-controlling interest	92	84	154	143
Earnings for the period	928	599	2,040	13,939
(Deficit) Retained earnings - beginning of period	(10,421)	(13,584)	(10,885)	10,076
Dividends paid	(2,000)	(2,000)	(2,000)	(39,000)
Refundable dividend tax	—	—	(648)	—
Deficit - end of period	\$ (11,493)	\$ (14,985)	\$ (11,493)	\$ (14,985)

Consolidated Statement of Cash Flows

Unaudited

(in thousands of dollars)

	12-week period ended June 15, 2003	12-week period ended June 16, 2002	24-week period ended June 15, 2003	24-week period ended June 16, 2002
Cash flows from operating activities				
Net earnings for the period	\$ 928	\$ 599	\$ 2,040	\$ 13,939
Items not affecting cash				
Amortization	98	107	193	1,614
Decrease (increase) in future income taxes – non-current	76	169	(470)	(24,508)
Loss (gain) on disposal of property, plant and equipment	—	(2)	3	(7)
Amortization of deferred gain	(811)	(657)	(1,621)	(1,116)
Increase in long-term liabilities	108	106	216	211
Non-controlling interest's share of earnings	92	84	154	143
	491	406	515	(9,724)
Net changes in non-cash working capital	(1,247)	(3,586)	(3,549)	5,999
	(756)	(3,180)	(3,034)	(3,725)
Cash flows from investing activities				
Purchase of property, plant and equipment	(442)	(104)	(552)	(116)
Proceeds from disposal of property, plant and equipment	—	2	—	7
Proceeds from sale of intangible assets	—	—	—	84,896
	(442)	(102)	(552)	84,787
Cash flows from financing activities				
Payment of dividends	(2,000)	(2,000)	(2,000)	(39,000)
Refundable dividend tax	—	—	(648)	—
Repayment of notes receivable	67	—	91	—
Dividend to non-controlling interest	—	(176)	—	(176)
Repayment of long-term debt	—	—	—	(36,500)
	(1,933)	(2,176)	(2,557)	(75,676)
(Decrease) Increase in cash and cash equivalents	(3,131)	(5,458)	(6,143)	5,386
Cash and cash equivalents - beginning of period	8,042	14,974	11,054	4,130
Cash and cash equivalents - end of period	\$ 4,911	\$ 9,516	\$ 4,911	\$ 9,516
Cash and cash equivalents consist of:				
Cash	2,411	492	2,411	492
Short-term investments	2,500	9,024	2,500	9,024
	\$ 4,911	\$ 9,516	\$ 4,911	\$ 9,516
Supplementary cash flow information (note 3)				
Net interest received (paid)	\$ 56	\$ 71	\$ 132	\$ (1,302)
Net income taxes paid	\$ (205)	\$ (908)	\$ (5,668)	\$ (2,796)

Notes to the Interim Consolidated Financial Statements

For the 24-week period ended June 15, 2003 and June 16, 2002

Unaudited

(figures in tables are expressed in thousands of dollars)

1. Basis of Presentation

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

These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 29, 2002.

2. Investment in A&W Trade Marks Inc.

On January 5, 2003, the number of A&W restaurants for which the company pays royalties to A&W Trade Marks Inc. (Trade Marks) was increased to include the revenues from 27 new restaurants, eight of which replaced restaurants permanently closed during 2002. The company received \$5,505,000 through the issuance of 487,624 Class B shares of Trade Marks as initial consideration for the estimated additional royalty stream from the 19 net restaurants added to the royalty pool. A final adjustment to the Class B share consideration will be made in December 2003 based upon the 2003 annual gross sales reported by the new restaurants. Until the 2003 gross sales of the new restaurants are reported, 20% of the Class B shares are held in escrow.

The Class B shares comprise a portion of the \$40 million unpaid consideration on the sale of the A&W trade-marks and are recorded as an additional investment in Trade Marks with a corresponding increase in the deferred gain (\$5,505,000).

The Class B shares have substantially the same terms as the Class A shares.

3. Supplementary Earnings and Cash Flow Information

	12-week period ended June 15, 2003	12 week period ended June 16, 2002	24 week period ended June 15, 2003	24 week period ended June 16 2002
Interest expense				
Interest on long-term debt	\$ —	\$ —	\$ —	\$ 206
Interest income	(56)	(72)	(132)	(115)
Other	67	61	134	124
Settlement of debt hedging transactions	—	—	—	1,144
	\$ 11	\$ (11)	\$ 2	\$ 1,359
Amortization				
Amortization of intangible assets	\$ —	\$ —	\$ —	\$ 363
Amortization of property, plant and equipment	98	107	193	207
Write off of deferred financing fees	—	—	—	1,044
	\$ 98	\$ 107	\$ 193	\$ 1,614
Non-recurring items				
Bonus paid under phantom share plan	—	—	—	\$ 1,517
Other	—	2	—	510
	\$ —	\$ 2	\$ —	\$ 2,027
Non-cash investing activities				
Investment in A&W Trade Marks Inc.	\$ —	\$ —	\$ 5,505	\$ 27,800



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