

A&W Revenue Royalties Income Fund

Q2

Second Quarter Report to Unitholders
for the period ended
June 15, 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 second quarter ended June 15, 2008. It was an excellent quarter on all measures of performance. In particular, distributable cash increased by 13% over the same quarter for the prior year. This was driven primarily by an exceptional same stores sales growth of 9.1% for the quarter.

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 same store sales growth of 9.1% for the quarter was a very strong performance in light of continuing economic and foodservice market uncertainty in Canada. Building on strong first quarter results, same store sales growth for the year to date now stands at 7.8%. There were several important factors contributing to this success. The first was strong sales momentum established by the limited time offer of the Sirloin Burger, late in the first quarter. New advertising and promotional programs were also effective in building on A&W's appeal to the Baby Boomer target customer. The quarter also benefited from the shift of Easter from the second quarter in 2007 to the first quarter in 2008. The Easter weekend typically has a negative impact on the sales in quick service restaurants. We are also pleased that the second quarter marks the 21st straight quarter of same store sales growth.

Royalty income increased by 12.5% during the quarter. This resulted in an increase in distributable cash per unit, from 31.2 cents for the second quarter of 2007 to 34.1 cents for the same quarter of 2008. On a year to date basis, distributable cash per unit increased from 57.1 cents in 2007 to 61.3 cents in 2008. This has resulted in strong increases in actual distributions to unitholders. Through the first two quarters of 2007, total distributions per unit were 58 cents, compared to 63 cents for the first two quarters of 2008.

Looking forward, both the Trustees of the Fund and management of Food Services continue to monitor carefully and respond to the key challenges facing the foodservice industry in Canada. These include the impact of food cost inflation,

economic slowdown and the continued weakness in tourism. We are, however, very pleased with the continued success of Food Services' strategy, the resulting strong sales growth, and the performance of the Fund. We thank our unitholders who have continued to place their trust in the A&W Revenue Royalties Income Fund.

A handwritten signature in black ink, appearing to read "John R. McLernon", followed by a period.

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

A&W Revenue Royalties Income Fund Management Discussion and Analysis

This Management Discussion and Analysis covers the year to date period from January 1, 2008 to June 15, 2008 and the second quarter period from March 24, 2008 to June 15, 2008. This report is dated July 22, 2008 and should be read in conjunction with the Fund's interim unaudited financial statements for the quarter ended June 15, 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 June 15, 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. There were 84 days in the second quarter of both years. 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 9.1% for the quarter and 7.8% year to date compared to 2007. Royalty income for the quarter increased by \$545,000 or 12.5% over the same quarter in 2007. Year to date royalty income increased by \$858,000 or 10.5% over the same period in 2007. These increases are 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 \$351,000 to \$772,000 compared to \$421,000 for the same quarter of 2007. Trade Marks' year to date earnings increased by \$552,000 to \$828,000 compared to \$276,000 for 2007 year to date. 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 \$2,521,000 or 30.2¢ per unit compared to \$2,325,000 or 27.9¢ per unit for the same quarter in 2007. The increase in earnings is due primarily to the Fund's share of the increase in Trade Marks' earnings. The Fund's year to date earnings were \$5,194,000 or 62.3¢ per unit compared to \$4,298,000 or 51.5¢ per unit for the same period in 2007. The increase in the Fund's year to date earnings resulted from its share of the increase in Trade Marks' earnings and from a dilution gain recognized in the first 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 13.0% to \$4,747,000 for the quarter and by 11.1% to \$8,532,000 year to date. 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 interim unaudited financial statements of the Fund and Trade Marks.

(dollars in thousands except per unit amounts)	12 week period ended Jun 15, 2008	12 week period ended Jun 17, 2007	Period from Jan 1, 2008 to Jun 15, 2008	Period from Jan 1, 2007 to Jun 17, 2007
Same store sales growth	9.1%	4.6%	7.8%	4.1%
Number of restaurants in the Royalty Pool	676	660	676	660
Sales reported by the restaurants in the Royalty Pool	\$163,652	\$145,499	\$302,191	\$273,613
Royalty income	\$4,910	\$4,365	\$9,066	\$8,208
General and administrative expenses	\$51	\$53	\$291	\$304
Net third party interest expense	\$112	\$110	\$218	\$221
Trade Marks' net earnings	\$772	\$421	\$828	\$276
The Fund's net earnings	\$2,521	\$2,325	\$5,194	\$4,298
The Fund's basic and diluted earnings per unit (8,340,000 units)	\$0.302	\$0.279	\$0.623	\$0.515
Total distributable cash generated for distributions and dividends ⁽¹⁾	\$4,747	\$4,202	\$8,532	\$7,683
Distributable cash per equivalent unit (2008 – 13,924,371 units; 2007 – 13,473,911 units)	\$0.341	\$0.312	\$0.613	\$0.571
Monthly distributions declared per unit (8,340,000 units)	\$0.318	\$0.300	\$0.530	\$0.500
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)	June 15, 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		238		-
	5,584,371	60,480	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 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 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. Concurrently, Emerging Issues Committee abstract 27 “Revenues and Expenses During the Pre-Operating Period” will be withdrawn which will result in these costs being expensed as incurred. 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.

International Financial Reporting Standards (IFRS)

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In

February 2008, the AcSB announced that 2011 is the transition date for publicly reported companies to use IFRS, replacing Canadian GAAP. The effective date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Fund and Trade Marks for the year ended December 31, 2010. While the Fund and Trade Marks have begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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:

	June 15, 2008 ⁽¹⁾		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: ⁽²⁾				
Class A ⁽³⁾	2,779,975	20.0	2,779,975	20.6
Class B ⁽⁴⁾	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) Information is current as at July 22, 2008

(2) May be redeemed into A&W notes of Trade Marks on the basis of \$10 principal amount of A&W notes for one Class A or Class B preferred share and, in turn, one common share of Trade Marks and a \$10 A&W note are exchangeable for a unit in the Fund.

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

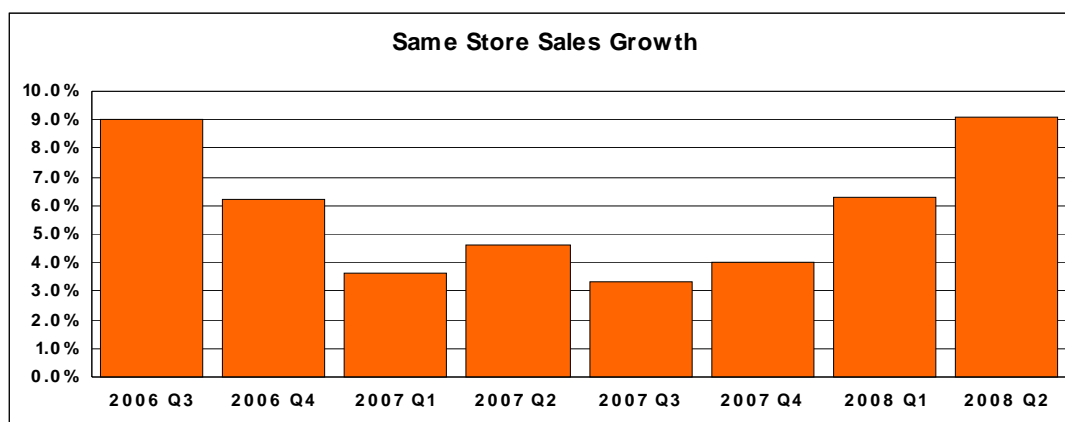
(4) Represents Class B preferred shares issued to Food Services as consideration for annual adjustments to the Royalty Pool.

SAME STORE SALES GROWTH

The source of revenue for Trade Marks is royalty income from Food Services. Royalty income is equal to 3% of sales of the A&W restaurants in the Royalty Pool. 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 9.1% for the second quarter of 2008 compared to the same quarter of 2007, and 7.8% year to date. Same store sales growth has now been positive for 21 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 quarter ended June 15, 2008, the Fund earned interest income from Trade Marks on the A&W notes of \$2,059,000, a decrease of \$5,000 from 2007. Year to date interest income was \$4,092,000, a decrease of \$35,000 from the same period of 2007 due to the shorter first quarter in 2008.

The Fund's share of Trade Marks' earnings was \$462,000 for the quarter and \$496,00 year to date compared to \$261,000 for the quarter and \$171,000 year to date last year. The Fund's ownership interest in Trade Marks is 59.9% in 2008 and was 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 first quarter of 2008 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 second quarter was \$4,910,000 based on sales of \$163,652,000 reported by the A&W restaurants in the Royalty Pool. This was an increase of 12.5% over royalty income of \$4,365,000 and sales of \$145,499,000 during the same quarter of 2007. Year to date royalty income was \$9,066,000 based on sales of \$302,191,000, an increase of 10.5% over royalty income of \$8,208,000 and sales of \$273,613,000 for 2007 year to date. These increases are due to the combined impact of the additional net 16 restaurants in the Royalty Pool and the same store sales increase of 9.1% for the quarter and 7.8% year to date.

EXPENSES AND TAXES

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

(dollars in thousands)	12 week period ended Jun 15, 2008	12 week period ended Jun 17, 2007	Period from Jan 1, 2008 to Jun 15, 2008	Period from Jan 1, 2007 to Jun 17, 2007
General and administrative	\$51	\$53	\$291	\$304
Amortization of deferred financing fees	1	5	6	9
Interest on term loan	133	134	266	268
Interest income	(21)	(24)	(48)	(47)
Interest on A&W notes	2,059	2,064	4,092	4,127
Dividends on Class A&B preferred shares ⁽¹⁾	1,378	1,261	2,739	2,522
Future income taxes	537	451	892	749

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

General and administrative expenses in the second quarter, including expenses for the Fund under the administration agreement between Trade Marks and the Fund, decreased by \$2,000 to \$51,000, compared to \$53,000 in the second quarter of 2007. Year to date general and administrative expenses decreased by \$13,000 to \$291,000 compared to \$304,000 for 2007 year to date. The decrease was due to lower costs for the annual report and professional services.

Trade Marks' interest expense on its term loan was \$133,000 for the second quarter and \$266,000 year to date compared to \$134,000 for the quarter and \$268,000 year to date for 2007. Interest on the A&W notes was \$2,059,000 for the quarter and \$4,092,000 year to date compared to \$2,064,000 for the quarter and \$4,127,000 year to date last year. The change in interest expense between years was due to the difference in the number of days in the first quarter. Interest income was \$21,000 for the quarter and \$48,000 year to date compared to \$24,000 for the quarter and \$47,000 year to date last year.

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 \$117,000, from \$1,261,000 in the second quarter of 2007 to \$1,378,000 in 2008. The year to date increase was \$217,000, from \$2,522,000 in 2007 to \$2,739,000 in 2008. The increase was due to the additional Class B shares issued on January 5, 2008. Dividends on Class A and B preferred shares totalling \$2,501,000 year to date were declared payable to Food Services, leaving a balance of dividends accrued but not yet declared of \$238,000.

Future income taxes, a non-cash expense, increased by \$86,000 for the quarter and \$143,000 year to date due to the increase in earnings before taxes.

NET EARNINGS AND COMPREHENSIVE EARNINGS

The Fund's net earnings for the quarter were \$2,521,000 or 30.2¢ per unit compared to \$2,325,000 or 27.9¢ for the same quarter in 2007. Year to date net earnings were \$5,194,000 or 62.3¢ per unit compared to \$4,298,000 or 51.5¢ for the prior year. The increase in the Fund's net earnings was 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 the first quarter of 2008.

Trade Marks' net earnings increased by \$351,000 to \$772,000 for the quarter compared to \$421,000 for the same quarter of 2007. Trade Marks' year to date net earnings increased by \$552,000 to \$828,000 compared to \$276,000 for 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, Trade Marks recorded other comprehensive income of \$119,000 in the second quarter and other comprehensive loss of \$115,000 year to date to reflect the change in the fair value of the interest rate swap agreement, net of tax. There was no other comprehensive income or loss recorded in 2007 as the change in the value of the interest rate swap was not material. Trade Marks' comprehensive earnings (net earnings plus other comprehensive income or loss) was \$891,000 for the quarter and \$713,000 year to date, compared to \$421,000 for the quarter and \$276,000 year to date for 2007.

The Fund's share of Trade Marks' other comprehensive income for the quarter was \$71,000 and the Fund's share of Trade Marks' year to date other comprehensive

loss was \$69,000. The Fund's comprehensive income (net earnings plus other comprehensive income or loss) was \$2,592,000 for the quarter and \$5,125,000 year to date, compared to \$2,325,000 for the quarter and \$4,298,000 year to date 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)	12 week period ended Jun 15, 2008	12 week period ended Jun 17, 2007	Period from Jan 1, 2008 to Jun 15, 2008	Period from Jan 1, 2007 to Jun 17, 2007
Trade Marks' cash flow from operating activities	\$817	\$497	\$2,302	\$1,779
Add: Changes in accrued dividends	123	108	(238)	(239)
Dividends on Class A & B preferred shares	1,378	1,261	2,739	2,522
Changes in non-cash working capital	370	272	(338)	(506)
Financing fees	-	-	(25)	-
Distributable cash – Trade Marks	2,688	2,138	4,440	3,556
The Fund's cash flow from operating activities	2,220	2,187	3,741	3,739
Add: Changes in non-cash working capital	(161)	(123)	351	388
Distributable cash – the Fund	2,059	2,064	4,092	4,127
Total distributable cash	\$4,747	\$4,202	\$8,532	\$7,683
Cumulative surplus – beginning of period	2,493	2,212	4,117	3,517
Distributable cash for unitholders at current average distribution rate (2008 - \$1.272 per unit, 2007 - \$1.200 per unit)	(2,434)	(2,303)	(4,840)	(4,606)
Distributable cash for Food Services at current average distribution rate (2008 - \$1.272 per share, 2007 - \$1.200 per share)	(1,630)	(1,408)	(3,241)	(2,816)
Special distribution paid to unitholders	-	-	(834)	(667)
Equivalent special dividend paid to Food Services	-	-	(558)	(408)
Cumulative surplus – end of period	\$3,176	\$2,703	\$3,176	\$2,703
Distributable cash per equivalent unit	\$0.341	\$0.312	\$0.613	\$0.571
Number of equivalent units	13,924,371	13,473,911	13,924,371	13,473,911
Monthly distributions declared per unit (8,340,000 units)	\$0.318	\$0.300	\$0.530	\$0.500
Special distributions declared per unit (8,340,000 units)	-	-	\$0.100	\$0.080
Payout ratio (excluding special distribution)	93.3%	96.2%	86.5%	87.6%
Payout ratio (including special distribution)	93.3%	96.2%	102.8%	101.6%

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 \$545,000 to \$4,747,000 for the quarter and by \$849,000 to \$8,532,000 year to date due to the increase in royalty income discussed previously.

Distributable cash for unitholders increased by \$131,000 to \$2,434,000 for the quarter and by \$234,000 to \$4,840,000 year to date due to the increase in the annual distribution rate to the current rate of \$1.272 per unit from \$1.200 per unit at the end of the second quarter of 2007.

Distributable cash for dividends to Food Services increased by \$222,000 to \$1,630,000 for the quarter and by \$425,000 to \$3,241,000 year to date. The increase was 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 \$0.318 per equivalent unit compared to distributable cash generated of \$0.341. Year to date monthly distributions and dividends were \$0.530 per equivalent unit compared to distributable cash generated of \$0.613. 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 year to date to \$0.630 per equivalent unit.

At the end of the quarter there was a cumulative surplus of distributable cash of \$3,176,000 compared to a cumulative surplus of \$4,117,000 at the end of 2007.

DISTRIBUTIONS TO UNITHOLDERS

During the year to date ended June 15, 2008, the Fund declared monthly distributions to unitholders totaling \$4,420,000 or \$0.530 per unit, compared to \$4,170,000 or \$0.500 during 2007 year to date. Also during the year to date, 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 6, 2008	February 29, 2008	834	0.100
February 2008	March 5, 2008	March 31, 2008	884	0.106
March 2008	April 4, 2008	April 30, 2008	884	0.106
April 2008	May 2, 2008	May 30, 2008	884	0.106
May 2008	June 3, 2008	June 30, 2008	884	0.106
			\$5,254	\$0.630

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 first quarter of 2008.

The May 2008 distribution of \$884,000 which was declared on June 3, 2008 and paid on June 30, 2008 is reported as a current liability at June 15, 2008.

On July 2, 2008, the Fund declared the June 2008 monthly distribution to unitholders of \$0.106 per unit or \$884,000, payable on July 31, 2008 to unitholders of record as at July 15, 2008.

TAX TREATMENT OF DISTRIBUTIONS

Of the \$0.630 per unit in distributions declared year to date, \$0.4479 per unit or 71.1% will be taxable to unitholders as other investment income and \$0.1821 per unit or 28.9% will be designated as non-eligible dividends.

DIVIDENDS ON TRADE MARKS' COMMON SHARES

During the year to date, Trade Marks declared dividends on its common shares totaling \$2,535,000 or \$0.1821 per share, of which \$1,519,000 was earned by the Fund and \$1,016,000 was earned by Food Services. The May 2008 dividend of \$229,000 which was declared on June 3, 2008 and paid on June 30, 2008 is reported as a current liability of Trade Marks at June 15, 2008. The Fund's share of \$137,000 is reported as a receivable by the Fund at June 15, 2008. During the quarter, Trade Marks declared common share dividends totaling \$685,000.

On July 2, 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 July 31, 2008.

DIVIDENDS ON TRADE MARKS' CLASS A AND B PREFERRED SHARES

During the year to date, Trade Marks declared dividends on its Class A and B preferred shares totaling \$2,501,000 or \$0.4479 per share. The May 2008 dividends of \$500,000 which were declared on June 3, 2008 and paid to Food Services on June 30, 2008 are reported as a current liability of Trade Marks at June 15, 2008. During the quarter, Trade Marks declared dividends on the Class A and B preferred shares of \$1,501,000.

On July 2, 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 July 31, 2008.

SUMMARY OF QUARTERLY RESULTS

(dollars in thousands except per unit amounts)	Q2 2008	Q1 2008	Q4 2007	Q3 2007
Number of restaurants in the Royalty Pool	676	676	660	660
Royalty income	\$4,910	\$4,156	\$6,194	\$4,761
The Fund's interest income	\$2,059	\$2,033	\$2,775	\$2,064
The Fund's net earnings	\$2,521	\$2,673	\$3,792	\$2,520
Basic and diluted earnings per unit	\$0.302	\$0.321	\$0.455	\$0.302
Distributable cash	\$4,747	\$3,785	\$5,928	\$4,599
Number of equivalent units	13,924,371	13,924,371	13,473,911	13,473,911
Distributable cash per equivalent unit	\$0.341	\$0.272	\$0.440	\$0.341
Distributions declared	\$2,652	\$2,602	\$3,511	\$2,552
Monthly distributions declared per unit (8,340,000 units)	\$0.318	\$0.212	\$0.421	\$0.306
Special distribution declared per unit	-	\$0.100	-	-
Number of days in the quarter	84	83	113	84

(dollars in thousands except per unit amounts)	Q2 2007	Q1 2007	Q4 2006	Q3 2006
Number of restaurants in the Royalty Pool	660	660	654	654
Royalty income	\$4,365	\$3,843	\$5,745	\$4,492
The Fund's interest income	\$2,064	\$2,063	\$2,751	\$2,064
The Fund's net earnings	\$2,325	\$1,973	\$4,355	\$2,467
Basic and diluted earnings per unit	\$0.279	\$0.237	\$0.522	\$0.296
Distributable cash	\$4,202	\$3,481	\$5,490	\$4,339
Number of equivalent units	13,473,911	13,473,911	13,138,455	13,138,455
Distributable cash per equivalent unit	\$0.312	\$0.259	\$0.418	\$0.330
Distributions declared	\$2,502	\$2,335	\$3,311	\$2,410
Monthly distributions declared per unit (8,340,000 units)	\$0.300	\$0.200	\$0.397	\$0.289
Special distribution declared	-	\$0.080	-	-
Number of days in the quarter	84	84	112	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 June 15, 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 June 15, 2008 was \$19,532,000.

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 June 15, 2008 is \$144,000 unfavourable and is recorded in other comprehensive earnings, 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 year to date was \$4,092,000 (2007 - \$4,127,000), of which \$1,127,000 (December 31, 2007 - \$761,000) is receivable by the Fund from Trade Marks at June 15, 2008. Interest expense on the A&W notes for the quarter was \$2,059,000 (2007 - \$2,064,000).

During the year to date, royalty income of \$9,066,000 (2007 - \$8,208,000) was earned by Trade Marks from Food Services, of which \$1,680,000 (December 31, 2007 - \$1,632,000) is receivable by Trade Marks at June 15, 2008. Royalty income earned during the quarter was \$4,910,000 (2007 - \$4,365,000).

As at June 15, 2008, \$51,000 (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 June 15, 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 \$144,000 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 and preferred 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 experience good results in the second quarter, despite challenging market conditions, as a result of its key strategic initiatives. A&W is a strategy driven company, whose mission is “to be the number one burger choice of the baby boomer generation”. A&W’s key strategic initiatives involve building a powerful bond with the baby boomer customer through advertising and promotional programs, facilities design and menu innovation.

During the first quarter this year, A&W introduced for a limited time, the A&W Sirloin Burger. This product was extremely successful and built sales momentum which continued into the second quarter. In addition, new advertising programs were introduced during the second quarter which focused on building A&W's reputation as having the best tasting burger in Canada.

During the next quarter A&W will focus once again on its signature "Cruisin' the Dub" program. This is a series of restaurant events which celebrate classic cars and the music and fun of the drive-in era. During 2007 over 2,500 of these events were held at freestanding A&W restaurants across the country. During 2008, the number of events is projected to increase as the program gains momentum. "Cruisin' the Dub" events are a powerful differentiator for A&W, building excitement among existing customers and attracting new customers to restaurants across Canada.

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 second quarter ended June 15, 2008

Balance Sheets

Unaudited

(in thousands of dollars)

	June 15 2008	December 31 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 8	\$ 3
Due from A&W Trade Marks Inc. (note 4)	1,264	897
	1,272	900
Investment in A&W Trade Marks Inc. (note 2)	76,333	76,819
	\$ 77,605	\$ 77,719
Liabilities		
Current liabilities		
Distribution payable to Unitholders (note 3)	\$ 884	\$ 884
Due to A&W Trade Marks Inc. (note 4)	51	36
	935	920
Unitholders' Equity:		
Capital contributions	77,115	77,115
Accumulated earnings	60,258	55,064
Accumulated distributions (note 3)	(60,634)	(55,380)
Accumulated other comprehensive loss	(69)	-
	76,670	76,799
	\$ 77,605	\$ 77,719

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)

	12 week period ended Jun 15, 2008	12 week period ended Jun 17, 2007	Period from Jan 1, 2008 to Jun 15, 2008	Period from Jan 1, 2007 to Jun 17, 2007
Interest income	\$ 2,059	\$ 2,064	\$ 4,092	\$ 4,127
Equity in earnings of A&W Trade Marks Inc.	462	261	496	171
Dilution gain	-	-	606	-
Net earnings for the period	2,521	2,325	5,194	4,298
Accumulated earnings - beginning of period	57,737	46,427	55,064	44,454
Accumulated earnings - end of period	\$ 60,258	\$ 48,752	\$ 60,258	\$ 48,752
Basic and diluted earnings per Unit (8,340,000 Units)	\$ 0.302	\$ 0.279	\$ 0.623	\$ 0.515

See accompanying notes to these financial statements.

A&W Revenue Royalties Income Fund

Statements of Comprehensive Income

Unaudited

(in thousands of dollars)

	12 week period ended Jun 15, 2008	12 week period ended Jun 17, 2007	Period from Jan 1, 2008 to Jun 15, 2008	Period from Jan 1, 2007 to Jun 17, 2007
Net earnings for the period	\$ 2,521	\$ 2,325	\$ 5,194	\$ 4,298
Other comprehensive earnings (loss), net of income taxes				
Equity in change in fair value of A&W Trade Marks Inc.'s interest rate swap	71	-	(69)	-
Comprehensive income for the period	\$ 2,592	\$ 2,325	\$ 5,125	\$ 4,298

See accompanying notes to these financial statements.

A&W Revenue Royalties Income Fund

Statements of Cash Flows

Unaudited

(in thousands of dollars)

	12 week period ended Jun 15, 2008	12 week period ended Jun 17, 2007	Period from Jan 1, 2008 to Jun 15, 2008	Period from Jan 1, 2007 to Jun 17, 2007
Cash flows from operating activities				
Net earnings for the period	\$ 2,521	\$ 2,325	\$ 5,194	\$ 4,298
Items not affecting cash				
Equity in earnings of A&W Trade Marks Inc.	(462)	(261)	(496)	(171)
Dilution gain	-	-	(606)	-
	2,059	2,064	4,092	4,127
Net changes in non-cash working capital	161	123	(351)	(388)
	2,220	2,187	3,741	3,739
Cash flows from investing activities				
Dividends received from A&W Trade Marks Inc.	411	261	1,518	1,101
Cash flows from financing activities				
Distributions paid to Unitholders	(2,652)	(2,502)	(5,254)	(4,837)
(Decrease) Increase in cash for the period	(21)	(54)	5	3
Cash and cash equivalents - beginning of period	29	59	3	2
Cash and cash equivalents - end of period	\$ 8	\$ 5	\$ 8	\$ 5
Supplementary cash flow information				
Interest received	\$ 2,205	\$ 2,187	\$ 3,726	\$ 3,710

See accompanying notes to these financial statements.

A&W Revenue Royalties Income Fund

Notes to the Interim Financial Statements

For the second quarter ended June 15, 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 June 15, 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 second quarter of 2008 ended June 15, 2008 (2007 – June 17, 2007), 24 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.

Future Accounting Changes

On January 1, 2009, the Fund 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. Concurrently, Emerging Issues Committee abstract 27 “Revenues and Expenses During the Pre-Operating Period” will be withdrawn which will result in these costs being expensed as incurred. 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 financial results.

International Financial Reporting Standards (IFRS)

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the transition date for publicly reported companies to use IFRS, replacing Canadian GAAP. The effective date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Fund for the year ended December 31, 2010. While the Fund has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

2. Investment in A&W Trade Marks Inc.

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

	June 15, 2008	December 31, 2007
Common shares	\$1	\$1
A&W notes receivable	83,399	83,399
Cumulative equity in loss	(4,773)	(5,269)
Cumulative dividends	(4,247)	(2,728)
Cumulative dilution gain	2,022	1,416
Cumulative equity in other comprehensive loss	(69)	-
	<u>\$76,333</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 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 year to date ended June 15, 2008, the Fund declared monthly distributions to Unitholders totaling \$4,420,000 or \$0.530 per Unit. Also during the year to date, 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
March 2008	April 4, 2008	April 30, 2008	884	0.106
April 2008	May 2, 2008	May 30, 2008	884	0.106
May 2008	June 3, 2008	June 30, 2008	884	0.106
			5,254	\$ 0.630
Accumulated distributions - beginning of period			55,380	
Accumulated distributions - end of period			\$ 60,634	

The May 2008 distribution of \$884,000 which was declared on June 3, 2008 and paid on June 30, 2008 is reported as a current liability at June 15, 2008.

4. Related party transactions and balances

During the year to date, interest income of \$4,092,000 (2007 - \$4,127,000) was earned from Trade Marks on the A&W notes receivable, of which \$1,127,000 (December 31, 2007 - \$761,000) is receivable at June 15, 2008. Interest income for the quarter was \$2,059,000 (2007 - \$2,064,000).

Dividends of \$1,519,000 (2007 - \$1,102,000) were earned from Trade Marks during the year to date, of which \$137,000 (December 31, 2007 - \$136,000) is receivable at June 15, 2008. Dividends earned in the quarter were \$411,000 (2007 - \$261,000).

The Fund has entered into an administration agreement with Trade Marks whereby Trade Marks, at its expense, provides or arranges for the provision of services required in the administration of the Fund.

Included in current liabilities is \$51,000 (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 July 2, 2008, the Fund declared a distribution to Unitholders of \$0.106 per Unit or \$884,000, payable on July 31, 2008 to Unitholders of record as at July 15, 2008.

A&W Trade Marks Inc.

Financial Statements

For the second quarter ended June 15, 2008

Balance Sheets

Unaudited
(in thousands of dollars)

	June 15 2008	December 31 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 3,790	\$ 4,039
Accounts receivable (note 7)	1,731	1,682
Prepaid interest	72	104
Future income taxes	876	1,376
	6,469	7,201
Intangible assets (note 2)	156,112	150,094
	\$ 162,581	\$ 157,295
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	\$ 1,289	\$ 974
Dividends payable (notes 5 and 6)	729	680
	2,018	1,654
Term loan (note 3)	10,121	9,996
Future income taxes	14,149	13,786
A&W notes payable (note 4)	83,399	83,399
Class A and Class B preferred shares (note 5)	60,480	55,219
	170,167	164,054
Shareholders' deficiency:		
Common shares (note 6)	2,915	1,920
Deficit	(10,386)	(8,679)
Accumulated other comprehensive loss	(115)	-
	(7,586)	(6,759)
	\$ 162,581	\$ 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 and Deficit

Unaudited

(in thousands of dollars)

	12 week period ended Jun 15, 2008	12 week period ended Jun 17, 2007	Period from Jan 1, 2008 to Jun 15, 2008	Period from Jan 1, 2007 to Jun 17, 2007
Gross sales reported by A&W restaurants in the Royalty Pool	\$ 163,652	\$ 145,499	\$ 302,191	\$ 273,613
Royalty income	\$ 4,910	\$ 4,365	\$ 9,066	\$ 8,208
Expenses				
General and administrative	51	53	291	304
Interest expense				
- term loan and other (note 9)	113	115	224	230
- A&W notes payable	2,059	2,064	4,092	4,127
- Class A and B preferred share dividends	1,378	1,261	2,739	2,522
	3,601	3,493	7,346	7,183
Earnings before income taxes	1,309	872	1,720	1,025
Provision for future income taxes	537	451	892	749
Net earnings for the period	772	421	828	276
Deficit - beginning of period	(10,473)	(9,506)	(8,679)	(8,006)
Dividends declared on common shares	(685)	(420)	(2,535)	(1,775)
Deficit - end of period	\$ (10,386)	\$ (9,505)	\$ (10,386)	\$ (9,505)

See accompanying notes to these financial statements.

A&W Trade Marks Inc.

Statements of Comprehensive Earnings

Unaudited

(in thousands of dollars)

	12 week period ended Jun 15, 2008	12 week period ended Jun 17, 2007	Period from Jan 1, 2008 to Jun 15, 2008	Period from Jan 1, 2007 to Jun 17, 2007
Net earnings for the period	\$ 772	\$ 421	\$ 828	\$ 276
Other comprehensive income (loss), net of income taxes				
Change in fair value of the interest rate swap	119	-	(115)	-
Comprehensive earnings for the period	\$ 891	\$ 421	\$ 713	\$ 276

See accompanying notes to these financial statements.

A&W Trade Marks Inc.

Statements of Cash Flows

Unaudited

(in thousands of dollars)

	12 week period ended Jun 15, 2008	12 week period ended Jun 17, 2007	Period from Jan 1, 2008 to Jun 15, 2008	Period from Jan 1, 2007 to Jun 17, 2007
Cash flows from operating activities				
Net earnings for the period	\$ 772	\$ 421	\$ 828	\$ 276
Items not affecting cash				
Amortization of deferred financing fees	1	5	6	9
Provision for future income taxes	537	451	892	749
Change in accrued dividends	(123)	(108)	238	239
	1,187	769	1,964	1,273
Changes in non-cash working capital	(370)	(272)	338	506
	817	497	2,302	1,779
Cash flows from financing activities				
Financing fees paid	-	-	(25)	-
Dividends paid on common shares	(685)	(420)	(2,526)	(1,772)
	(685)	(420)	(2,551)	(1,772)
Increase (decrease) in cash for the period	132	77	(249)	7
Cash and cash equivalents - beginning of period	3,658	3,298	4,039	3,368
Cash and cash equivalents - end of period	\$ 3,790	\$ 3,375	\$ 3,790	\$ 3,375
Supplementary cash flow information				
Interest paid on term loan and A&W notes payable	\$ (2,308)	\$ (2,326)	\$ (3,914)	\$ (3,940)
Dividends paid on Class A and B preferred shares	\$ (1,501)	\$ (1,369)	\$ (2,461)	\$ (2,256)
Taxes recovered	\$ -	\$ 65	\$ -	\$ 65
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 second quarter ended June 15, 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 June 15, 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' second quarter of 2008 ended June 15, 2008 (2007 – June 17, 2007), 24 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.

Future Accounting Changes

On January 1, 2009, 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. Concurrently, Emerging Issues Committee abstract 27 “Revenues and Expenses During the Pre-Operating Period” will be withdrawn which will result in these costs being expensed as incurred. 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 Trade Marks’ financial results.

International Financial Reporting Standards (IFRS)

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the transition date for publicly reported companies to use IFRS, replacing Canadian GAAP. The effective date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by Trade Marks for the year ended December 31, 2010. While Trade Marks has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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. Until then, 20% of the shares will be held in escrow.

3. Term loan and operating bank line of credit

Trade Marks has a demand operating loan facility with HSBC Bank Canada of \$2,000,000 to fund working capital requirements and for general corporate purposes. The operating loan bears interest at the bank prime rate plus 0.5%

and is repayable on demand. As at June 15, 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 June 15, 2008 is \$144,000 unfavourable, and is recorded in other comprehensive income (loss), net of tax.

Trade Marks’ term loan is comprised of:

	June 15, 2008	December 31, 2007
	\$	\$
Term loan	10,000	10,000
Deferred financing fees	(23)	(4)
Change in the fair value of the interest rate swap	144	-
	<u>10,121</u>	<u>9,996</u>

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:

	June 15, 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		238		-
	5,584,371	60,480	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 year to date, Trade Marks declared dividends on its Class A and B preferred shares totaling \$2,501,000 or \$0.4479 per share. The May dividends of \$500,000 which were declared on June 3, 2008 and paid to Food Services on June 30, 2008 are reported as a current liability at June 15, 2008. During the quarter, Trade Marks declared dividends on the Class A and B preferred shares of \$1,501,000.

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 year to date, Trade Marks declared dividends on its common shares totaling \$2,535,000 or \$.1821 per share. The May 2008 dividend of \$229,000 which was declared on June 3, 2008 and paid to Food Services and the Fund on June 30, 2008 is reported as a current liability as at June 15, 2008. During the quarter, Trade Marks declared common share dividends totaling \$685,000.

7. Related party transactions and balances

During the year to date, royalty income of \$9,066,000 (2007 - \$8,208,000) was earned from Food Services, of which \$1,680,000 (December 31, 2007 - \$1,632,000) is receivable at June 15, 2008. Royalty income earned during the quarter was \$4,910,000 (2007 - \$4,365,000).

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

Interest expense on the A&W notes for the year to date was \$4,092,000 (2007 - \$4,127,000), of which \$1,127,000 (December 31, 2007 - \$761,000) is payable to the Fund at June 15, 2008. Interest expense on the A&W notes for the quarter was \$2,059,000 (2007 - \$2,064,000).

Included in accounts receivable is \$51,000 (December 31, 2007 – \$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

	12 week period ended Jun 15, 2008	12 week period ended Jun 17, 2007	Period from Jan 1, 2008 to Jun 15, 2008	Period from Jan 1, 2007 to Jun 27, 2007
	\$	\$	\$	\$
Interest expense	133	134	266	268
Interest income	(21)	(24)	(48)	(47)
Amortization of deferred financing fees	1	5	6	9
	113	115	224	230

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 \$144,000 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 which earn interest at market rates, and 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.

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 and preferred 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 July 2, 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 July 31, 2008. On July 2, 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 July 31, 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⁾

Investor Enquiries

Don Leslie
Chief Financial Officer

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

A&W Trade Marks Inc. Board of Directors

John R. McLernon ⁽²⁾
Chairman
Conrad A. Pinette ⁽²⁾
Carl P. Vanderspek ⁽²⁾
Jefferson J. Mooney
David A. Mindell

E-mail: investorrelations@aw.ca
Website: www.awincomefund.ca

Committees of the Board
⁽¹⁾ Audit Committee and
⁽²⁾ Governance Committee



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

www.awincomefund.ca



A&W Food Services of Canada Inc.

Q2/2008

**Consolidated Financial
Statements**

For the second quarter ended
June 15, 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 June 15, 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 June 15, 2008. This report is dated July 22, 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 June 15, 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 of 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’ second quarter ended 24 weeks after its fiscal year end.

Same Store Sales

Same store sales at A&W restaurants grew by 9.1% in the second quarter of 2008. This marks the 21st consecutive quarter of positive same store sales growth. Year to date same store sales grew by 7.8%.

System Sales

System sales grew 11.6% for the quarter and 10.2% year to date. For the 12 weeks ended June 15, 2008, total system sales for all A&W restaurants in Canada were \$167,989,000, an increase of \$17,536,000 from the same period in 2007. Year to date system sales were \$310,775,000, an increase of \$28,784,000 from the prior year. This increase was due to the increase in the number of restaurants from 676 to 686 and the 7.8% same store sales growth.

New Restaurant Development and Restaurant Closures

Food Services opened two new franchised A&W restaurants in the second quarter of 2008, compared to two new restaurants opened in the second quarter of 2007. Four new restaurants have opened in 2008 year to date, compared to six in 2007 year to date. One low volume restaurant closed in the second quarter compared to two closures in the second quarter of 2007. Year to date, one restaurant has closed compared to four in the same period in 2007. As at June 15, 2008, there were 686 A&W restaurants in Canada, of which 676 were operated by franchisees, nine were corporately owned and operated in the Ottawa region, and one was operated corporately while being held for refranchising.

Consolidated Financial Highlights

(dollars in thousands)	12 week period ended June 15, 2008	12 week period ended June 17, 2007	24 week period ended June 15, 2008	24 week period ended June 17, 2007
System sales	\$167,989	\$150,453	\$310,775	\$281,991
System sales growth	11.6%	8.4%	10.2%	7.7%
Same store sales growth	9.1%	4.6%	7.8%	4.1%
New restaurants opened	2	2	4	6
Restaurants closed	1	2	1	4
Number of restaurants	686	676	686	676
Franchising & corporate restaurant revenue	\$15,677	\$14,267	\$28,568	\$26,847
Direct costs and administrative expenses	\$10,293	\$9,680	\$19,147	\$19,135
Earnings before interest, amortization, taxes and non-controlling interests	\$5,384	\$4,587	\$9,421	\$7,712
Net earnings	\$1,782	\$1,347	\$3,032	\$2,052

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)	June 15, 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		238		
	5,584,371	60,480	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 June 15, 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. Concurrently, Emerging Issues Committee abstract 27, "Revenues and Expenses During the Pre-Operating Period" will be withdrawn which will result in these costs being expensed as incurred. 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.

International Financial Reporting Standards (IFRS)

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the transition date for publicly reported companies to use IFRS, replacing Canadian GAAP. The effective date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by Food Services for the year ended December 31, 2010. While Food Services has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

2008 Operating Results

Revenue

Food Services' second quarter franchising and corporate revenue was \$15,677,000, compared to \$14,267,000 for the second quarter of 2007. Year to date franchising and corporate restaurant revenue was \$28,568,000, compared to \$26,847,000 for 2007 year to date.

Franchising revenue for the quarter was \$13,063,000 compared to \$11,973,000 for the same quarter in 2007. Year to date franchising revenue was \$23,572,000 compared to \$22,431,000 for the prior year. The increase of \$1,090,000 for the quarter and \$1,141,000 year to date was due to the system sales growth and resulting higher fees from franchisees and higher sales of materials to franchisees and distributors, offset by lower revenue for new restaurant openings.

Corporate restaurant revenue for the quarter increased by \$320,000 over the same quarter of the prior year to \$2,614,000 for 2008. Year to date corporate restaurant revenue increased by \$580,000 for the prior year to \$4,996,000. Sales from the eight Ottawa corporate food court restaurants and the new freestanding restaurant opened in Ottawa in December 2007 increased by \$659,000 for the quarter and \$1,159,000 year to date. Sales from restaurants being operated corporately while held for refranchising decreased by \$339,000 for the quarter and by \$579,000 year to date. During the first two quarters of 2007, eight restaurants were operated

corporately until they were refranchised and as at June 15, 2008, one restaurant is being held for refranchising.

Expenses and Operating Contribution Margin

Direct costs and administrative expenses increased by \$613,000 to \$10,293,000 for the second quarter of 2008 compared to \$9,680,000 for the same quarter in 2007 and operating contribution margin improved from 32.2% to 34.3%. Year to date direct costs and administrative expenses increased by \$12,000 to \$19,147,000 in 2008 from \$19,135,000 in 2007. The year to date operating contribution margin improved from 28.7% in 2007 to 33.0% for 2008. The increase in expenses was due to higher costs of sales resulting from the system sales growth. The improved operating contribution margin was due primarily to higher costs last year of operating restaurants held for refranchising. Earnings before interest, amortization, taxes and non-controlling interests increased by \$797,000 to \$5,384,000 for the second quarter of 2008 and by \$1,709,000 to \$9,421,000 for 2008 year to date 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 Jun 15, 2008	12 Week Period Ended Jun 17, 2007	24 Week Period Ended Jun 15, 2008	24 Week Period Ended Jun 17, 2007
Interest				
Interest income	\$ (58)	\$ (73)	\$ (110)	\$ (137)
Term loan	133	134	266	268
A&W notes payable	2,059	2,064	4,092	4,127
Amortization of deferred financing fees	1	5	6	9
	\$ 2,135	\$ 2,130	\$ 4,254	\$ 4,267

Year to date interest expense is lower due to the shorter first quarter in 2008.

Income Taxes

Income tax expense increased by \$79,000 for the quarter and \$274,000 year to date 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 \$462,000 for the quarter compared to \$261,000 for 2007, and \$496,000 year to date compared to \$171,000 for 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 \$435,000, from \$1,347,000 in 2007 to \$1,782,000 in 2008. Year to date net earnings increased by \$980,000, from \$2,052,000 in 2007 to \$3,032,000 in 2008.

In accordance with CICA Handbook Section 3865 “Hedges” which became effective January 1, 2007, other comprehensive earnings of \$48,000 were recorded in the quarter and other comprehensive losses of \$46,000 were recorded year to date 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 were no other comprehensive earnings 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 \$1,830,000, compared to comprehensive income of \$1,347,000 for 2007 and year to date comprehensive income was \$2,986,000 compared to \$2,052,000 for 2007.

Liquidity and Capital Resources

Food Services is primarily a franchise business with 676 of its 686 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 June 15, 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 June 15, 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 June 15, 2008 was \$19,532,000.

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 June 15, 2008 is \$144,000 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 year to date was \$4,092,000 (2007 - \$4,127,000), of which \$1,127,000 (December 30, 2007 - \$761,000) is payable to the Fund by Trade Marks at June 15, 2008. Interest expense on the A&W notes for the quarter was \$2,059,000 (2007 - \$2,064,000).

Included in accounts receivable is \$51,000 (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 year to date, Trade Marks declared dividends on its common shares of \$2,535,000 (2007 - \$1,775,000) or \$0.1821 per share, of which \$1,519,000 (2007 - \$1,102,000) was earned by the Fund and \$1,016,000 (2007 - \$673,000) was earned by Food Services. The May 2008 dividend of \$229,000 was declared on June 3, 2008 and paid on June 30, 2008, and the Fund's share of \$137,000 (December 30, 2007 - \$136,000) is reported as a current liability at June 15, 2008. During the quarter, Trade Marks declared common share dividends totalling \$685,000 (2007 - \$420,000).

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 year to date totalled \$156,000 (2007 - \$173,000) and was negotiated on normal commercial terms. At June 15, 2008, NIL is payable to Air 700 Ltd. by Food Services (December 30, 2007 - \$116,000). The cost of services provided during the quarter were \$45,000 (2007 - \$98,000).

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 year to date, royalty income of \$9,066,000 (2007 - \$8,208,000) was earned by Trade Marks from Food Services, of which \$1,680,000 (December 30, 2007 - \$1,632,000) is payable by Food Services to Trade Marks at June 15, 2008. Royalty income earned by Trade Marks during the quarter was \$4,910,000 (2007 - \$4,365,000).
- during the year to date, dividends of \$2,739,000 (2007 - \$2,522,000) were accrued by Trade Marks on its Class A and B preferred shares held by Food Services, of which \$2,501,000 (2007 - \$2,283,000) was declared payable by Trade Marks to Food Services during the year to date. The May 2008 dividends of \$500,000 which were declared on June 3, 2008 and paid to Food Services on June 30, 2008 are a current liability of Food Services as at June 15, 2008 (December 30, 2007 - \$460,000). Dividends accrued but not yet declared total \$238,000 (December 30, 2007 - \$nil). Dividends accrued during the quarter were \$1,378,000 (2007 - \$1,261,000) and dividends declared during the quarter were \$1,501,000 (2007 - \$1,369,000).
- 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 June 15, 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 \$144,000 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, drive-thru restrictions and elimination of trans fats, 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 June 15, 2008.

Subsequent Events

On July 2, 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 July 31, 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 second quarter ended June 15, 2008

Consolidated Balance Sheets

Unaudited
(in thousands of dollars)

	June 15 2008	December 30 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 7,304	\$ 7,331
Accounts receivable	11,075	11,073
Inventories	1,173	620
Prepaid expenses	191	149
Income taxes recoverable	684	480
Future income taxes	1,210	1,711
	21,637	21,364
Intangible assets	82,779	82,066
Future income taxes	1,591	2,021
Property, plant and equipment	2,506	2,445
Notes receivable	211	237
	\$ 108,724	\$ 108,133
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 12,886	\$ 17,338
Dividends payable	3,000	-
Deposits on franchise and equipment sales	3,052	1,209
	18,938	18,547
Net liabilities due to A&W Revenue Royalties Income Fund (note 3)	76,333	76,819
Term loan (note 4)	10,121	9,996
Long-term liabilities	7,160	6,951
Obligations under capital leases	135	-
Non-controlling interest	326	95
	113,013	112,408
Shareholders' Deficiency		
Capital stock	10,500	10,500
Deficit	(14,743)	(14,775)
Accumulated other comprehensive loss	(46)	-
	(4,289)	(4,275)
	\$ 108,724	\$ 108,133

Subsequent event (note 9)

These unaudited interim consolidated 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 Jun 15, 2008	12 Week Period Ended Jun 17, 2007	24 Week Period Ended Jun 15, 2008	24 Week Period Ended Jun 17, 2007
Revenue				
Franchising	\$ 13,063	\$ 11,973	\$ 23,572	\$ 22,431
Corporate restaurants	2,614	2,294	4,996	4,416
	15,677	14,267	28,568	26,847
Direct costs and administrative expenses	10,293	9,680	19,147	19,135
Earnings before the following:	5,384	4,587	9,421	7,712
Interest expense (note 6)	2,135	2,130	4,254	4,267
Amortization of property, plant and equipment	151	91	297	193
Earnings before income taxes and non-controlling interests	3,098	2,366	4,870	3,252
Provision for income taxes				
Current	193	153	258	26
Future income taxes	519	480	853	811
	712	633	1,111	837
Earnings for the period before non-controlling interests	2,386	1,733	3,759	2,415
Non-controlling interest in A&W Root Beer Beverages of Canada Inc.	(142)	(125)	(231)	(192)
A&W Revenue Royalties Income Fund's interest in earnings of A&W Trade Marks Inc.	(462)	(261)	(496)	(171)
Net earnings for the period	1,782	1,347	3,032	2,052
Deficit - beginning of period	(13,525)	(14,870)	(14,775)	(15,575)
Dividends declared	(3,000)	(3,000)	(3,000)	(3,000)
Deficit - end of period	\$ (14,743)	\$ (16,523)	\$ (14,743)	\$ (16,523)

See accompanying notes to these financial statements.

Consolidated Statements of Comprehensive Income

Unaudited

(in thousands of dollars)

	12 Week Period Ended Jun 15, 2008	12 Week Period Ended Jun 17, 2007	24 Week Period Ended Jun 15, 2008	24 Week Period Ended Jun 17, 2007
Net earnings for the period	\$ 1,782	\$ 1,347	\$ 3,032	\$ 2,052
Other comprehensive earnings (loss), net of income taxes				
Change in fair value of the interest rate swap	119	-	(115)	-
A&W Revenue Royalties Income Fund's interest in other comprehensive (earnings) loss of A&W Trade Marks Inc.	(71)	-	69	-
Comprehensive earnings (loss) for the period	48	-	(46)	-
Comprehensive income for the period	\$ 1,830	\$ 1,347	\$ 2,986	\$ 2,052

See accompanying notes to these financial statements.

Consolidated Statements of Cash Flows

Unaudited

(in thousands of dollars)

	12 Week Period Ended Jun 15, 2008	12 Week Period Ended Jun 17, 2007	24 Week Period Ended Jun 15, 2008	24 Week Period Ended Jun 17, 2007
Cash flows from operating activities				
Net earnings for the period	\$ 1,782	\$ 1,347	\$ 3,032	\$ 2,052
Items not affecting cash				
Amortization of deferred financing fees	1	5	6	9
Amortization of property, plant and equipment	151	91	297	193
Future income taxes	519	480	853	811
Gain on disposal of property, plant and equipment	-	-	(6)	-
Increase in long-term liabilities	104	130	209	233
Non-controlling interest in A&W Root Beer Beverages of Canada Inc.	142	125	231	192
A&W Revenue Royalties Income Fund's interest in earnings of A&W Trade Marks Inc.	462	261	496	171
	3,161	2,439	5,118	3,661
Net changes in non-cash working capital	(2,893)	(2,187)	(3,459)	(2,410)
	268	252	1,659	1,251
Cash flows from investing activities				
Decrease in notes receivable	11	6	26	20
Purchase of property, plant and equipment	(109)	(146)	(156)	(146)
Proceeds from disposal of property, plant and equipment	-	-	6	-
	(98)	(140)	(124)	(126)
Cash flows from financing activities				
Dividends paid to shareholder	-	(3,000)	-	(3,000)
Dividends paid to A&W Revenue Royalties Income Fund	(411)	(261)	(1,518)	(1,101)
Decrease in obligation under capital lease	(15)	-	(19)	-
Financing fees paid	-	-	(25)	-
	(426)	(3,261)	(1,562)	(4,101)
Decrease in cash and cash equivalents	(256)	(3,149)	(27)	(2,976)
Cash and cash equivalents - beginning of period	7,560	6,233	7,331	6,060
Cash and cash equivalents - end of period	\$ 7,304	\$ 3,084	\$ 7,304	\$ 3,084
Supplementary cash flow information				
Net interest paid	\$ (2,268)	\$ (2,277)	\$ (3,832)	\$ (3,829)
Net income taxes paid	\$ (212)	\$ (107)	\$ (462)	\$ (2,060)
Non-cash investing activities				
Non-cash acquisition of assets through capital leases	\$ (140)	\$ -	\$ (202)	\$ -

See accompanying notes to these financial statements.

A&W Food Services of Canada Inc.

Notes to the Interim Consolidated Financial Statements

For the second quarter ended June 15, 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’ second quarter ends 24 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.

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. Concurrently, Emerging Issues Committee abstract 27, “Revenues and Expenses During the Pre-Operating Period” will be withdrawn which will result in these costs being expensed as incurred. 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.

International Financial Reporting Standards (IFRS)

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the transition date for publicly reported companies to use IFRS, replacing Canadian GAAP. The effective date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by Food Services for the year ended December 31, 2010. While Food Services has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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:

	June 15, 2008	December 30, 2007
A&W notes payable	\$83,399	\$83,399
The Fund's equity interest in A&W Trade Marks Inc.	(6,997)	(6,580)
The Fund's equity interest in A&W Trade Marks Inc.'s accumulated other comprehensive loss	(69)	-
	\$76,333	\$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 June 15, 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 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 June 15, 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 June 15, 2008 is \$144,000 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:

	June 15, 2008	December 30, 2007
Term loan	\$10,000	\$10,000
Deferred financing fees	(23)	(4)
Change in the fair value of the interest rate swap	144	-
	<u>\$10,121</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 year to date was \$4,092,000 (2007 - \$4,127,000), of which \$1,127,000 (December 30, 2007 - \$761,000) is payable to the Fund at June 15, 2008. Interest expense on the A&W notes for the quarter was \$2,059,000 (2007 - \$2,064,000).

Included in accounts receivable is \$51,000 (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 year to date, 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 year to date totalled \$156,000 (2007 - \$173,000) and was negotiated on normal commercial terms. At June 15, 2008, NIL (December 30, 2007 - \$116,000) is payable to Air 700 Ltd. by Food Services. The cost of services provided during the quarter were \$45,000 (2007 - \$98,000).

During the year to date, Trade Marks declared dividends on its common shares totaling \$2,535,000 (2007 - \$1,775,000) of which \$1,519,000 (2007 - \$1,102,000) was earned by the Fund and \$1,016,000 (2007 - \$673,000) was earned by Food Services. The May 2008 dividend of \$229,000 was paid on June 30, 2008, and the Fund's share of \$137,000 (December 30, 2007 - \$136,000) is reported as a current liability at June 15, 2008. During the quarter, Trade Marks declared common share dividends totaling \$685,000 (2007 - \$420,000).

6. Interest expense

	12 Week Period Ended Jun 15, 2008	12 Week Period Ended Jun 17, 2007	24 Week Period Ended Jun 15, 2008	24 Week Period Ended Jun 17, 2007
Interest				
Interest income	\$ (58)	\$ (73)	\$ (110)	\$ (137)
Term loan	133	134	266	268
A&W notes payable	2,059	2,064	4,092	4,127
Amortization of deferred financing fees	1	5	6	9
	\$ 2,135	\$ 2,130	\$ 4,254	\$ 4,267

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 \$144,000 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 June 16, 2008, Food Services paid a dividend to its shareholder of \$3,000,000. The dividend was declared on June 4, 2008 and is reported as a current liability at June 15, 2008.

On July 2, 2008, Trade Marks declared a dividend on its common shares of \$229,000, payable to Food Services and the Fund on July 31, 2008.



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

**Tel: 604-988-2141
[www. aw.ca](http://www.aw.ca)**