

A&W Revenue Royalties Income Fund

Q2

Second Quarter Report to Unitholders
for the period ended
June 20, 2010

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To our Unitholders

On behalf of the Trustees of the A&W Revenue Royalties Income Fund (the Fund), I am pleased to report the results of the second quarter, ended June 20, 2010.

The A&W restaurant business continued to demonstrate proven stability in the quarter, posting a same store sales increase of 1.1%. This marks the 29th straight quarter of same store sales increases, a strong record given the impact of the generally unsettled economic environment on the overall food service industry. Same store sales are one of the most important drivers of growth for the Fund, and on a year to date basis, have grown by 3.4%.

The Fund, through its investment in A&W Trade Marks Inc., owns the A&W trademarks and licenses them to A&W Food Services of Canada Inc. (A&W Food Services), in exchange for a royalty of 3% of sales reported by the 700 restaurants in the Royalty Pool. The number of A&W restaurants in the Royalty Pool was increased on January 5, 2010, from 685 to 700 to include new restaurants which opened during 2009.

The combination of continued same store sales growth plus the increase in the number of restaurants in the Royalty Pool resulted in royalty income growth of 4.2% over the same quarter in the prior year. The Fund's general and administrative expenses were carefully controlled during the quarter. Distributable cash per unit increased to 34.9 cents for the quarter compared to 34.3 cents for the same quarter last year.

During the quarter, A&W Food Services continued to focus on its strategy to appeal to its core baby boomer customer, both by building the strong emotional connection to this customer, and by focusing on the increasing demand for premium hamburgers. Building on the success of the Sirloin Uncle Burger, A&W Food Services has extended its reputation as the only major burger chain with a real premium sirloin hamburger. Another major initiative in A&W Food Services' strategy is accelerating the pace of growth of new restaurants, particularly in the key Ontario market. A&W Food Services has now entered into Multi-Site Development Agreements for a total of 84 new restaurants to be built over the coming years.

Looking forward, the economic outlook continues to be uncertain and A&W Food Services will continue to implement advertising and promotional programs to respond to market and competitive conditions as they unfold. In the coming quarter a key issue will be the implementation of the Harmonized Sales Tax in British Columbia, which will result in a sales tax increase of 7% on all restaurant meals in

this province. Historically, the implementation of new sales taxes has had a negative impact on restaurant sales. Working with franchisees, management have developed and will be implementing sales building programs to mitigate the impact of this tax.

In summary, we are pleased with the performance of the business and in particular the stability that it has demonstrated through the uncertainty of the past 18 months. We are also pleased that unitholders have shared in this success through stable distributions, including the special distribution declared and paid in May. We very much appreciate the trust that our unitholders have placed in the A&W Revenue Royalties Income Fund.



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

A&W Revenue Royalties Income Fund Management Discussion and Analysis

This Management Discussion and Analysis covers the period from January 1, 2010 to June 20, 2010 and is dated July 27, 2010. It should be read in conjunction with the Fund's interim unaudited financial statements for the quarter ended June 20, 2010 and the annual audited financial statements for the year ended December 31, 2009. In addition, readers are directed to the interim unaudited consolidated financial statements of A&W Trade Marks Inc. (Trade Marks) for the quarter ended June 20, 2010 and the annual audited consolidated financial statements for the year ended December 31, 2009. 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 2010 results are not directly comparable to 2009 due to the increase in the number of restaurants in the Royalty Pool from 685 during 2009 to 700 effective January 5, 2010. In addition, there were 87 days in the first quarter of 2010 compared to only 81 days in the first quarter of 2009. 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 1.1% for the quarter and 3.4% year to date compared to 2009. Sales reported by restaurants in the Royalty Pool and corresponding royalty income increased by 4.2% over the same quarter of 2009 and by 10.4% year to date compared to 2009. These increases were due to the same store sales growth, the increase in the number of restaurants in the Royalty Pool, and the increase in the number of days in the first quarter compared to 2009.

Distributable cash increased by \$229,000 from \$4,899,000 for the second quarter of 2009 to \$5,128,000 for the second quarter of 2010. Year to date distributable cash increased by \$910,000 from \$8,863,000 for 2009 to \$9,773,000 for 2010.

Trade Marks' net earnings increased by \$96,000 from \$825,000 for the second quarter of 2009 to \$921,000 for the second quarter of 2010, and by \$463,000 year to date, from \$959,000 in 2009 to \$1,422,000 in 2010. The increases in distributable cash and Trade Mark's earnings were primarily due to higher royalty income.

The Fund's net earnings for the quarter were \$2,585,000 or 31.0¢ per unit compared to \$2,546,000 or 30.5¢ per unit for the same quarter in 2009. Year to date net earnings were \$5,608,000 or 67.2¢ per unit in 2010 compared to \$4,916,000 or 58.9¢ per unit in 2009.

FINANCIAL HIGHLIGHTS

The following table sets out selected 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 ending Jun 20, 2010	12 week period ending Jun 14, 2009	Period from Jan 1, 2010 to Jun 20, 2010	Period from Jan 1, 2009 to Jun 14, 2009
Same store sales growth ⁽¹⁾	1.1%	1.3%	3.4%	3.8%
Number of restaurants in the Royalty Pool	700	685	700	685
Sales reported by the restaurants in the Royalty Pool	\$177,690	\$170,506	\$349,348	\$316,571
Royalty income	\$5,330	\$5,115	\$10,480	\$9,497
General and administrative expenses	\$65	\$85	\$426	\$423
Net third party interest expense	\$132	\$131	\$271	\$254
Recovery of current income taxes	-	-	-	(\$43)
Partnership distributions to Food Services	\$5	-	\$10	-
Total distributable cash generated for distributions and dividends ⁽²⁾	\$5,128	\$4,899	\$9,773	\$8,863
Distributable cash ⁽²⁾ per equivalent unit (2010 – 14,705,897 units; 2009 – 14,289,993 units) ⁽³⁾	\$0.349	\$0.343	\$0.665	\$0.620
Distributions and dividends declared per equivalent unit	\$0.318	\$0.318	\$0.530	\$0.530
Special distribution per equivalent unit	\$0.100	\$0.100	\$0.100	\$0.100
Trade Marks' net earnings	\$921	\$825	\$1,422	\$959
The Fund's net earnings	\$2,585	\$2,546	\$5,608	\$4,916
The Fund's basic and diluted earnings per unit (8,340,000 units)	\$0.310	\$0.305	\$0.672	\$0.589

⁽¹⁾ Same store sales growth 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 is a key driver of growth in the Fund. See "Same Store Sales Growth".

⁽²⁾ 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. See "Distributable Cash".

⁽³⁾ For purposes of calculating distributable cash per equivalent unit, the number of equivalent units for 2010 includes 83,181 equivalent units representing the remaining 20% of the consideration for the January 5, 2010 adjustment to the Royalty Pool which is held back until December 2010 when the actual annual sales are reported by the new restaurants.

OVERVIEW

The Fund

The Fund is a limited purpose trust established to invest in Trade Marks, which through its ownership interest in A&W Trade Marks Limited Partnership (the Partnership) 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 voting 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 voting 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. Until 2011, income tax obligations related to the distributions by the Fund are obligations of the unitholders. (See "Reorganization").

Trade Marks

In 2002, Trade Marks acquired the A&W trade-marks used in the A&W quick service restaurant business in Canada from A&W Food Services of Canada Inc. (A&W or 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 voting common shares of Trade Marks and the balance (the Balance) of \$40,000,000 was due without interest on January 31, 2010. The Balance of the purchase price was paid in full by all amounts Trade Marks paid Food Services in respect of annual adjustments to the Royalty Pool up to January 5, 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 annual adjustment to the Royalty Pool.

On January 21, 2009, Trade Marks and Food Services entered into a limited partnership, the Partnership, in which Trade Marks is the general partner with a 99.9% interest and Food Services is the limited partner with a 0.1% interest. The A&W trade-marks were transferred to the Partnership in exchange for the general partnership interest held by Trade Marks. The existing Licence and Royalty Agreement between Trade Marks and Food Services was assumed by the Partnership with the result that the royalty paid by Food Services for the use of the A&W trade-marks is now paid to the Partnership rather than Trade Marks. The Partnership in turn pays partnership distributions to Trade Marks (99.9%) and Food Services (0.1%).

The Royalty Pool is adjusted annually 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. Food Services is paid 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%. Prior to the formation of the Partnership, Trade Marks paid Food Services by issuing voting common shares and Class B preferred shares of Trade Marks which are the economic equivalent of units

of the Fund. Effective January 5, 2010, additional limited partnership units (LP units) are issued to Food Services to reflect the annual adjustment. Food Services' additional LP units will be exchanged for additional shares of Trade Marks which are exchangeable for units of the Fund.

Trade Marks' expenses include general and administrative expenses, amortization of deferred financing fees, interest expenses on its \$10 million term loan and the A&W notes, and taxes. Also, GAAP stipulates that the dividends on the Class A and Class 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 20, 2010		December 31, 2009	
	#	\$	#	\$
Class A shares - at cost				
Initial consideration	2,779,975	27,800	2,779,975	27,800
January 5, 2010 adjustment	303,790	3,441	-	-
	3,083,765	31,241	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	484,051	5,398	484,051	5,398
January 5, 2009 adjustment	332,031	3,218	332,031	3,218
January 5, 2010 adjustment	28,933	328	-	-
	3,198,951	36,363	3,170,018	36,035
Accrued dividends		354		-
	6,282,716	67,958	5,949,993	63,835

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, one voting common share of Trade Marks and a \$10 A&W note are exchangeable for a unit in the Fund.

83,181 additional Class A preferred shares, representing 20% of the initial consideration for the January 5, 2010 adjustment to the Royalty Pool, are expected to be issued to Food Services in December 2010 when the actual annual sales are reported by the new restaurants added to the Royalty Pool.

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

(dollars in thousands)	The Fund		Food Services				Total	
	# voting	%	# voting	# non-voting	total	%	#	\$
February 15, 2002	8,340,000	75.0%	2,780,000		2,780,000	25.0%	11,120,000	1
January 5, 2003 adjustment		-2.9%	452,469		452,469	2.9%	452,469	-
January 5, 2004 adjustment		-3.0%	495,681		495,681	3.0%	495,681	-
January 5, 2005 adjustment		-2.8%	511,337		511,337	2.8%	511,337	-
January 5, 2006 adjustment		-2.8%	558,993		558,993	2.8%	558,993	-
December 31, 2006 adjustment		-1.6%	335,456		335,456	1.6%	335,456	1,919
January 5, 2008 adjustment		-2.1%	484,051		484,051	2.1%	484,051	1,069
January 5, 2009 adjustment		-1.4%	332,031		332,031	1.4%	332,031	564
January 5, 2010 adjustment		-1.4%	28,933	303,790	332,723	1.4%	332,723	989
	8,340,000	57.0%	5,978,951	303,790	6,282,741	43.0%	14,622,741	4,542

83,181 additional non-voting common shares, representing 20% of the initial consideration for the January 5, 2010 adjustment to the Royalty Pool, are expected to be issued to Food Services in December 2010 when the actual annual sales are reported by the new restaurants added to the Royalty Pool. The additional shares will dilute the Fund's equity interest in Trade Marks to 56.7% and increase Food Services' interest to 43.3%.

Summary

The Partnership earns royalty income from Food Services and distributes its available cash by way of distributions on its partnership units to Trade Marks and Food Services. Trade Marks in turn 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. Trade Marks' consolidated financial statements which include its 99.9% interest in the Partnership are included in this report and Food Services' consolidated financial statements are provided as a supplement to this report.

Reorganization

The Fund announced on March 30, 2010 its plans to remain as an income trust and to seek unitholder approval to reorganize the capital structure of the Trade Marks effective January 1, 2011. The unitholders approved the reorganization at the Annual General Meeting held on May 4, 2010.

This reorganization was initiated as a result of the Federal Government's announcement in October 2006 of a new "SIFT Tax" on income trusts, such as the Fund. Effective January 1, 2011 this new tax treats an income trust like a corporation, requiring it to pay tax on its taxable income. The Trustees of the Fund examined the alternatives available to maximize unitholder value in the face of this new tax, and proposed this reorganization to minimize the impact of the new SIFT Tax and maximize amounts available for distribution to unitholders in light of the SIFT Tax.

The reorganization will replace the A&W notes of Trade Marks currently held by the Fund, with non-voting common shares of Trade Marks. As a result, the Fund

will receive dividends paid by Trade Marks rather than interest paid on the A&W notes. These dividends are not subject to the SIFT Tax. Trade Marks' earnings (representing the royalty paid by Food Services less general and administrative expenses and interest on its term loan) will therefore be taxed at an effective rate of 18% versus an approximate rate of 25% if the reorganization were not implemented. In effect this leaves 82% of Trade Mark's net income before income taxes available to be paid as dividends, instead of 75% if the reorganization were not implemented.

Commencing in 2011 distributions to unitholders will be taxed as non-eligible dividends, rather than "other" income. Investors who are entitled to dividend tax credits will be able to enhance their after-tax yield and reduce the after-tax impact of the reduction in distributions. The total amount of tax paid in 2011 by the Fund and an individual unitholder taxed in Canada at the highest marginal rate on distributions by the Fund, and the tax that would be paid by the unitholder on distributions by the Fund had the SIFT tax not been implemented is approximately the same.

The reorganization also includes the exchange of the Class A and Class B preferred shares of Trade Marks currently owned by Food Services with non-voting common shares of Trade Marks. Food Services will continue to be entitled to additional non-voting common shares of Trade Marks on the annual adjustment of the restaurants in the Royalty Pool. All of the voting and non-voting common shares to be held by the Fund and Food Services will be entitled to the same dividends per share.

The reorganization is subject to customary conditions, including the receipt of applicable regulatory approvals. The Trustees intend to implement the reorganization on or before January 1, 2011.

Basis of Consolidation

The Fund, Trade Marks, the Partnership 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, Food Services consolidates Trade Marks, and 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 and the Partnership. Trade Marks also prepares consolidated financial

statements (which include the Partnership) for information purposes to the unitholders of the Fund.

Future Accounting Changes

In January 1, 2011, The Fund and Trade Marks will adopt the new accounting standard CICA Handbook Section 1582, “Business Combinations”, which replaced Handbook Section 1581, “Business Combinations”, and Handbook Section 1601, “Consolidated Financial Statements”, and Handbook Section 1602, “Non-Controlling Interests”, which replaced Handbook Section 1600, “Consolidated Financial Statements”. These new sections are based on the International Accounting Standards Board’s (IASB) International Financial Reporting Standards (IFRS) 3R, “Business Combinations”. The new standards replaced the existing guidance on business combinations and consolidated financial statements. The adoption of these new standards is not expected to have an impact on the Fund’s and Trade Marks’ financial results.

International Financial Reporting Standards (IFRS)

The transition date for publicly reported companies to adopt IFRS is January 1, 2011 which will require the restatement for comparative purposes of amounts reported by the Fund and Trade Marks for the year ended December 31, 2010, and of the amounts reported on their opening IFRS balance sheets as at January 1, 2010. To accomplish this, in 2010, two parallel books of accounts are being maintained.

The Fund and Trade Marks commenced the process to transition from current Canadian GAAP to IFRS in 2009. Progress reports are provided to the audit committee on the status of the IFRS implementation project on a quarterly basis. The implementation project consists of three primary phases:

- Scoping and diagnostic phase
- Impact analysis, evaluation and design phase
- Implementation and review phase

Scoping and Diagnostic Phase

A preliminary diagnostic review was completed by an external consultant which included the determination, at a high level, of the financial reporting differences under IFRS and the key areas that may be impacted. The areas with the highest potential impact were identified to include the basis of consolidation, classification of unitholders’ equity, related party transactions, impairment of assets, financial instruments and initial adoption of IFRS under the provisions of IFRS 1.

Impact Analysis, Evaluation and Design Phase

A detailed evaluation is currently underway and involves assessing the impact on financial reporting, information technology and systems, financial reporting expertise, accounting policies, internal controls over financial reporting and disclosure controls, and developing systems and accounting policies to address identified issues. This phase will also involve a detailed analysis of the differences between IFRS and Canadian GAAP. Significant increases in disclosure are anticipated and the Fund and Trade Marks are identifying and assessing these additional disclosure requirements.

Implementation and Review Phase

This phase will involve the execution of changes to accounting policies and information systems and will culminate in the collection of the necessary financial information to compile IFRS financial statements and audit committee approval of IFRS interim and annual financial statements for 2011.

The Fund and Trade Marks anticipate that there will be changes in accounting policies and that these changes may materially impact the financial statements. The full impact on future financial reporting is not reasonably determinable or estimable at this time. The transition to IFRS is not expected to have an impact on the Fund's or Trade Marks' operating results or cash flows.

Differences between IFRS and Canadian GAAP, in addition to those referred to below, may still be identified based on further detailed analysis by the Fund and Trade Marks. The IASB currently has projects underway that are expected to result in new pronouncements and as a result, IFRS as at the transition date is expected to differ from its current form. The final impact of IFRS on the financial statements will only be determined once all applicable standards at the conversion date are known.

The Fund and Trade Marks are progressing through their assessment of the impacts of adopting IFRS based on the standards as they currently exist, and identified the following as having the greatest potential to impact its accounting policies, financial reporting and information systems requirements upon conversion to IFRS.

(a) Basis of Consolidation

Under Canadian GAAP, Food Services consolidates Trade Marks as the Fund and Food Services have determined that Trade Marks is a VIE and that Food Services is the "primary beneficiary" of Trade Marks. Under current IFRS, there is no "variable interests" model to determine which entities are consolidated. Consolidation is based on "control" which is the ability to direct or dominate an entity's decision making, regardless of whether this power is actually exercised. Therefore, based on the current IFRS standards, the consolidation process may change such that Trade Marks is consolidated with the Fund, rather than Food Services. This position will need to be reassessed when the revised IFRS standard is issued.

(b) Classification of Unitholders' Equity

Under Canadian GAAP, the units are classified as equity. Under IFRS, an instrument is classified as a financial liability if it contains a contractual obligation to transfer cash or other financial assets. The Fund is reviewing whether the units would be classified as a financial liability.

(c) Related Party Transactions

IFRS will require more extensive disclosure of related party transactions and balances between related parties, which include the Fund, Trade Marks, the Partnership and Food Services. Relationships with parent companies and subsidiaries must be disclosed irrespective of whether there have been transactions between those related parties. Compensation of key management personnel which is defined as persons with authority and responsibility for planning, directing and controlling the activities of the entity, directly or

indirectly, including, but not limited to, directors and trustees, must be disclosed in aggregate. For each related party transaction, the nature of the relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship must be disclosed. Significant additional note disclosures are likely to be needed to comply with IFRS requirements.

(d) Impairment of Assets

Currently, the A&W trade-marks are classified as intangible assets with an indefinite life, and are carried at cost. The carrying value is tested at least annually for impairment, by comparing the carrying value to the “fair value” determined using forecast future cash flows, which is consistent with IFRS. Trade Marks’ intangible asset impairment model may need to be revised to comply with IFRS requirements. Unlike Canadian GAAP, impairment losses may be reversed under IFRS. IFRS requires significant additional disclosures in the event an impairment loss is recorded or reversed.

(e) Financial Instruments

The Fund and Trade Marks have applied the new Canadian GAAP standards in relation to the recognition, measurement, presentation and disclosure of financial instruments. Trade Marks uses the “short-cut” or “all critical terms match” hedge effectiveness assessment for the interest rate swap. The new Canadian GAAP standards for financial instruments are aligned with IFRS, therefore GAAP differences in this area are limited, with the exception of the “short-cut” hedge effectiveness assessment which does not exist under IFRS. The documentation of the hedge effectiveness has been revised accordingly.

EXPANSION OF THE ROYALTY POOL

The eighth adjustment to the Royalty Pool took place on January 5, 2010. The number of A&W restaurants in the Royalty Pool was increased by 23 new restaurants less 8 restaurants which permanently closed during 2009. The estimated annual sales of the 23 new A&W restaurants are \$24,879,000 and annual sales for the eight permanently closed restaurants were \$2,817,000. The net sales of \$22,062,000 translate into estimated additional annual royalty payments to the Partnership of \$662,000 on the basis of the royalty of 3% of sales. The initial consideration for this estimated additional royalty stream is \$5,947,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the units of the Fund for the 20 trading days ending October 26, 2009. The Partnership paid Food Services \$4,758,000 by issuance of 332,723 limited partnership units (LP units) to Food Services, representing 80% of the initial consideration. The LP units were exchanged for 28,933 Class B preferred shares valued at \$328,000 and 28,933 voting common shares valued at \$86,000, representing the final payment of the Balance of the purchase price of the A&W trade-marks, and 303,790 Class A preferred shares valued at \$3,441,000 and 303,790 non-voting common shares valued at \$903,000.

The remaining 20% of the consideration or \$1,189,000 has been held back until December 2010 when the actual annual sales are reported by the new restaurants added to the Royalty Pool. The remaining 20% of the consideration is expected to be settled by issuance of 83,181 additional LP units which will be exchanged for

83,181 Class A preferred shares valued at \$942,000 and 83,181 non-voting common shares valued at \$247,000. The actual amount of the additional consideration, LP units and shares of Trade Marks may differ from the amounts above depending on the actual annual sales reported by the new restaurants.

After the January 5, 2010 adjustment to the Royalty Pool, the number of restaurants in the Royalty Pool increased to 700, Food Services owns the equivalent of 43% of the units of the Fund on a fully-diluted basis and the remaining Balance of the purchase price has been paid in full.

OWNERSHIP OF THE FUND

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

	June 20, 2010 ⁽²⁾		June 20, 2010 ⁽¹⁾		December 31, 2009	
	#	%	#	%	#	%
Fund units held by public unitholders	8,340,000	56.7	8,340,000	57.0	8,340,000	58.4
Trade Marks' Class A and Class B preferred shares held by Food Services: ⁽³⁾						
Class A ⁽⁴⁾	3,166,946	21.5	3,083,765	21.1	2,779,975	19.4
Class B ⁽⁵⁾	3,198,951	21.8	3,198,951	21.9	3,170,018	22.2
	6,365,897	43.3	6,282,716	43.0	5,949,993	41.6
		100.		100.		
Total equivalent units	14,705,897	0	14,622,716	0	14,289,993	100.0

(1) Information is current as at July 27, 2010.

(2) Includes the 83,181 Class A shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2010 adjustment to the Royalty Pool which is held back until December 2010 when the actual annual sales are reported by the new restaurants.

(3) 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.

(4) Represents Food Services' initial 25% equivalent ownership of the Fund and shares issued to Food Services in connection with the annual adjustments to the Royalty Pool effective January 5, 2010.

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

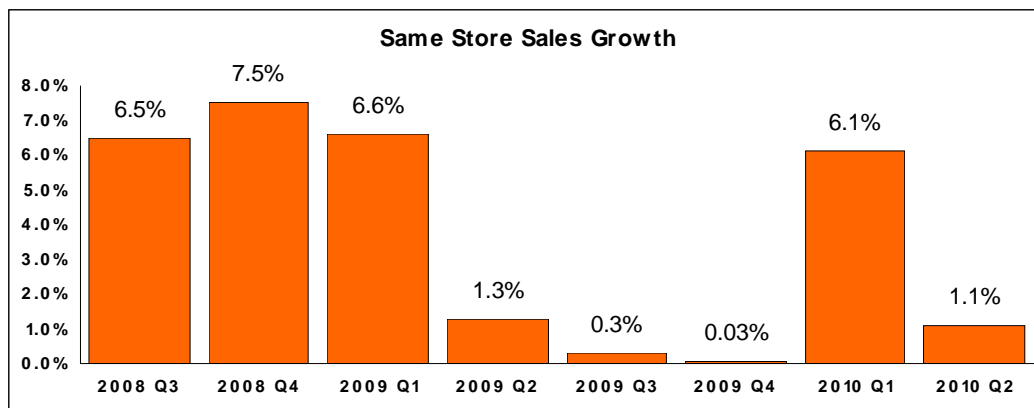
SAME STORE SALES GROWTH

The source of revenue for Trade Marks is through the royalty income that the Partnership receives 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 is the change in sales of A&W restaurants in the Royalty Pool that operated during the entire 26 4-week periods ending June 20, 2010.

Same store sales growth was 1.1% for the second quarter of 2010 compared to the same quarter of 2009, and 3.4% year to date compared to 2009. Same store sales growth has been positive for 29 consecutive quarters.

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



R ESULTS OF OPERATIONS

INCOME

During the second quarter, the Fund earned interest income from Trade Marks on the A&W notes of \$2,063,000, the same as the second quarter of 2009. The Fund's year to date interest income was \$4,200,000, an increase of \$147,000 from 2009 as there were six more days in the first quarter of 2010 compared to the first quarter of 2009.

The Fund's share of Trade Marks' earnings was \$522,000 for the quarter, an increase of \$39,000 from the same quarter last year, and \$806,000 year to date, an increase of \$245,000 from 2009. The Fund's ownership interest in Trade Marks was 56.7% in 2010 and 58.4% in 2009. Trade Marks' income and expenses are discussed in detail below.

In accordance with GAAP, a non-cash dilution gain of \$602,000 was recognized in the first quarter of 2010 due to the value ascribed to the common shares issued by Trade Marks to Food Services as consideration for the eighth Royalty Pool adjustment on January 5, 2010. The dilution gain recognized in the first quarter of 2009 was \$302,000.

Royalty income earned by Trade Marks in the second quarter was \$5,330,000 based on sales of \$177,690,000 reported by the A&W restaurants in the Royalty Pool. This was an increase of 4.2% over royalty income of \$5,115,000 and sales of \$170,506,000 during the same quarter of 2009. Year to date royalty income was \$10,480,000 based on sales of \$349,348,000, an increase of 10.4% over royalty income of \$9,497,000 and sales of \$316,571,000 during 2009 year to date. These increases were due to the combined impact of the additional net 15 restaurants in the Royalty Pool, the same store sales increase of 1.1% for the quarter and 3.4% year to date, and the longer first quarter compared to 2009. Same store sales growth is based on an equal number of days in each quarter.

EXPENSES AND TAXES

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

(dollars in thousands)	12 week period ending Jun 20, 2010	12 week period ending Jun 14, 2009	Period from Jan 1, 2010 to Jun 20, 2010	Period from Jan 1, 2009 to Jun 14, 2009
General and administrative	\$65	\$85	\$426	\$423
Amortization of deferred financing fees	2	2	4	4
Interest on term loan	134	134	273	263
Interest income	(2)	(3)	(2)	(9)
Interest on A&W notes	2,063	2,063	4,200	4,053
Dividends on Class A & Class B preferred shares ⁽¹⁾	1,575	1,466	3,206	2,880
Recovery of current income taxes	-	-	-	(43)
Provision for future income taxes	567	538	941	959

(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 \$20,000 to \$65,000, compared to \$85,000 in the second quarter of 2009. Year to date expenses increased by \$3,000 to \$426,000, compared to \$423,000 in 2009.

Trade Marks' interest expense on its term loan for the second quarter of 2010 was \$134,000, the same as the second quarter of 2009. Year to date interest on the term loan increased by \$10,000 to \$273,000 for 2010, compared to \$263,000 for 2009. Interest on the A&W notes for the second quarter was \$2,063,000, the same as the second quarter of 2009. Year to date interest on the A&W notes increased by \$147,000 to \$4,200,000 from \$4,053,000 for 2009. The increase in interest expense was due to six more days in the first quarter this year compared to last year. Interest income for the year to date decreased to \$2,000 from \$9,000 last year due to lower interest rates.

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. 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 second quarter increased by \$109,000 to \$1,575,000, compared to \$1,466,000 in the same quarter of 2009. Year to date accrued dividends on Class A and Class B shares increased by \$326,000 to \$3,206,000, compared to \$2,880,000 in 2009. The increase is due to the additional Class A and B shares issued on January 5, 2010, plus the impact of six more days in the first quarter this year.

There are no current income taxes for 2010 compared to a recovery of taxes of \$43,000 for 2009. Future income taxes, a non-cash expense increased to \$567,000 for the second quarter of 2010 from \$538,000 for the second quarter of 2009, and decreased to \$941,000 year to date 2010 from \$959,000 for year to date 2009.

NET EARNINGS AND COMPREHENSIVE EARNINGS

The Fund's net earnings for the second quarter were \$2,585,000 or 31.0¢ per unit compared to \$2,546,000 or 30.5¢ per unit for the same quarter in 2009. Year to date net earnings were \$5,608,000 or 67.2¢ per unit for 2010 compared to \$4,916,000 or 58.9¢ per unit for 2009.

Trade Marks' net earnings for the second quarter were \$921,000 compared to \$825,000 for the same quarter of 2009. Trade Marks' year to date net earnings were \$1,422,000 for 2010 compared to \$959,000 for 2009.

In accordance with CICA Handbook Section 3865 "Hedges", Trade Marks recorded other comprehensive income of \$75,000 in the quarter and \$126,000 year to date for 2010 compared to \$97,000 in the same quarter and \$105,000 year to date last year to reflect the change in the fair value of the interest rate swap agreement, net of tax. Trade Marks' comprehensive earnings were \$996,000 for the quarter and \$1,548,000 year to date for 2010, compared to \$922,000 for the same quarter and \$1,064,000 year to date for 2009. Accumulated other comprehensive losses as at June 20, 2010 were \$174,000 compared to \$300,000 at the end of 2009.

The Fund's share of Trade Marks' other comprehensive income was \$43,000 for the quarter and \$77,000 year to date for 2010 compared to \$63,000 in the same quarter last year and \$68,000 year to date last year. The Fund's comprehensive earnings were \$2,628,000 for the quarter and \$5,685,000 year to date for 2010 compared to \$2,609,000 for the same quarter of 2009 and \$4,984,000 year to date 2009. Accumulated other comprehensive losses as at June 20, 2010 were \$98,000 compared to \$175,000 at the end of 2009.

DISTRIBUTABLE CASH

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

Distributable cash is calculated as the combined operating cash flows of the Fund and Trade Marks (which includes the Partnership), adjusted for the dividends on Trade Marks' Class A and Class B preferred shares, the Partnership's 0.1% distributions to Food Services, and changes in non-cash working capital. Dividends on Trade Marks' Class A and Class 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 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.

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 ending Jun 20, 2010	12 week period ending Jun 14, 2009	Period from Jan 1, 2010 to Jun 20, 2010	Period from Jan 1, 2009 to Jun 14, 2009
Trade Marks' cash flow from operating activities	\$1,137	\$732	\$3,479	\$2,460
Add: Changes in accrued dividends	136	127	(354)	(225)
Dividends on Class A & Class B preferred shares	1,575	1,466	3,206	2,880
Changes in non-cash working capital	222	511	(748)	(305)
Partnership distributions paid to Food Services	(5)	-	(10)	-
Distributable cash – Trade Marks	3,065	2,836	5,573	4,810
The Fund's cash flow from operating activities	2,186	2,186	3,739	3,737
Add: Changes in non-cash working capital	(123)	(123)	461	316
Distributable cash – the Fund	2,063	2,063	4,200	4,053
Total distributable cash	\$5,128	\$4,899	\$9,773	\$8,863
Cumulative surplus – beginning of period	3,892	3,765	3,706	3,828
Distributable cash for unitholders at current annual distribution rate (2010 - \$1.272 per unit, 2009 - \$1.272 per unit)	(2,441)	(2,442)	(4,970)	(4,796)
Distributable cash for Food Services at current annual distribution rate (2010 - \$1.272 per share, 2009 - \$1.272 per share) (1)	(1,864)	(1,735)	(3,794)	(3,408)
Special distribution paid to unitholders (\$0.10 per unit)	(834)	(834)	(834)	(834)
Equivalent special dividend paid to Food Services (\$0.10 per share) (1)	(637)	(593)	(637)	(593)
Cumulative surplus – end of period	\$3,244	\$3,060	\$3,244	\$3,060
Distributable cash per equivalent unit (1)	\$0.349	\$0.343	\$0.665	\$0.620
Number of equivalent units (1)	14,705,897	14,289,993	14,705,897	14,289,993
Monthly distributions declared per unit	\$0.318	\$0.318	\$0.530	\$0.530
Special distribution declared per unit	\$0.100	\$0.100	\$0.100	\$0.100
Payout ratio (excluding special distribution)	91.1%	92.7%	79.7%	85.5%
Payout ratio (including special distribution)	119.8%	121.9%	94.7%	101.6%

(1) For purposes of calculating distributable cash for Food Services and distributable cash per equivalent unit, the number of equivalent units includes the 83,181 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2010 adjustment to the Royalty Pool which is held back until December 2010 when the actual annual sales are reported by the new restaurants added to the Royalty Pool.

Total distributable cash generated to pay distributions to unitholders and dividends to Food Services increased by \$229,000 to \$5,128,000 for the second quarter compared to the same quarter of 2009, and increased by \$910,000 to \$9,773,000 year to date. The year to date increase was due to the \$983,000 increase in royalty income less a \$73,000 increase in cash expenses, interest and taxes.

Distributable cash for unitholders for the quarter was \$2,441,000 compared to \$2,442,000 for the same quarter of 2009. Year to date distributable cash for unitholders increased to \$4,970,000 from \$4,796,000 for year to date 2009 due to the change in the number of days in the first quarter.

Distributable cash for dividends to Food Services increased to \$1,864,000 for the second quarter of 2010 from \$1,735,000 for the same quarter of 2009, and increased to \$3,794,000 year to date in 2010 from \$3,408,000 year to date in 2009. The increases were due to the additional shares of Trade Marks issued to Food Services on January 5, 2010 for the adjustment to the Royalty Pool, and the impact of six more days in the first quarter this year.

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 \$0.349. Year to date monthly distributions and dividends were \$0.530 per equivalent unit compared to distributable cash generated of \$0.665. In addition, in May 2010 a Special Distribution of \$0.100 per equivalent unit was paid to unitholders and 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 \$3,244,000 compared to a cumulative surplus of \$3,060,000 at the end of the second quarter of 2009 and a cumulative surplus of \$3,706,000 at the end of 2009.

DISTRIBUTIONS TO UNITHOLDERS

During the year to date ended June 20, 2010, the Fund declared monthly distributions to unitholders totaling \$5,254,000 or \$0.630 per unit, the same as in 2009 year to date. The record dates and amounts of these distributions were as follows:

(dollars in thousands except per unit amounts)	Record date	Amount	Per unit
January 2010	February 15, 2010	\$ 884	\$0.106
February 2010	March 15, 2010	884	0.106
March 2010	April 15, 2010	884	0.106
Special Distribution	May 15, 2010	834	0.100
April 2010	May 15, 2010	884	0.106
May 2010	June 15, 2010	884	0.106
		\$5,254	\$0.630

The December 2009 distribution of \$884,000 which was declared on December 11, 2009 and paid on January 29, 2010 was declared and recorded for income tax purposes in 2009, the period in which it was earned. Therefore, only two monthly distributions were declared during the first quarter of 2010.

The May 2010 distribution of \$884,000 which was declared on June 2, 2010 and paid on June 30, 2010 is reported as a current liability at June 20, 2010.

On July 5, 2010, the Fund declared the June 2010 monthly distribution to unitholders of \$0.106 per unit or \$884,000, payable on July 30, 2010.

TAX TREATMENT OF DISTRIBUTIONS

Of the \$0.630 per unit in distributions declared year to date, \$0.448 per unit or 71.1% will be taxable to unitholders as other investment income and \$0.182 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 of \$2,662,000 or \$0.182 per share, of which \$1,519,000 was earned by the Fund and \$1,143,000 was earned by Food Services. The May 2010 dividend of \$240,000 which was declared on June 2, 2010 and paid on June 30, 2010 is reported as a current liability of Trade Marks at June 20, 2010. The Fund's share of \$137,000 is reported as a receivable by the Fund at June 20, 2010.

On July 5, 2010, Trade Marks declared a dividend on its common shares of \$240,000 or \$0.0164 per share, payable to Food Services and the Fund on July 30, 2010.

DIVIDENDS ON TRADE MARKS' CLASS A AND CLASS B PREFERRED SHARES

During the year to date, Trade Marks declared dividends on its Class A and Class B preferred shares of \$2,815,000 or \$0.448 per share. The May 2010 dividends of \$563,000 which were declared on June 2, 2010 and paid to Food Services on June 30, 2010 are reported as a current liability of Trade Marks at June 20, 2010.

On July 5, 2010, Trade Marks declared dividends on its Class A and Class B preferred shares of \$563,000 or \$0.0896 per share, payable to Food Services on July 30, 2010.

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 expects to have 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 expects to have 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 \$2,000,000 demand operating loan facility with HSBC Bank Canada (the Bank) to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at bank prime rate plus 0.5% and are repayable on demand. As at June 20, 2010, the full amount of the facility was available.

Trade Marks has a \$10,000,000 term loan with the Bank. The term loan is repayable on February 18, 2011 however management is in discussions with the Bank to extend the term beyond that date. The term loan bears interest at bank prime rate plus between 0.0% and 0.5% depending on specified financial ratios. Interest only is payable monthly, provided that 12 month trailing earnings before interest, taxes, depreciation and amortization (EBITDA) at any time are not less than \$10,000,000. In the event that EBITDA is less than \$10,000,000, the term loan will be fully amortized over the remaining term and repayment will be by way

of blended monthly instalments of principal and interest. Trailing EBITDA as at June 20, 2010 was \$22,419,000.

Trade Marks uses an interest rate swap agreement to manage risks from fluctuations in interest rates. As a result, the term loan bears interest at 5.82% per annum, of which 4.42% per annum is fixed under an interest rate swap agreement that matures February 18, 2011 and 1.40% per annum is subject to annual review by the Bank. 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 income (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 20, 2010 is \$213,000 unfavourable (December 31, 2009 - \$370,000 unfavourable) and the change in fair value is recorded in other comprehensive income, net of income taxes.

A general security agreement over the assets of Trade Marks was provided as collateral for the demand operating loan facility and term loan. The Partnership has provided its guarantee in favour of the Bank of all of the indebtedness, covenants and obligations of Trade Marks to the Bank.

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

The A&W notes, issued by Trade Marks and held by the Fund, amount to \$83,399,000, bear interest at a fixed rate of 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.

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 20, 2010.

SUMMARY OF QUARTERLY RESULTS

The following selected quarterly results, other than “Distributable cash” and “Distributable cash per equivalent unit”, have been prepared in accordance with GAAP and all dollar amounts are reported in Canadian currency.

(dollars in thousands except per unit amounts)	Q2 2010	Q1 2010	Q4 2009	Q3 2009
Number of restaurants in the Royalty Pool	700	700	685	685
Royalty income	\$5,330	\$5,150	\$7,181	\$5,408
The Fund's interest income	\$2,063	\$2,137	\$2,849	\$2,063
The Fund's net earnings	\$2,585	\$3,023	\$4,010	\$2,698
Basic and diluted earnings per unit	\$0.310	\$0.362	\$0.481	\$0.324
Distributable cash ⁽¹⁾	\$5,128	\$4,645	\$6,831	\$5,218
Number of equivalent units ⁽²⁾	14,705,897	14,705,897	14,289,993	14,289,993
Distributable cash per equivalent unit ⁽¹⁾⁽²⁾	\$0.349	\$0.316	\$0.478	\$0.365
Monthly distributions declared per unit (8,340,000 units) ⁽³⁾	\$0.318	\$0.212	\$0.424	\$0.318
Special distribution declared per unit	\$0.100	-	\$0.100	-
Number of days in the quarter	84	87	116	84

(dollars in thousands except per unit amounts)	Q2 2009	Q1 2009	Q4 2008	Q3 2008
Number of restaurants in the Royalty Pool	685	685	676	676
Royalty income	\$5,115	\$4,382	\$6,991	\$5,257
The Fund's interest income	\$2,063	\$1,990	\$2,817	\$2,057
The Fund's net earnings	\$2,546	\$2,370	\$3,981	\$2,694
Basic and diluted earnings per unit	\$0.305	\$0.284	\$0.477	\$0.323
Distributable cash ⁽¹⁾	\$4,899	\$3,964	\$6,614	\$5,111
Number of equivalent units ⁽²⁾	14,289,993	14,289,993	13,957,962	13,957,962
Distributable cash per equivalent unit ⁽¹⁾⁽²⁾	\$0.343	\$0.277	\$0.474	\$0.366
Monthly distributions declared per unit (8,340,000 units) ⁽³⁾	\$0.318	\$0.212	\$0.424	\$0.318
Special distribution declared per unit	\$0.100	-	\$0.100	-
Number of days in the quarter	84	81	115	84

- (1) Distributable cash is not an earnings measure recognized by 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. See “Distributable Cash”.
- (2) The number of equivalent units and distributable cash per equivalent unit includes the 83,181 common shares of Trade Marks representing the remaining 20% of the consideration for the January 5, 2010 adjustment to the Royalty Pool which is held back until December 2010 when the actual annual sales are reported by the new restaurants.
- (3) The distribution for December of each year, which is paid on January 31 of the following year, is declared and recorded in the year in which it is earned. Therefore, four monthly distributions are declared in the fourth quarter of each year, and two monthly distributions are declared in the first quarter of each year.

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 \$4,200,000 (2009 - \$4,053,000), of which \$1,252,000 (December 31, 2009 - \$761,000) is receivable by the Fund from Trade Marks at June 20, 2010. Interest on the A&W notes for the quarter was \$2,063,000 (2009 - \$2,063,000).

During the year to date, royalty income of \$10,480,000 (2009 - \$9,497,000) was earned by Trade Marks from Food Services, of which \$1,783,000 (December 31, 2009 - \$1,992,000) is receivable by Trade Marks at June 20, 2010. Royalty income earned during the quarter was \$5,330,000 (2009 - \$5,115,000).

As at June 20, 2010, \$66,000 (December 31, 2009 - \$36,000) is due to Trade Marks by the Fund, without interest and on demand.

Under an administration agreement between Trade Marks and the Fund, 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.

Other related party transactions and balances are referred to elsewhere in this Management Discussion and Analysis.

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. The control framework used to design the internal controls over financial reporting was "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and COSO's guidance on how to apply the framework to smaller companies. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. There have been no material changes to the internal controls during the period covered by this Management Discussion and Analysis that have had a material effect on the Fund's internal control over financial reporting.

RISKS AND UNCERTAINTIES

The Restaurant Industry

The net earnings and distributable cash generated by the Fund are 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 are entirely dependent on the royalty the Partnership receives from Food Services, its operating costs, and Trade Marks' income tax obligations. 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.

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, 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 the Partnership. Economic conditions, unemployment, changes in disposable consumer income, and a disease outbreak, could adversely impact consumer visits to restaurants and consequently, sales in A&W restaurants and royalty income for the Partnership.

The harmonization of GST with provincial sales taxes in British Columbia effective July 1, 2010 effectively adds a new 7% tax on restaurant meals in this province. While not announced, the potential future harmonization in Saskatchewan would also effectively add a new tax on restaurant meals in Saskatchewan. The harmonization of GST with provincial sales taxes in Ontario and British Columbia and the increase in the harmonized sales tax in Nova Scotia from 13% to 15% could adversely affect disposable consumer income and consequently consumer visits to restaurants in general and the sales of A&W restaurants in particular, and the amount of royalty payable to the Partnership.

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, availability of financing 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

During the quarter, A&W continued to focus on strengthening its appeal to its core baby boomer customer. Cruisin' the Dub events held at freestanding restaurants are one of the key initiatives. During the summer months, Cruisin' the Dub will be a major focus. During 2009, over 3,700 of these events were held, and it is planned to increase this number in 2010.

A&W also continues to focus on the increasing demand for premium hamburgers. Building on the success of the Sirloin Uncle Burger, A&W has extended its reputation as the only major burger chain with a real premium sirloin hamburger.

Another major initiative in A&W's strategy is accelerating the pace of growth of new restaurants, particularly in the key Ontario market. A&W has now entered into Multi-Site Development Agreements for a total of 84 new restaurants to be built over the coming years. A&W opened five new restaurants in the first and second quarters of 2010, and one additional new restaurant has opened subsequent to the end of the second quarter.

Another strategic initiative underway in 2010 is A&W's "next generation" re-image program, to modernize and enhance the appeal of A&W restaurants. Rollout of this new design will begin in the fourth quarter of 2010. Costs of re-imagining restaurants are borne by the franchisees and there is no cost to the Fund.

A&W plans to continue to focus on building the A&W brand through successful advertising and marketing campaigns, menu innovation, facilities design and expanding to serve customers in new markets. A&W is a strategy driven company whose mission is "to make A&W the number one national burger choice for baby boomers and the fastest growing and most successful burger businesses in 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 and Mission "to make A&W the number one burger choice for baby boomers and the fastest growing and most successful burger businesses in Canada"; Food Services' plans to respond tactically to market conditions; Food Services' plans to build the A&W brand through advertising and marketing campaigns, menu innovation, facilities design and expanding to serve customers in new markets; Food Services' plans to modernize and enhance the appeal of A&W restaurants; Food Services' plans to expand the brand by building new restaurants in 2010 with emphasis on Ontario; the Fund expects to have sufficient financial resources to pay ongoing future distributions; Trade Marks expects to have sufficient financial resources to fund its working capital requirements and to meet its cash flow needs including ongoing common share dividends; and, the operating and administrative expenses of the Fund and Trade Marks are expected to be stable and reasonably predictable.

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 including that there are no changes in availability of experienced management and hourly employees and no material changes in government regulations concerning smoking bans, menu labelling and disclosure and drive-thru restrictions; no publicity from any food borne illness; no changes in competition; no changes in the retail hamburger market including as a result of changes in consumer taste or health concerns or changes in economic conditions or unemployment or a disease outbreak; no increases in food and labour costs; 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 impact on sales from harmonization of sales taxes in British Columbia and Ontario; no harmonization of sales taxes in Saskatchewan; no new or increased sales taxes; continued availability of key personnel; no material litigation from guests alleging food-related illness, injuries suffered on the premises or other food quality, health or operations concerns; 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; 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 and the Partnership continues to make distributions on its units; Trade Marks can continue to comply with its obligations under its credit arrangements; 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 including changes in the availability of experienced management and hourly employees and changes in government regulations concerning smoking bans, menu labelling and disclosure and drive-thru restrictions; publicity from any food-borne illness; competition; changes in the retail hamburger market including as a result of changes in consumer taste and health concerns and changes in economic conditions and unemployment and a disease outbreak; increases in food and labour costs; dependence on the 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; material litigation from guests alleging food-related illness, injuries suffered on the premises or other food quality, health or operations concerns; 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; dependence of the Fund on Trade Marks, the Partnership and Food Services; dependence of the Partnership on Food Services; risks related to leverage and restrictive covenants; the risk that cash distributions are not guaranteed and will fluctuate with the Partnership's 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 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" and in the Fund's Annual Information Form under the heading "Risk Factors".

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 20, 2010

Balance Sheets

Unaudited
(in thousands of dollars)

	June 20 2010	December 31 2009
Assets		
Current assets		
Cash	\$ 7	\$ 140
Due from A&W Trade Marks Inc. (note 4)	1,389	761
	1,396	901
Investment in A&W Trade Marks Inc. (note 2)	75,550	75,584
	\$ 76,946	\$ 76,485
Liabilities		
Current liabilities		
Distribution payable to Unitholders (note 3)	\$ 884	\$ 884
Due to A&W Trade Marks Inc. (note 4)	66	36
	950	920
Unitholders' Equity:		
Capital contributions	77,115	77,115
Accumulated earnings	84,165	78,557
Accumulated distributions (note 3)	(85,186)	(79,932)
Accumulated other comprehensive loss	(98)	(175)
	75,996	75,565
	\$ 76,946	\$ 76,485

Subsequent event (note 5)

See accompanying notes to these financial statements.

A&W Revenue Royalties Income Fund

Statements of Earnings and Accumulated Earnings

Unaudited

(in thousands of dollars, except per Unit amounts)

	12 week period ended Jun 20, 2010	12 week period ended Jun 14, 2009	Period from Jan 1, 2010 to Jun 20, 2010	Period from Jan 1, 2009 to Jun 14, 2009
Interest income	\$ 2,063	\$ 2,063	\$ 4,200	\$ 4,053
Equity in earnings of A&W Trade Marks Inc.	522	483	806	561
Dilution gain	-	-	602	302
Net earnings for the period	2,585	2,546	5,608	4,916
Accumulated earnings - beginning of period	81,580	69,303	78,557	66,933
Accumulated earnings - end of period	\$ 84,165	\$ 71,849	\$ 84,165	\$ 71,849
Basic and diluted earnings per Unit (8,340,000 Units)	\$ 0.310	\$ 0.305	\$ 0.672	\$ 0.589

See accompanying notes to these financial statements.

A&W Revenue Royalties Income Fund

Statements of Accumulated Other Comprehensive Loss

Unaudited

(in thousands of dollars)

	12 week period ended Jun 20, 2010	12 week period ended Jun 14, 2009	Period from Jan 1, 2010 to Jun 20, 2010	Period from Jan 1, 2009 to Jun 14, 2009
Accumulated other comprehensive loss				
- beginning of period	\$ (141)	\$ (333)	\$ (175)	\$ (338)
Other comprehensive income				
Equity in change in fair value of A&W				
Trade Marks Inc.'s interest rate swap	43	63	77	68
Accumulated other comprehensive loss				
- end of period	\$ (98)	\$ (270)	\$ (98)	\$ (270)

Statements of Comprehensive Earnings

Unaudited

(in thousands of dollars)

	12 week period ended Jun 20, 2010	12 week period ended Jun 14, 2009	Period from Jan 1, 2010 to Jun 20, 2010	Period from Jan 1, 2009 to Jun 14, 2009
Net earnings for the period	\$ 2,585	\$ 2,546	\$ 5,608	\$ 4,916
Equity in change in fair value of A&W				
Trade Marks Inc.'s interest rate swap	43	63	77	68
Comprehensive earnings for the period	\$ 2,628	\$ 2,609	\$ 5,685	\$ 4,984

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 20, 2010	12 week period ended Jun 14, 2009	Period from Jan 1, 2010 to Jun 20, 2010	Period from Jan 1, 2009 to Jun 14, 2009
Cash flows from operating activities				
Net earnings for the period	\$ 2,585	\$ 2,546	\$ 5,608	\$ 4,916
Items not affecting cash				
Equity in earnings of A&W Trade Marks Inc.	(522)	(483)	(806)	(561)
Dilution gain	-	-	(602)	(302)
	2,063	2,063	4,200	4,053
Net changes in non-cash working capital	123	123	(461)	(316)
	2,186	2,186	3,739	3,737
Cash flows from investing activities				
Dividends received from A&W Trade Marks Inc.	1,245	1,245	1,382	1,382
Cash flows from financing activities				
Distributions paid to Unitholders	(3,486)	(3,486)	(5,254)	(5,254)
Decrease in cash for the period	(55)	(55)	(133)	(135)
Cash - beginning of period	62	62	140	142
Cash - end of period	\$ 7	\$ 7	\$ 7	\$ 7
Supplementary cash flow information				
Interest received	\$ 2,186	\$ 2,186	\$ 3,709	\$ 3,707

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 20, 2010

Unaudited

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

1. Nature of business 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 through its ownership interest in A&W Trade Marks Limited Partnership (the Partnership) 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, 2009 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, 2009, the annual audited consolidated financial statements of Trade Marks for the year ended December 31, 2009, and the interim unaudited consolidated financial statements of Trade Marks for the quarter ended June 20, 2010.

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. Food Services' 2009 fiscal year was 53 weeks and ended January 3, 2010 (2008 – 52 weeks ended December 28, 2008). To align its financial reporting with that of Food Services, the Fund's second quarter of 2010 ended June 20, 2010 (2009 – June 14, 2009), 24 weeks after Food Services' fiscal year end.

Future accounting changes

On January 1, 2011, the Fund will adopt the new accounting standard CICA Handbook Section 1582, "Business Combinations", which replaced Handbook Section 1581, "Business Combinations", and CICA Handbook Section 1601, "Consolidated Financial Statements", and Handbook Section 1602, "Non-

A&W Revenue Royalties Income Fund
Notes to the Interim Financial Statements

1. *Nature of business and basis of presentation (con'd)*

controlling Interests”, which replaced Handbook Section 1600, “Consolidated Financial Statements”. These new sections are based on the International Accounting Standards Board’s (IASB) International Financial Reporting Standards (IFRS) 3R, “Business Combinations”. The new standards replaced the existing guidance on business combinations and consolidated financial statements. The objective of the new standards is to harmonize Canadian accounting for business combinations with the international and US accounting standards. The adoption of these new standards is not expected to have an impact on the Fund’s financial results.

2. Investment in A&W Trade Marks Inc.

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

	June 20, 2010	December 31, 2009
Voting common shares	\$1	\$1
A&W notes receivable	83,399	83,399
Cumulative equity in earnings (loss)	132	(674)
Cumulative dividends	(10,869)	(9,350)
Cumulative dilution gain	2,985	2,383
Cumulative equity in other comprehensive loss	(98)	(175)
	<u>\$75,550</u>	<u>\$75,584</u>

The Fund’s 57% (December 31, 2009 – 58%) investment in the common shares of Trade Marks is recorded using the equity method. Trade Marks, through its 99.9% interest in the Partnership, owns the A&W trade-marks used in the A&W quick service restaurant business in Canada. In return for licensing Food Services to use its trade-marks, Trade Marks (through the Partnership) receives 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 annually to reflect sales from new A&W restaurants, net of the sales of any A&W restaurants that have permanently closed. Prior to the creation of the Partnership in January 2009, Trade Marks paid Food Services for the additional royalty stream from the net new restaurants by issuing additional voting common shares and Class B preferred shares. Effective January 2010, additional limited partnership units (LP units) are issued to Food Services to reflect the annual adjustment. Food Services’ additional LP units will be exchanged for additional shares of Trade Marks which are exchangeable for units of the Fund. 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, the following adjustments to the Fund’s investment in Trade Marks are recognized:

A&W Revenue Royalties Income Fund
Notes to the Interim Financial Statements
2. *Investment in A&W Trade Marks Inc. (con'd)*

- dilution gains recognized 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;
- the Fund's share of Trade Marks' other comprehensive income (loss) which comprises changes in the fair value of Trade Marks' interest rate swap agreement, net of tax.

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		-2.1%	484,051	2.1%	484,051
January 5, 2009		-1.4%	332,031	1.4%	332,031
January 5, 2010		-1.4%	332,723	1.4%	332,723
	8,340,000	57.0%	6,282,741	43.0%	14,622,741

83,181 additional LP units, representing 20% of the initial consideration for the January 5, 2010 adjustment to the Royalty Pool, are held back until December 2010 when the actual annual sales are reported by the new restaurants added to the Royalty Pool. The additional LP units are exchangeable for additional non-voting common shares of Trade Marks, which will dilute the Fund's equity interest in Trade Marks to 56.7% and increase Food Service's interest to 43.3%.

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 20, 2010, the Fund declared distributions to Unitholders totaling \$5,254,000 or \$0.630 per Unit. The record dates and amounts of these distributions are as follows:

Month	Record date	Amount	Per Unit
January 2010	February 15, 2010	\$ 884	\$ 0.106
February 2010	March 15, 2010	884	0.106
March 2010	April 15, 2010	884	0.106
Special Distribution	May 15, 2010	834	0.100
April 2010	May 15, 2010	884	0.106
May 2010	June 15, 2010	884	0.106
		5,254	\$ 0.630
Accumulated distributions - beginning of period		79,932	
Accumulated distributions - end of period		\$ 85,186	

A&W Revenue Royalties Income Fund
Notes to the Interim Financial Statements
3. Distributions (con'd)

The May 2010 distribution of \$884,000 which was declared on June 2, 2010 and paid on June 30, 2010 is reported as a current liability at June 20, 2010.

4. Related party transactions and balances

During the year to date, interest income of \$4,200,000 (2009 - \$4,053,000) was earned from Trade Marks on the A&W notes receivable, of which \$1,252,000 (December 31, 2009 - \$761,000) is receivable at June 20, 2010. Interest income for the quarter was \$2,063,000 (2009 - \$2,063,000).

Dividends of \$1,519,000 (2009 - \$1,519,000) were earned from Trade Marks during the year to date, of which \$137,000 (December 31, 2009 - \$nil) is receivable at June 20, 2010. Dividends earned in the quarter were \$1,245,000 (2009 - \$1,245,000).

Under an administration agreement with Trade Marks, 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 \$66,000 (December 31, 2009 - \$36,000) due to Trade Marks without interest and on demand.

5. Subsequent event

On July 5, 2010, the Fund declared a distribution to Unitholders of \$0.106 per Unit or \$884,000, payable on July 30, 2010 to Unitholders of record as at July 15, 2010.

A&W Trade Marks Inc.

Consolidated Financial Statements

For the second quarter ended June 20, 2010

Consolidated Balance Sheets

Unaudited

(in thousands of dollars)

	June 20 2010	December 31 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 4,086	\$ 3,039
Accounts receivable (note 7)	1,852	2,028
Income taxes recoverable	-	56
	5,938	5,123
Intangible assets (note 2)	166,290	160,343
	\$ 172,228	\$ 165,466
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	\$ 1,380	\$ 894
Dividends payable (notes 5 and 6)	803	533
Future income taxes	2,147	1,523
Term loan (note 3)	9,994	-
Interest rate swap (note 3)	213	-
	14,537	2,950
Term loan (note 3)	-	9,990
Interest rate swap (note 3)	-	370
Other long term liabilities (note 2)	1,189	-
Future income taxes	14,173	13,825
A&W notes payable (note 4)	83,399	83,399
Class A and Class B preferred shares (note 5)	67,958	63,835
	181,256	174,369
Shareholders' deficiency		
Common shares (note 6)	4,542	3,553
Deficit	(13,396)	(12,156)
Accumulated other comprehensive loss	(174)	(300)
	(9,028)	(8,903)
	\$ 172,228	\$ 165,466

Subsequent events (note 10)

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.

A&W Trade Marks Inc.

Consolidated Statements of Earnings and Deficit

Unaudited

(in thousands of dollars)

	12 week period ended Jun 20, 2010	12 week period ended Jun 14, 2009	Period from Jan 1, 2010 to Jun 20, 2010	Period from Jan 1, 2009 to Jun 14, 2009
Gross sales reported by A&W restaurants in the Royalty Pool	\$ 177,690	\$ 170,506	\$ 349,348	\$ 316,571
Royalty income	\$ 5,330	\$ 5,115	\$ 10,480	\$ 9,497
Expenses				
General and administrative	65	85	426	423
Interest expense				
- term loan and other (note 9)	132	131	271	254
- amortization of deferred financing fees	2	2	4	4
- A&W notes payable	2,063	2,063	4,200	4,053
- Class A and B preferred share dividends	1,575	1,466	3,206	2,880
	3,837	3,747	8,107	7,614
Earnings before income taxes	1,493	1,368	2,373	1,883
Provision for (recovery of) income taxes				
Current	-	-	-	(43)
Future	567	538	941	959
	567	538	941	916
Earnings before non-controlling interests	926	830	1,432	967
A&W Food Services of Canada Inc.'s non- controlling interest in earnings of A&W Trade Marks Limited Partnership	(5)	(5)	(10)	(8)
Net earnings for the period	921	825	1,422	959
Deficit - beginning of period	(12,135)	(10,816)	(12,156)	(10,447)
Adjustment on entering A&W Trade Marks Limited Partnership	-	-	-	(35)
Dividends declared on common shares	(2,182)	(2,129)	(2,662)	(2,597)
Deficit - end of period	\$ (13,396)	\$ (12,120)	\$ (13,396)	\$ (12,120)

See accompanying notes to these financial statements.

A&W Trade Marks Inc.

Consolidated Statements of Accumulated Other Comprehensive Loss

Unaudited

(in thousands of dollars)

	12 week period ended Jun 20, 2010	12 week period ended Jun 14, 2009	Period from Jan 1, 2010 to Jun 20, 2010	Period from Jan 1, 2009 to Jun 14, 2009
Accumulated other comprehensive loss - beginning of period	\$ (249)	\$ (558)	\$ (300)	\$ (566)
Other comprehensive income				
Change in fair value of the interest rate swap, net of income taxes	75	97	126	105
Accumulated other comprehensive loss - end of period	\$ (174)	\$ (461)	\$ (174)	\$ (461)

Consolidated Statements of Comprehensive Earnings

Unaudited

(in thousands of dollars)

	12 week period ended Jun 20, 2010	12 week period ended Jun 14, 2009	Period from Jan 1, 2010 to Jun 20, 2010	Period from Jan 1, 2009 to Jun 14, 2009
Net earnings for the period	\$ 921	\$ 825	\$ 1,422	\$ 959
Other comprehensive income				
Change in fair value of the interest rate swap, net of income taxes	75	97	126	105
Comprehensive earnings for the period	\$ 996	\$ 922	\$ 1,548	\$ 1,064

See accompanying notes to these financial statements.

A&W Trade Marks Inc.

Consolidated Statements of Cash Flows

Unaudited

(in thousands of dollars)

	12 week period ended Jun 20, 2010	12 week period ended Jun 14, 2009	Period from Jan 1, 2010 to Jun 20, 2010	Period from Jan 1, 2009 to Jun 14, 2009
Cash flows from operating activities				
Net earnings for the period	\$ 921	\$ 825	\$ 1,422	\$ 959
Items not affecting cash				
Amortization of deferred financing fees	2	2	4	4
Provision for future income taxes	567	538	941	959
Change in accrued dividends	(136)	(127)	354	225
A&W Food Services of Canada Inc.'s non- controlling interest in earnings of A&W Trade Marks Limited Partnership	5	5	10	8
	1,359	1,243	2,731	2,155
Changes in non-cash working capital	(222)	(511)	748	305
	1,137	732	3,479	2,460
Cash flows from financing activities				
Dividends paid on common shares	(2,182)	(2,129)	(2,422)	(2,363)
Partnership distribution paid to A&W Food Services of Canada Inc.	(5)	(6)	(10)	(6)
	(2,187)	(2,135)	(2,432)	(2,369)
Increase (decrease) in cash for the period	(1,050)	(1,403)	1,047	91
Cash - beginning of period	5,136	4,899	3,039	3,405
Cash - end of period	\$ 4,086	\$ 3,496	\$ 4,086	\$ 3,496
Supplementary cash flow information				
Income taxes received (paid)	\$ 56	\$ -	\$ 56	\$ (56)
Interest paid on term loan and A&W notes payable	\$ (2,350)	\$ (2,314)	\$ (4,005)	\$ (3,934)
Dividends paid on Class A and B preferred shares	\$ (1,689)	\$ (1,593)	\$ (2,785)	\$ (2,627)
Non-cash financing activities				
Issuance of preferred and common shares	\$ -	\$ -	\$ 4,758	\$ 3,513
Adjustment on entering A&W Trade Marks Limited Partnership	\$ -	\$ -	\$ -	\$ (35)

See accompanying notes to these financial statements.

A&W Trade Marks Inc.

Notes to the Interim Consolidated Financial Statements

For the second quarter ended June 20, 2010

Unaudited

(figures in tables are expressed in thousands of dollars)

1. Nature of operations and basis of presentation

Nature of operations

A&W Trade Marks Inc. (the company or Trade Marks), through its 99.9% ownership interest in A&W Trade Marks Limited Partnership (the Partnership), owns the A&W trade-marks used in the A&W quick service restaurant business in Canada. The business of the Partnership, through a Licence and Royalty Agreement with A&W Food Services of Canada Inc. (Food Services), is the collection of a royalty of 3% of sales reported to Food Services by A&W restaurants in the Royalty Pool in exchange for licensing Food Services to use the trade-marks. 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) (57%) and Food Services (43%).

Basis of presentation

Trade Marks prepares its consolidated 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, 2009 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 should be read in conjunction with the annual audited financial statements of the Trade Marks for the year ended December 31, 2009, the annual audited financial statements of the Fund for the year ended December 31, 2009, and the interim unaudited financial statements of the Fund for the quarter ended June 20, 2010.

Basis of consolidation

These consolidated financial statements include the accounts of the company and its 99.9% ownership interest in the Partnership. The non-controlling interest comprises the 0.1% interest in the Partnership held by Food Services.

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. Food Services' 2009 fiscal year was 53 weeks ended January 3, 2010 (2008 – 52 weeks ended December 28, 2008). To align its financial reporting with that of Food Services, Trade Marks' second quarter of 2010 ended June 20, 2010 (2009 – June 14, 2009), 24 weeks after Food Services' fiscal year end.

A&W Trade Marks Inc.

Notes to the Interim Consolidated Financial Statements

1. Nature of operations and basis of presentation (con'd)

Future accounting changes

On January 1, 2011, Trade Marks will adopt the new accounting standard CICA Handbook Section 1582, "Business Combinations", which replaced Handbook Section 1581, "Business Combinations", and CICA Handbook Section 1601, "Consolidated Financial Statements", and Handbook Section 1602, "Non-controlling Interests", which replaced Handbook Section 1600, "Consolidated Financial Statements". These new sections are based on the International Accounting Standards Board's (IASB) International Financial Reporting Standards (IFRS) 3R, "Business Combinations". The new standards replaced the existing guidance on business combinations and consolidated financial statements. The objective of the new standards is to harmonize Canadian accounting for business combinations with the international and US accounting standards. The adoption of these new standards is not expected to have an impact on Trade Marks' financial results.

2. Intangible assets

In 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 voting common shares of Trade Marks, and the balance of the purchase price (the Balance) of \$40,000,000 was due, without interest, on January 31, 2010. The Balance of the purchase price was paid in full by all amounts Trade Marks paid Food Services in respect of annual adjustments to the Royalty Pool up to January 5, 2010.

On January 21, 2009, the A&W trade-marks owned by Trade Marks were transferred to the Partnership in exchange for the general partnership interest held by Trade Marks.

The Royalty Pool is adjusted annually to reflect sales from new A&W restaurants, net of the sales of any A&W restaurants that have permanently closed. Food Services is paid 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 sales of the net new restaurants and the current yield on the units of the Fund, discounted by 7.5%. Prior to the formation of the Partnership, Trade Marks paid Food Services by issuing voting common shares and Class B preferred shares of Trade Marks which are the economic equivalent of units of the Fund.

Effective January 2010, additional limited partnership units (LP units) are issued to Food Services to reflect the annual adjustment. Food Services' additional LP units will be exchanged for additional shares of Trade Marks which are exchangeable for units of the Fund.

A&W Trade Marks Inc.
Notes to the Interim Consolidated Financial Statements
2. *Intangible assets (con'd)*

The annual adjustments to the Royalty Pool are as follows:

	Number of restaurants			Share consideration				Amount \$
	New	Closed	Royalty Pool	Voting common shares	Non-Voting 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	484,051			484,051	6,467
January 5, 2009	17	(8)	9	332,031			332,031	3,782
January 5, 2010	23	(8)	15	28,933	303,790	303,790	28,933	5,947
	776	(76)	700	5,978,951	303,790	3,083,765	3,198,951	166,290

On January 5, 2010, the number of A&W restaurants for which royalties are paid to the Partnership was increased by 23 new restaurants, less 8 restaurants that permanently closed during 2009. The initial consideration for the estimated royalty revenue from the net 15 restaurants was \$5,947,000 and has been recorded as an increase in the value of the intangible assets. The Partnership paid Food Services \$4,758,000 by issuance of 332,723 limited partnership (LP) units representing 80% of the initial consideration. The LP units were exchanged for 28,933 Class B preferred shares valued at \$328,000 and 28,933 voting common shares valued at \$86,000 representing the final payment of the Balance of the purchase price of the A&W trade-marks, and 303,790 Class A preferred shares valued at \$3,441,000 and 303,790 non-voting common shares valued at \$903,000.

The remaining 20% of the initial consideration or \$1,189,000 has been held back until December 2010 when the actual annual sales are reported by the new restaurants added to the Royalty Pool. The remaining 20% of the consideration, which is expected to be settled by issuance of 83,181 additional LP units and exchanged for 83,181 Class A preferred shares valued at \$942,000 and 83,181 non-voting common shares valued at \$247,000, has been recorded as a non-current liability of Trade Marks.

The actual amount of the additional consideration, LP units and shares of Trade Marks may differ from the amounts above depending on the actual annual sales reported by the new restaurants added to the Royalty Pool.

3. Term loan and operating bank line of credit

Trade Marks has a \$2,000,000 demand operating loan facility with HSBC Bank Canada (the Bank) 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 20, 2010, the full amount of the facility was available.

Trade Marks has a \$10,000,000 term loan with the Bank. The 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. 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. As a result, the term loan bears interest at 5.82% per annum, of which 4.42% per annum is fixed under an interest rate swap agreement that matures February 18, 2011, and 1.40% per annum is subject to annual review by the Bank. The fair value of the interest rate swap as at June 20, 2010 is \$213,000 unfavourable (December 31, 2009 - \$370,000 unfavourable), and the change in fair value is recorded in other comprehensive income, net of tax.

A general security agreement over the assets of Trade Marks has been provided as security for the demand operating facility and term loan. The Partnership has provided its guarantee in favour of the Bank of all of the indebtedness, covenants and obligations of Trade Marks to the Bank.

Trade Marks' term loan is comprised of:

	June 20, 2010	December 31, 2009
	\$	\$
Term loan	10,000	10,000
Deferred financing fees	(6)	(10)
	9,994	9,990

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 20, 2010		December 31, 2009	
	#	\$	#	\$
Class A shares - at cost				
Initial consideration	2,779,975	27,800	2,779,975	27,800
January 5, 2010 adjustment	303,790	3,441		-
	3,083,765	31,241	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	484,051	5,398	484,051	5,398
January 5, 2009 adjustment	332,031	3,218	332,031	3,218
January 5, 2010 adjustment	28,933	328		-
	3,198,951	36,363	3,170,018	36,035
Accrued dividends		354		-
	6,282,716	67,958	5,949,993	63,835

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 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 voting 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 consolidated statement of earnings.

83,181 additional Class A preferred shares, representing 20% of the initial consideration for the January 5, 2010 adjustment to the Royalty Pool, are expected to be issued to Food Services in December 2010 when the actual annual sales are reported by the new restaurants added to the Royalty Pool.

During the year to date, Trade Marks declared dividends on its Class A and B preferred shares totaling \$2,815,000 or \$0.448 per share (2009 - \$2,655,000 or \$0.448 per share). The May dividends of \$563,000 which were declared on June 2, 2010 and paid to Food Services on June 30, 2010 are reported as a current liability at June 20, 2010. During the quarter, Trade Marks declared dividends on its Class A and Class B preferred shares of \$1,689,000 (2009 - \$1,593,000).

6. Common shares

Authorized

Unlimited number of voting common shares

Unlimited number of non-voting common shares

Issued

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

	The Fund		Food Services			Total		
	#	%	# voting	# non-voting	total	%	#	\$
February 15, 2002	8,340,000	75.0%	2,780,000		2,780,000	25.0%	11,120,000	1
January 5, 2003 adjustment		-2.9%	452,469		452,469	2.9%	452,469	-
January 5, 2004 adjustment		-3.0%	495,681		495,681	3.0%	495,681	-
January 5, 2005 adjustment		-2.8%	511,337		511,337	2.8%	511,337	-
January 5, 2006 adjustment		-2.8%	558,993		558,993	2.8%	558,993	-
December 31, 2006 adjustment		-1.6%	335,456		335,456	1.6%	335,456	1,919
January 5, 2008 adjustment		-2.1%	484,051		484,051	2.1%	484,051	1,069
January 5, 2009 adjustment		-1.4%	332,031		332,031	1.4%	332,031	564
January 5, 2010 adjustment		-1.4%	28,933	303,790	332,723	1.4%	332,723	989
	8,340,000	57.0%	5,978,951	303,790	6,282,741	43.0%	14,622,741	4,542

83,181 additional non-voting common shares, representing 20% of the initial consideration for the January 5, 2010 adjustment to the Royalty Pool, are expected to be issued to Food Services in December 2010 based on the actual annual sales reported by the new restaurants added to the Royalty Pool. The additional shares will dilute the Fund's equity interest in Trade Marks to 56.7% and increase Food Services' interest to 43.3%.

During the year to date, Trade Marks declared dividends on its common shares totaling \$2,662,000 or \$.182 per share (2009 - \$2,597,000 or \$0.182 per share). The May 2010 dividend of \$240,000 which was declared on June 2, 2010 and paid to Food Services and the Fund on June 30, 2010 is reported as a current liability as at June 20, 2010. During the quarter, Trade Marks declared common shares dividends totaling \$2,182,000 (2009 - \$2,129,000).

7. Related party transactions and balances

During the year to date, royalty income of \$10,480,000 (2009 - \$9,497,000) was earned from Food Services, of which \$1,783,000 (December 31, 2009 - \$1,992,000) is receivable at June 20, 2010. Royalty income earned during the quarter was \$5,330,000 (2009 - \$5,115,000).

Under an administration agreement with the Fund, 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.

Interest expense on the A&W notes for the year to date was \$4,200,000 (2009 - \$4,053,000), of which \$1,252,000 (December 31, 2009 - \$761,000) is payable to the Fund at June 20, 2010. Interest expense on the A&W notes for the quarter was \$2,063,000 (2009 - \$2,063,000).

Included in accounts receivable is \$66,000 (December 31, 2009 - \$36,000) due from the Fund without interest and on demand.

A&W Trade Marks Inc.**Notes to the Interim Consolidated Financial Statements***7. Related party transactions and balances (con'd)*

During the year to date, the Partnership declared and paid distributions of \$10,000 (2009 - \$6,000) on Food Services' limited partnership interest. Partnership distributions declared and paid during the quarter were \$5,000 (2009 - \$6,000).

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 20, 2010	12 week period ended Jun 14, 2009	Period from Jan 1, 2010 to Jun 20, 2010	Period from Jan 1, 2009 to Jun 14, 2009
	\$	\$	\$	\$
Interest expense	134	134	273	263
Interest income	(2)	(3)	(2)	(9)
	132	131	271	254

10. Subsequent events

On July 5, 2010, Trade Marks declared dividends on its Class A and Class B preferred shares of \$563,000 or \$0.0896 per share, payable to Food Services on July 30, 2010. On July 5, 2010, Trade Marks declared a dividend on its common shares of \$240,000 or \$0.0164 per share, payable to Food Services and the Fund on July 30, 2010.

Unitholder Information

Corporate Head Office

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

Mailing Address

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

A&W Revenue Royalties Income Fund

Board of Trustees

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

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

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

Registrar and Transfer Agent

Computershare Investor Services Inc.

Market Information

Units Listed: Toronto Stock Exchange
Symbol: AW.UN

Investor Enquiries

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Chief Financial Officer

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A&W Food Services of Canada Inc.

Q2/2010

Consolidated Financial Statements

For the second quarter ended
June 20, 2010

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



A&W Food Services of Canada Inc.

Report to Unitholders of A&W Revenue Royalties Income Fund January 4, 2010 to June 20, 2010

This report and the unaudited interim consolidated financial statements of A&W Food Services of Canada Inc. for the second quarter ended June 20, 2010 are provided as a supplement to the quarterly report of the A&W Revenue Royalties Income Fund for the second quarter ended June 20, 2010. This report is dated July 27, 2010 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 20, 2010 and the audited annual consolidated financial statements for A&W Food Services of Canada Inc. for the year ended January 3, 2010. 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

A&W	A&W Food Services of Canada Inc.
Consolidated Financial Statements	Consolidated financial statements which include the accounts of A&W Food Services of Canada Inc., its 60% ownership interest in A&W Root Beer Beverages of Canada Inc. and its 43% 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	Consolidated financial results of A&W Trade Marks Inc. and A&W Trade Marks Limited Partnership
The Partnership	A&W Trade Marks Limited Partnership
Beverages	A&W Root Beer Beverages of Canada Inc.

To align its financial reporting with the business cycle of its operations, Food Services uses a fiscal year comprising a 52 or 53 week period ending on the Sunday nearest December 31. The fiscal 2009 year was 53 weeks and ended January 3, 2010 (2008 – 52 weeks ended December 28, 2008). Food Services' second quarter ends 24 weeks after its fiscal year end.

Same Store Sales

Same store sales at A&W restaurants grew by 1.1% in the second quarter of 2010, marking the 29th straight quarter of same store sales growth. Year to date same store sales grew by 3.4%. Same store sales growth is the change in sales of A&W restaurants that operated during the entire 26 4-week periods ending June 20, 2010.

System Sales

For the 12 weeks ended June 20, 2010, total system sales for all A&W restaurants in Canada were \$181,155,000, an increase of \$6,234,000 or 3.6% from the same period in 2009. Year to date system sales were \$351,556,000, an increase of \$21,074,000 or 6.4% from 2009 year to date. This increase was due to the increase in the number of restaurants from 698 to 713 and the same store sales growth.

New Restaurant Development and Restaurant Closures

Food Services opened three new A&W restaurants and closed one restaurant in the second quarter of 2010, compared to three new restaurants and two closures in the second quarter of 2009. Five new restaurants have opened in 2010 year to date, compared to five in 2009. As at June 20, 2010, there were 713 A&W restaurants in Canada, of which 704 were operated by franchisees and nine were corporately owned and operated in the Ottawa region. Subsequent to June 20, 2010, one additional restaurant was opened.

Consolidated Financial Highlights

(dollars in thousands)	Q2 2010	Q2 2009	YTD 2010	YTD 2009
System sales	\$181,155	\$174,921	\$351,556	\$330,482
System sales growth	3.6%	4.1%	6.4%	6.3%
Same store sales growth ⁽¹⁾	1.1%	1.3%	3.4%	3.8%
New restaurants opened	3	3	5	5
Restaurants closed	1	2	2	2
Number of restaurants	713	698	713	698
Franchising & corporate restaurant revenue	\$16,735	\$16,322	\$32,178	\$30,830
Direct costs and administrative expenses	\$9,807	\$10,063	\$19,539	\$20,663
Earnings before interest, amortization, taxes and non-controlling interests	\$6,928	\$6,259	\$12,639	\$10,167
Net earnings	\$2,791	\$2,447	\$4,923	\$3,560

(1) Same store sales growth is not an earnings measure recognized by generally accepted accounting principles (GAAP) and therefore may not be comparable to similar measures presented by other companies.

Overview

Food Services is the franchisor of the A&W restaurant chain in Canada. Food Services' revenue consists of fees from franchised restaurants, revenue from the sale of food and supplies to franchisees and distributors, revenue from the opening of new franchised restaurants, revenue from granting multi-site development areas,

revenue from company-owned restaurants and 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, supplies and equipment sold either directly to franchisees or to distributors that service the restaurants or that are sold to the licensed 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

In 2002, Food Services sold the A&W trade-marks used in the A&W quick service restaurant business in Canada to Trade Marks 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 voting common shares of Trade Marks, and the balance (the Balance) of \$40,000,000 was due without interest on January 31, 2010. The Balance of the purchase price was paid in full by all amounts Trade Marks paid Food Services in respect of annual adjustments to the Royalty Pool up to January 5, 2010.

Concurrent with the purchase of the 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 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.

On January 21, 2009, Trade Marks and Food Services entered into a limited partnership, the Partnership, in which Trade Marks is the general partner with a 99.9% interest and Food Services is the limited partner with a 0.1% interest. The A&W trade-marks owned by Trade Marks were transferred to the Partnership in exchange for the general partnership interest held by Trade Marks. The existing Licence and Royalty Agreement between Trade Marks and Food Services was assumed by the Partnership with the result that the royalty paid by Food Services for the use of the A&W trade-marks is now paid to the Partnership rather than Trade Marks. The Partnership in turn pays partnership distributions to Trade Marks (99.9%) and Food Services (0.1%).

The Royalty Pool is adjusted annually to reflect sales from new A&W restaurants, net of the sales of any A&W restaurants that have permanently closed. Food

Services is paid 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%. Prior to the formation of the Partnership, Trade Marks paid Food Services for the additional royalty stream by issuing voting common shares and Class B preferred shares of Trade Marks which are the economic equivalent of units of the Fund. Effective January 5, 2010, additional limited partnership units (LP units) are issued to Food Services to reflect the annual adjustments. Food Services' additional LP units will be exchanged for additional shares of Trade Marks which are exchangeable for units of the Fund.

Expansion of the Royalty Pool

The eighth adjustment to the Royalty Pool took place on January 5, 2010. The number of A&W restaurants in the Royalty Pool was increased by 23 new restaurants less 8 restaurants which permanently closed during 2009. The estimated annual sales of the 23 new A&W restaurants are \$24,879,000 and annual sales for the 8 permanently closed restaurants were \$2,817,000. The net sales of \$22,062,000 translate into estimated additional annual royalty payments to the Partnership of \$662,000 on the basis of the royalty of 3% of sales. The initial consideration for this estimated additional royalty stream is \$5,947,000, calculated by discounting the estimated additional royalties by 7.5% and dividing the result by the yield on the units of the Fund for the 20 trading days ending October 26, 2009. The Partnership paid Food Services \$4,758,000 by issuance of 332,723 limited partnership units (LP units) to Food Services, representing 80% of the initial consideration. 28,933 of the LP units were exchanged for 28,933 Class B preferred shares valued at \$328,000 and 28,933 voting common shares valued at \$86,000, representing the final payment of the Balance of the purchase price of the A&W trade-marks. The remaining LP units were exchanged for 303,790 Class A preferred shares valued at \$3,441,000 and 303,790 non-voting common shares of Trade Marks valued at \$903,000.

The remaining 20% of the consideration or \$1,189,000 has been held back until December 2010 when the actual annual sales are reported by the new restaurants added to the Royalty Pool. The remaining 20% of the consideration is expected to be settled by issuance of 83,181 additional LP units which will be exchanged for 83,181 Class A preferred shares valued at \$942,000 and 83,181 non-voting common shares valued at \$247,000.

The actual amount of additional consideration, LP units and shares of Trade Marks may differ from the amounts above depending on the actual annual sales reported by the new restaurants.

After the January 5, 2010 adjustment to the Royalty Pool, the number of restaurants in the Royalty Pool increased to 700, Food Services owns the equivalent of 43% of the units of the Fund on a fully diluted basis, and the remaining Balance of the purchase price has been paid in full.

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

(dollars in thousands)	The Fund		Food Services				Total	
	# voting	%	# voting	# non-voting	total	%	#	\$
February 15, 2002	8,340,000	75.0%	2,780,000		2,780,000	25.0%	11,120,000	1
January 5, 2003 adjustment		-2.9%	452,469		452,469	2.9%	452,469	-
January 5, 2004 adjustment		-3.0%	495,681		495,681	3.0%	495,681	-
January 5, 2005 adjustment		-2.8%	511,337		511,337	2.8%	511,337	-
January 5, 2006 adjustment		-2.8%	558,993		558,993	2.8%	558,993	-
December 31, 2006 adjustment		-1.6%	335,456		335,456	1.6%	335,456	1,919
January 5, 2008 adjustment		-2.1%	484,051		484,051	2.1%	484,051	1,069
January 5, 2009 adjustment		-1.4%	332,031		332,031	1.4%	332,031	564
January 5, 2010 adjustment		-1.4%	28,933	303,790	332,723	1.4%	332,723	989
	8,340,000	57.0%	5,978,951	303,790	6,282,741	43.0%	14,622,741	4,542

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

(dollars in thousands)	June 20, 2010		December 31, 2009	
	#	\$	#	\$
Class A shares - at cost				
Initial consideration	2,779,975	27,800	2,779,975	27,800
January 5, 2010 adjustment	303,790	3,441	-	-
	3,083,765	31,241	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	484,051	5,398	484,051	5,398
January 5, 2009 adjustment	332,031	3,218	332,031	3,218
January 5, 2010 adjustment	28,933	328	-	-
	3,198,951	36,363	3,170,018	36,035
Accrued dividends		354		-
	6,282,716	67,958	5,949,993	63,835

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 43% of the units of the Fund as at June 20, 2010.

83,181 additional Class A preferred shares and 83,181 additional non-voting common shares, representing 20% of the initial consideration for the January 5, 2010 adjustment to the Royalty Pool, are expected to be issued to Food Services in December 2010 when the actual annual sales are reported by the new restaurants added to the Royalty Pool. The additional shares will dilute the Fund's equity interest in Trade Marks to 56.7% and increase Food Services' interest to 43.3%. The actual amount of the additional consideration, LP units and shares of Trade Marks may differ from the amounts above depending on the actual annual sales reported by the new restaurants.

Basis of Consolidation

Food Services, the Fund, Trade Marks and the Partnership have adopted 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. Food Services’ consolidated financial statements include the accounts of Trade Marks and the Partnership.

As a result of AcG-15, all intercompany accounts and transactions between Food Services, Trade Marks and the Partnership are eliminated in the consolidated financial statements. The trade-marks are recorded on the consolidated balance sheet at their historical book value. Food Services’ investments in Trade Marks and the Partnership, its deferred gain on the sale of the trade-marks, and Trade Marks’ intangible assets and Class A and Class B preferred shares and common 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, Trade Marks and the Partnership. It is important to note that the Partnership legally owns the A&W trade-marks, receives royalty income from Food Services and pays distributions to Trade Marks and Food Services. Trade Marks in turn pays dividends to Food Services and the Fund and interest on the A&W notes to 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 annual report for the year ended December 31, 2009 (which includes the consolidated financial statements of Trade Marks) which is available at www.sedar.com or on the Fund’s website at www.awincomefund.ca.

Future Accounting Changes

On January 3, 2011, Food Services will adopt the new accounting standard CICA Handbook Section 1582, “Business Combinations”, which replaced Handbook Section 1581, “Business Combinations”, and Handbook Section 1601, “Consolidated Financial Statements”, and Handbook Section 1602, “Non-Controlling Interests”, which replaced Handbook Section 1600, “Consolidated Financial Statements”. These new sections are based on the International Accounting Standards Board’s (IASB) International Financial Reporting Standards (IFRS) 3R, “Business Combinations”. The new standards replaced the existing guidance on business combinations and consolidated financial statements. The

adoption of these new standards is not expected to have an impact on Food Services' financial results.

International Financial Reporting Standards (IFRS)

The transition date for publicly reported companies to adopt IFRS is January 1, 2011 which will require the restatement, for comparative purposes, of amounts reported by Food Services for the fiscal year ended January 2, 2011, and of the amounts reported on their opening IFRS balance sheets as at January 4, 2010. To accomplish this, in 2010, two parallel books of accounts are being maintained.

Food Services commenced the process to transition from current Canadian GAAP to IFRS in 2009. Progress reports are provided to the directors of Food Services on the status of the IFRS implementation project on a regular basis. The implementation project consists of three primary phases:

- Scoping and diagnostic phase
- Impact analysis, evaluation and design phase
- Implementation and review phase

Scoping and Diagnostic Phase

A preliminary diagnostic review was completed by an external consultant which included the determination, at a high level, of the financial reporting differences under IFRS and the key areas that may be impacted. The areas with the highest potential impact were identified to include leases; basis of consolidation; related party transactions; employee benefits; provisions, contingent liabilities and contingent assets; impairment of assets; financial instruments and initial adoption of IFRS under the provisions of IFRS 1.

Impact Analysis, Evaluation and Design Phase

A detailed evaluation is currently underway and involves assessing the impact on financial reporting, information technology and systems, financial accounting expertise, accounting policies, internal controls over financial reporting and disclosure controls, and developing systems and accounting policies to address identified issues. This phase will also involve a detailed analysis of the differences between IFRS and Canadian GAAP. Significant increases in disclosure are anticipated and Food Services is identifying and assessing these additional disclosure requirements.

Implementation and Review Phase

This phase will involve the execution of changes to accounting policies and information systems and will culminate in the collection of the necessary financial information to compile IFRS financial statements and directors' approval of IFRS interim and annual financial statements for 2011.

Food Services anticipates that there will be changes in accounting policies and that these changes may materially impact the financial statements. The full impact on future financial reporting cannot be reasonably determined or estimated at this time.

Differences between IFRS and Canadian GAAP, in addition to those referred to below, may still be identified based on further detailed analysis by Food Services. The IASB currently has projects underway that are expected to result in new pronouncements and as a result, IFRS as at the transition date is expected to differ

from its current form. The final impact of IFRS on the financial statements will only be determined once all applicable standards at the conversion date are known. The transition to IFRS is not expected to have an impact on Food Services' operating results or cash flows.

Food Services is progressing through its assessment of the impacts of adopting IFRS based on the standards as they currently exist, and identified the following as having the greatest potential to impact its accounting policies, financial reporting and information systems requirements upon conversion to IFRS.

(a) Leases

Food Services has a number of leasing arrangements which are currently classified as capital or operating depending upon the terms and conditions of the contract. Under IFRS, the threshold tests for determining if leases are finance leases or operating leases are not interpreted as literally. Therefore, all leases will need to be reviewed and leases currently accounted for as operating leases may be required to be accounted for as finance leases. In addition, discount rates and excluded costs for existing capital leases will need to be reviewed and amended if appropriate. Generally, disclosure requirements for leases are more extensive than those under Canadian GAAP.

(b) Basis of Consolidation

Under Canadian GAAP, Food Services consolidates Trade Marks as the Fund and Food Services have determined that Trade Marks is a VIE and that Food Services is the "primary beneficiary" of Trade Marks. Under current IFRS, there is no "variable interests" model to determine which entities are consolidated. Consolidation is based on "control" which is the ability to direct or dominate an entity's decision making, regardless of whether this power is actually exercised. Therefore, based on the current IFRS standards, the consolidation process may change such that Trade Marks is consolidated with the Fund, rather than Food Services. This position will need to be reassessed when the revised IFRS standard is issued.

(c) Related Party Transactions

IFRS will require more extensive disclosure of related party transactions and balances between related parties, which include the Fund, Trade Marks and the Partnership. Relationships with parent companies and subsidiaries must be disclosed irrespective of whether there have been transactions between those related parties. Compensation of key management personnel which is defined as persons with authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including, but not limited to, directors and trustees, must be disclosed in aggregate. For each related party transaction, the nature of the relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship must be disclosed. Significant additional note disclosures are likely to be needed to comply with IFRS requirements.

(d) Employee Benefits

IFRS standards for accounting for employee future benefits plans are similar, although not identical to Canadian GAAP. Under transition rules, existing

actuarial gains and losses would be recognized as an adjustment to retained earnings. There is a one-time election (i) to amortize future actuarial gains and losses in expense or (ii) to recognize future actuarial gains and losses immediately in shareholders' equity. Significant additional disclosure will be required.

(e) Provisions, Contingent Liabilities and Contingent Assets

Food Services has no material provisions under Canadian GAAP. Under IFRS, a provision should be recognized for onerous contracts, measured at management's best estimate. Provisions may need to be recognized for certain sub-leasing contracts.

(f) Impairment of Assets

Currently, the A&W trade-marks are classified as intangible assets with an indefinite life and are carried at cost. The carrying value is tested at least annually for impairment, by comparing the carrying value to the "fair value" determined using forecast future cash flows, which is consistent with IFRS. Trade Marks' intangible asset impairment model may need to be revised to comply with IFRS requirements. Unlike Canadian GAAP, impairment losses may be reversed under IFRS. IFRS requires significant additional disclosures in the event an impairment loss is recorded or reversed.

(g) Financial Instruments

Food Services has applied the new Canadian GAAP standards in relation to the recognition, measurement, presentation and disclosure of financial instruments. Trade Marks uses the "short-cut" or "all critical terms match" hedge effectiveness assessment for its interest rate swap. The new Canadian GAAP standards for financial instruments are aligned with IFRS, therefore GAAP differences in this area are limited, with the exception of the "short-cut" hedge effectiveness assessment which does not exist under IFRS. The documentation of the hedge effectiveness has been revised accordingly.

2010 Operating Results

Revenue

Food Services' franchising and corporate revenue for the second quarter of 2010 was \$16,735,000 compared to \$16,322,000 for the same quarter of 2009. Year to date revenue was \$32,178,000 for 2010 compared to \$30,830,000 for 2009.

Franchising revenue for the second quarter was \$14,653,000 compared to \$13,908,000 for the prior year. Year to date franchising revenue was \$27,678,000 compared to \$26,153,000 for the prior year. The increase of \$745,000 for the quarter and \$1,525,000 year to date was due primarily to the system sales growth which resulted in higher franchise fees. In addition, multi-site development fees were received for new restaurants committed to open in the next 3 to 5 years. No multi-site development fees were received in the first and second quarters of 2009 as the program was launched in the third quarter of 2009.

Corporate restaurant sales in the second quarter were \$2,082,000 compared to \$2,414,000 in the same quarter of 2009. Year to date corporate restaurant sales were \$4,500,000 compared to \$4,677,000 for the prior year. Sales growth in the Ottawa region was offset by a decrease in the number of corporate restaurants held

for refranchising, as a restaurant in Quebec which was operated corporately in 2009 was refranchised at the beginning of the second quarter of 2010.

Expenses and Operating Contribution Margin

Direct costs and administrative expenses for the second quarter of 2010 were \$9,807,000 compared to \$10,063,000 for the same quarter of 2009. 2010 year to date direct costs and administrative expenses were \$19,539,000 compared to \$20,663,000 for 2009 year to date. The decrease of \$256,000 for the quarter and \$1,124,000 year to date was due to lower overhead costs in 2010 compared to 2009 when the bi-annual national convention was held, and lower costs of corporate restaurant sales as the restaurant being held for refranchising was franchised in the second quarter of 2010. The operating contribution margin was 41.4% for the second quarter and 39.3% for 2010 year to date compared to 38.3% for the second quarter of 2009 and 33.0% for year to date 2009.

Earnings before interest, amortization, taxes and non-controlling interests increased by \$669,000 to \$6,928,000 for the second quarter of 2010 compared to \$6,259,000 for the same quarter of 2009. Year to date earnings before interest, amortization, taxes and non-controlling interests increased by \$2,472,000 to \$12,639,000 for 2010 from \$10,167,000 for 2009.

Interest Expense

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

	Q2 2010	Q2 2009	YTD 2010	YTD 2009
Interest				
Other interest (income) expense	\$ 17	\$ 4	\$ 32	\$ (7)
Term loan	134	134	273	263
A&W notes payable	2,063	2,063	4,200	4,053
Amortization of deferred financing fees	2	2	4	4
	\$ 2,216	\$ 2,203	\$ 4,509	\$ 4,313

The year to date increase in Trade Marks' interest expense on its term loan and A&W notes payable resulted from there being six more days in Trade Marks' first quarter of 2010 compared to 2009. Interest income is lower in 2010 compared to 2009 due to lower interest rates.

Income Taxes

Income tax expense increased by \$163,000 for the quarter and \$434,000 year to date due to higher earnings before taxes.

Non-controlling Interests

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

The Fund's interest in the earnings of Trade Marks represents the common equity and notes payable of Trade Marks held by the Fund. The Fund's share of Trade Marks' earnings was \$522,000 for the quarter compared to \$483,000 for 2009, and \$806,000 year to date compared to \$561,000 for 2009. The increase in Trade Marks' earnings resulted primarily from higher royalty income.

Net Earnings and Comprehensive Earnings

Net earnings for the quarter increased by \$344,000 to \$2,791,000 in 2010 compared to \$2,447,000 for the same quarter of 2009. Year to date net earnings increased by \$1,363,000, to \$4,923,000 in 2010 from \$3,560,000 in 2009.

In accordance with CICA Handbook Section 3865, "Hedges", other comprehensive income of \$32,000 was recorded in the quarter and \$49,000 year to date in 2010, compared to \$34,000 in the same quarter of 2009 and \$37,000 year to date 2009, to reflect the change in the fair value of Trade Marks' interest rate swap agreement, net of income taxes and the Fund's equity interest. Comprehensive earnings for the quarter were \$2,823,000 compared to \$2,481,000 for the same quarter of 2009. Year to date comprehensive earnings were \$4,972,000 for 2010 compared to \$3,597,000 for 2009. Accumulated other comprehensive losses as at June 20, 2010 were \$76,000 compared to \$125,000 at the end of 2009.

Liquidity and Capital Resources

Food Services is primarily a franchise business with 704 of its 713 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, and in 2009 undertook renovations of its head office. Food Services expects to have 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 \$5,000,000 demand operating loan facility with HSBC Bank Canada (the Bank) to fund its working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the bank prime rate plus 0.5% and are repayable on demand. Food Services has provided its Class A preferred shares and 2,780,000 common shares of Trade Marks as collateral. As at June 20, 2010, the full amount of the facility was available.

Trade Marks expects to have 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 \$2,000,000 demand operating loan facility with the Bank to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the bank prime rate plus 0.5% and are repayable on demand. As at June 20, 2010, the full amount of the facility was available.

Trade Marks has a \$10,000,000 term loan with the Bank. The term loan is repayable on February 18, 2011 however management is in discussions with the Bank to extend the term beyond that date. The term loan bears interest at the bank prime rate plus between 0% and 0.5% depending on specified financial ratios. Interest only is payable monthly, provided that 12 month trailing earnings before interest, taxes, depreciation and amortization (EBITDA) at any time are not less than \$10,000,000. In the event that EBITDA is less than \$10,000,000, the term loan will be fully amortized over the remaining term and repayment will be by way of blended monthly instalments of principal and interest. Trailing EBITDA as at June 20, 2010 was \$22,419,000.

Trade Marks uses an interest rate swap agreement to manage risks from fluctuations in interest rates. As a result, the term loan bears interest at 5.82% per annum, of which 4.42% per annum is fixed under an interest rate swap agreement that matures February 18, 2011 and 1.40% per annum is subject to annual review by the Bank. 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 income (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 20, 2010 is \$213,000 unfavourable (January 3, 2010 - \$370,000 unfavourable) and the change in fair value is recorded in other comprehensive income (loss), net of income taxes and the Fund's equity interest.

A general security agreement over the assets of Trade Marks was provided as collateral for the demand operating loan facility and term loan. The Partnership has provided its guarantee in favour of the Bank of all the indebtedness, covenants and obligations of Trade Marks to the Bank.

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

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

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

Payments due by period (dollars in thousands)	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Term loan	\$10,000	\$10,000	\$0	\$0	\$0
A&W notes payable	\$83,399	\$0	\$0	\$0	\$83,399

Off-Balance Sheet Arrangements

Food Services and Trade Marks have no off-balance sheet arrangements.

Related Party Transactions and Balances

Trade Marks' interest expense on the A&W notes for the year to date was \$4,200,000 (2009 - \$4,053,000), of which \$1,252,000 (December 31, 2009 - \$761,000) is receivable by the Fund from Trade Marks at June 20, 2010. Interest on the A&W notes for the quarter was \$2,063,000 (2009 - \$2,063,000).

Included in accounts receivable is \$66,000 (January 3, 2010 - \$36,000) due to Trade Marks by the Fund without interest and on demand.

Under an administration agreement between Trade Marks and the Fund, 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.

During the quarter, Food Services contracted with Biting Buffalo Holdings Inc. 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, is the shareholder of Biting Buffalo Holdings Inc. The cost of the services provided under the contract during the year to date was \$266,000 (2009 - \$80,000). At June 20, 2010, \$10,000 (January 3, 2010 - \$nil) is payable to Biting Buffalo Holdings Inc. by Food Services. The cost of services provided during the quarter was \$266,000 (2009 - \$20,000).

During the year to date, Food Services paid \$85,000 (2009 - \$85,000) to the Vancouver Canadians Professional Baseball Club, of which a shareholder, director and officer of Food Services is a part owner, in exchange for advertising the A&W brand at the ballpark. At June 20, 2010, \$nil (January 3 2010 - \$nil) is payable to the Vancouver Canadians by Food Services. \$nil was paid to the Vancouver Canadians Professional Baseball Club during the quarter (2009 - \$85,000).

During the year to date, Trade Marks declared dividends on its common shares totaling \$2,662,000 or \$0.182 per share (2009 - \$2,597,000 or \$0.182 per share) of which \$1,519,000 (2009 - \$1,519,000) was earned by the Fund and \$1,143,000 (2009 - \$1,078,000) was earned by Food Services. The May 2010 dividend of \$240,000 was paid on June 30, 2010, and the Fund's share of \$137,000 is reported as a current liability at June 20, 2010. During the quarter, Trade Marks declared common share dividends totaling \$2,182,000 (2009 - \$2,129,000).

Food Services maintains an advertising fund that is supported by prescribed contributions from corporate and franchise restaurants. The advertising fund paid \$245,000 (2009 - \$234,000) to Food Services during the year to date for marketing, promotional and administrative services provided to the advertising fund. During the quarter, the advertising fund paid Food Services \$122,000 (2009 - \$117,000).

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:

- Royalty income of \$10,480,000 (2009 - \$9,497,000) was earned by Trade Marks from Food Services, of which \$1,783,000 (December 31, 2009 - \$1,992,000) is receivable by Trade Marks at June 20, 2010. Royalty income earned during the quarter was \$5,330,000 (2009 - \$5,115,000).
- Dividends of \$2,815,000 or \$0.448 per share (2009 - \$2,655,000 or \$0.448 per share) were declared by Trade Marks on its Class A and B preferred shares held by Food Services, of which \$563,000 (January 3, 2010 - \$533,000) is payable as at June 20, 2010. During the quarter, Trade Marks declared dividends on its Class A and Class B preferred shares of \$1,689,000 (2009 - \$1,593,000).
- Partnership distributions of \$10,688,000 (2009 - \$6,514,000) were declared of which \$10,678,000 was paid to Trade Marks and \$10,000 was paid to Food

Services. Partnership distributions declared and paid during the quarter totalled \$5,315,000 (2009 - \$4,994,000)

- Trade Marks' issuance to Food Services of 28,933 Class B preferred shares valued at \$328,000, 28,933 voting common shares valued at \$86,000, 303,790 Class A preferred shares valued at \$3,441,000 and 303,790 non-voting common shares of Trade Marks valued at \$903,000 as consideration for the January 5, 2010 adjustment to the Royalty Pool.
- Trade Marks' non-current liability of \$1,189,000 and Food Services' non-current asset of \$1,189,000 representing the remaining 20% of the initial consideration for the January 5, 2010 adjustment to the Royalty Pool which is held back until December 2010 when the actual annual sales are reported by the new restaurants added to 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 20, 2010.

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, 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 the Partnership. Economic conditions, unemployment, changes in disposable consumer income, and a disease outbreak, could adversely impact consumer visits to restaurants, and consequently sales in A&W restaurants and royalty income for the Partnership.

The harmonization of GST with provincial sales taxes in British Columbia effective July 1, 2010 effectively adds a new 7% tax on restaurant meals in this province. While not announced, the potential future harmonization in Saskatchewan would also effectively add a new tax on restaurant meals in Saskatchewan. The harmonization of GST with provincial sales taxes in Ontario and British Columbia and the increase in the harmonized sales tax in Nova Scotia from 13% to 15% could

adversely affect disposable consumer income and consequently consumer visits to restaurants in general and the sales of A&W restaurants in particular, and the amount of royalty payable to the Partnership.

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, availability of financing 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

During the quarter, A&W continued to focus on strengthening its appeal to its core baby boomer customer. Cruisin' the Dub events held at freestanding restaurants are one of the key initiatives. During the summer months, Cruisin' the Dub will be a major focus. During 2009, over 3,700 of these events were held, and it is planned to increase this number in 2010.

A&W also continues to focus on the increasing demand for premium hamburgers. Building on the success of the Sirloin Uncle Burger, A&W has extended its reputation as the only major burger chain with a real premium sirloin hamburger.

Another major initiative in A&W's strategy is accelerating the pace of growth of new restaurants, particularly in the key Ontario market. A&W has now entered into Multi-Site Development Agreements for a total of 84 new restaurants to be built over the coming years. A&W opened five new restaurants in the first and second quarters of 2010, and one additional new restaurant has opened subsequent to the end of the second quarter.

Another strategic initiative underway in 2010 is A&W's "next generation" re-image program, to modernize and enhance the appeal of A&W restaurants. Rollout of this new design will begin in the fourth quarter of 2010.

A&W plans to continue to focus on building the A&W brand through successful advertising and marketing campaigns, menu innovation, facilities design and expanding to serve customers in new markets. A&W is a strategy driven company whose mission is “to make A&W the number one national burger choice for baby boomers and the fastest growing and most successful burger businesses in Canada.”

Subsequent Events

On July 5, 2010, Trade Marks declared dividends on its common shares of \$240,000, payable to Food Services and the Fund on July 30, 2010.

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 “make A&W the number one national burger choice for baby boomers and the fastest growing and most successful burger businesses in Canada”; Food Services’ plans to respond tactically to market conditions; Food Services’ plans to build the A&W brand through advertising and marketing campaigns, menu innovation, facilities design and expanding to serve customers in new markets; Food Services’ plans to modernize and enhance the appeal of A&W restaurants; Food Services’ plans to expand the brand by building new restaurants in 2010 with emphasis on Ontario; Food Services expects to have sufficient capital resources to fund the expansion of corporate restaurants; Trade Marks expects to have sufficient financial resources to fund its working capital requirements and to meet its cash flow needs including ongoing common share dividends; and, Trade Marks’ operating and administrative expenses are expected to be stable and reasonably predictable.

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 including that there are no changes in availability of experienced management and hourly employees and no material changes in government regulations concerning smoking bans, menu labelling and disclosure and drive-thru restrictions; no publicity from any food borne illness; no changes in competition; no changes in the retail hamburger market including as a result of changes in consumer taste or health concerns or changes in economic conditions or unemployment or a disease outbreak; no increases in food and labour costs; 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 impact on sales from harmonization of sales taxes in British Columbia and Ontario; no harmonization of sales taxes in Saskatchewan; no new or increased sales taxes; continued availability of key personnel; no material litigation from guests alleging food-related illness, injuries suffered on the premises or other food quality, health or operations concerns; 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; Food Services continues to pay the Royalty; the Partnership continues to make distributions on its units; 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; 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 including changes in the availability of experienced management and hourly employees and changes in government regulations concerning smoking bans, menu labelling and disclosure and drive-thru restrictions; publicity from any food-borne illness; competition; changes in the retail hamburger market including as a result of changes in consumer taste and health concerns and changes in economic conditions and unemployment and a disease outbreak; increases in food and labour costs; dependence on the 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 sales; dependence on key personnel; material litigation from guests alleging food-related illness, injuries suffered on the premises or other food quality, health or operations concerns; 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; dependence of the Fund on Trade Marks, the Partnership and Food Services; dependence of the Partnership on Food Services; risks related to leverage and restrictive covenants; the risk that cash distributions are not guaranteed and will fluctuate with the Partnership's 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 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" and in the Fund's Annual Information Form under the heading "Risk Factors".

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 20, 2010

Consolidated Balance Sheets

Unaudited
(in thousands of dollars)

	June 20 2010	January 3 2010
Assets		
Current assets		
Cash and cash equivalents	\$ 10,802	\$ 6,130
Accounts receivable	9,489	14,682
Inventories	1,788	1,521
Prepaid expenses	108	212
Income taxes recoverable	-	53
	22,187	22,598
Intangible assets	83,897	83,198
Future income taxes	-	199
Property, plant and equipment	6,151	5,383
Notes receivable	77	70
	\$ 112,312	\$ 111,448
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 13,112	\$ 16,815
Deposits on franchise and equipment sales	3,969	1,177
Income taxes payable	352	-
Future income taxes	1,917	1,271
Term loan (note 4)	9,994	-
Interest rate swap (note 4)	213	-
	29,557	19,263
Net liabilities due to A&W Revenue Royalties		
Income Fund (note 3)	75,550	75,584
Term loan (note 4)	-	9,990
Interest rate swap (note 4)	-	370
Long-term liabilities	7,453	7,269
Obligations under capital leases	780	478
Future income taxes	204	-
Non-controlling interest	408	106
	113,952	113,060
Shareholders' Deficiency		
Capital stock	10,500	10,500
Deficit	(12,064)	(11,987)
Accumulated other comprehensive loss	(76)	(125)
	(1,640)	(1,612)
	\$ 112,312	\$ 111,448

Subsequent event (note 7)

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 20, 2010	12 Week Period Ended Jun 14, 2009	24 Week Period Ended Jun 20, 2010	24 Week Period Ended Jun 14, 2009
Revenue				
Franchising	\$ 14,653	\$ 13,908	\$ 27,678	\$ 26,153
Corporate restaurants	2,082	2,414	4,500	4,677
	16,735	16,322	32,178	30,830
Direct costs and administrative expenses	9,807	10,063	19,539	20,663
Earnings before the following:	6,928	6,259	12,639	10,167
Interest expense (note 6)	2,216	2,203	4,509	4,313
Amortization of property, plant and equipment	238	168	488	334
Earnings before income taxes and non-controlling interests	4,474	3,888	7,642	5,520
Provision for income taxes				
Current	435	284	690	225
Future income taxes	548	536	921	952
	983	820	1,611	1,177
Earnings for the period before non-controlling interests	3,491	3,068	6,031	4,343
Non-controlling interest in A&W Root Beer Beverages of Canada Inc.	(178)	(138)	(302)	(222)
A&W Revenue Royalties Income Fund's interest in earnings of A&W Trade Marks Inc.	(522)	(483)	(806)	(561)
Net earnings for the period	2,791	2,447	4,923	3,560
Deficit - beginning of period	(9,855)	(11,833)	(11,987)	(12,946)
Dividends paid	(5,000)	(3,500)	(5,000)	(3,500)
Deficit - end of period	\$ (12,064)	\$ (12,886)	\$ (12,064)	\$ (12,886)

Consolidated Statements of Accumulated Other Comprehensive Loss

Unaudited
(in thousands of dollars)

	12 Week Period Ended Jun 20, 2010	12 Week Period Ended Jun 14, 2009	24 Week Period Ended Jun 20, 2010	24 Week Period Ended Jun 14, 2009
Accumulated other comprehensive loss - beginning of period	\$ (108)	\$ (225)	\$ (125)	\$ (228)
Other comprehensive income				
Change in fair value of the interest rate swap, net of income taxes	75	97	126	105
A&W Revenue Royalties Income Fund's interest in other comprehensive income of A&W Trade Marks Inc.	(43)	(63)	(77)	(68)
	32	34	49	37
Accumulated other comprehensive loss - end of period	\$ (76)	\$ (191)	\$ (76)	\$ (191)

Consolidated Statements of Comprehensive Earnings

Unaudited
(in thousands of dollars)

	12 Week Period Ended Jun 20, 2010	12 Week Period Ended Jun 14, 2009	24 Week Period Ended Jun 20, 2010	24 Week Period Ended Jun 14, 2009
Net earnings for the period	\$ 2,791	\$ 2,447	\$ 4,923	\$ 3,560
Change in fair value of the interest rate swap, net of income taxes	75	97	126	105
A&W Revenue Royalties Income Fund's interest in other comprehensive income of A&W Trade Marks Inc.	(43)	(63)	(77)	(68)
	32	34	49	37
Comprehensive earnings for the period	\$ 2,823	\$ 2,481	\$ 4,972	\$ 3,597

See accompanying notes to these financial statements.

Consolidated Statements of Cash Flows

Unaudited

(in thousands of dollars)

	12 Week Period Ended Jun 20, 2010	12 Week Period Ended Jun 14, 2009	24 Week Period Ended Jun 20, 2010	24 Week Period Ended Jun 14, 2009
Cash flows from operating activities				
Net earnings for the period	\$ 2,791	\$ 2,447	\$ 4,923	\$ 3,560
Items not affecting cash				
Amortization of deferred financing fees	2	2	4	4
Amortization of property, plant and equipment	238	168	488	334
Future income taxes	548	536	921	952
Gain on disposal of property, plant and equipment	-	-	-	(1)
Increase in long-term liabilities	90	67	184	165
Non-controlling interest in earnings of A&W Root Beer Beverages of Canada Inc.	178	138	302	222
A&W Revenue Royalties Income Fund's interest in earnings of A&W Trade Marks Inc.	522	483	806	561
	4,369	3,841	7,628	5,797
Net changes in non-cash working capital	(1,475)	(2,052)	4,352	(613)
	2,894	1,789	11,980	5,184
Cash flows from investing activities				
Decrease (increase) in notes receivable	5	8	(7)	4
Purchase of property, plant and equipment	(627)	(874)	(775)	(1,345)
Proceeds from disposal of property, plant and equipment	23	-	23	3
	(599)	(866)	(759)	(1,338)
Cash flows from financing activities				
Dividends paid to shareholder	(5,000)	(3,500)	(5,000)	(3,500)
Dividends paid to A&W Revenue Royalties Income Fund	(1,245)	(1,245)	(1,382)	(1,382)
Decrease in obligations under capital leases	(80)	(59)	(167)	(117)
	(6,325)	(4,804)	(6,549)	(4,999)
(Decrease) increase in cash and cash equivalents	(4,030)	(3,881)	4,672	(1,153)
Cash and cash equivalents - beginning of period	14,832	11,911	6,130	9,183
Cash and cash equivalents - end of period	\$ 10,802	\$ 8,030	\$ 10,802	\$ 8,030
Supplementary cash flow information				
Net interest paid	\$ (2,369)	\$ (2,312)	\$ (4,039)	\$ (3,906)
Net income taxes paid	\$ (67)	\$ (211)	\$ (285)	\$ (626)
Non-cash investing activities				
Non-cash acquisition of assets through capital leases	\$ (454)	\$ -	\$ (743)	\$ (30)
Non-cash disposal of assets through capital leases	\$ 214	\$ -	\$ 239	\$ -

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 20, 2010

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 consolidated 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 43% 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 January 3, 2010.

Fiscal year

Food Services uses a fiscal year comprising a 52 or 53 week period ending on the Sunday nearest December 31. Food Services’ 2009 fiscal year was 53 weeks and ended January 3, 2010 (2008 – 52 weeks ended December 28, 2008). Food Services’ second quarter ends 24 weeks after its fiscal year end.

Future accounting changes

On January 3, 2011, Food Services will adopt the new accounting standard CICA Handbook Section 1582, “Business Combinations”, which replaced Handbook Section 1581, “Business Combinations”, and CICA Handbook Section 1601, “Consolidated Financial Statements”, and Handbook Section 1602, “Non-controlling Interests”, which replaced Handbook Section 1600, “Consolidated Financial Statements”. These new sections are based on the

International Accounting Standards Board's (IASB) International Financial Reporting Standards (IFRS) 3R, "Business Combinations". The new standards replaced the existing guidance on business combinations and consolidated financial statements. The objective of the new standards is to harmonize Canadian accounting for business combinations with the international and US accounting standards. The adoption of these new standards is not expected to have an impact on Food Services' financial results.

2. Seasonality

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

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

The Class A and Class B preferred shares and non-voting common shares of Trade Marks are owned by Food Services and the voting 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		-2.1%	484,051	2.1%	484,051
January 5, 2009		-1.4%	332,031	1.4%	332,031
January 5, 2010		-1.4%	332,723	1.4%	332,723
	8,340,000	57.0%	6,282,741	43.0%	14,622,741

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

	June 20, 2010	January 3, 2010
A&W notes payable	\$83,399	\$83,399
The Fund's equity interest in A&W Trade Marks Inc.	(7,849)	(7,815)
	\$75,550	\$75,584

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 loan facilities

Food Services has a \$5,000,000 demand operating loan facility with HSBC Bank Canada (the Bank) to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the bank prime rate plus 0.5% and are repayable on demand. As at June 20, 2010,

the full amount of the facility was available. Food Services' operating facility is secured by the Class A shares and 2,780,000 voting common shares of Trade Marks owned by Food Services.

Trade Marks has a \$2,000,000 demand operating loan facility with the Bank to fund working capital requirements and for general corporate purposes. Amounts advanced under the facility bear interest at the bank prime rate plus 0.5% and are repayable on demand. As at June 20, 2010, the full amount of the facility was available.

Trade Marks has a \$10,000,000 term loan with the Bank. The 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. As a result, the term loan bears interest at 5.82% per annum, of which 4.42% is fixed under an interest rate swap agreement maturing February 18, 2011, and 1.40% is subject to annual review by the Bank. The fair value of the interest rate swap as at June 20, 2010 is \$213,000 unfavourable (January 3, 2010 - \$370,000 unfavourable), and the change in fair value is recorded in other comprehensive income (loss), net of income taxes.

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.

Trade Marks' term loan is comprised of:

	June 20, 2010	January 3, 2010
Term loan	\$10,000	\$10,000
Deferred financing fees	(6)	(10)
	<u>\$9,994</u>	<u>\$9,990</u>

5. Related party transactions and balances

Trade Marks' interest expense on the A&W notes for the year to date was \$4,200,000 (2009 - \$4,053,000), of which \$1,252,000 (January 3, 2010 - \$761,000) is payable to the Fund at June 20, 2010 and is included in accounts payable and accrued liabilities. Interest expense on the A&W notes for the quarter was \$2,063,000 (2009 - \$2,063,000).

Included in accounts receivable is \$66,000 (January 3, 2010 - \$36,000) due from the Fund without interest and due on demand.

Under an administration agreement between the Fund and Trade Marks, 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.

During the quarter, Food Services contracted with Biting Buffalo Holdings Inc. 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, is the shareholder of Biting Buffalo Holdings Inc. The cost of the services provided under the contract during the year to date was \$266,000 (2009 - \$80,000). At June 20, 2010, \$10,000 (January 3, 2010 - \$nil) is payable to Biting Buffalo Holdings Inc. by Food Services. The cost of services provided during the quarter was \$266,000 (2009 - \$20,000).

During the year to date, Food Services paid \$85,000 (2009 - \$85,000) to the Vancouver Canadians Professional Baseball Club, of which a shareholder, director and officer of Food Services is a part owner, in exchange for advertising the A&W brand at the ballpark. At June 20, 2010, \$nil (January 3 2010 - \$nil) is payable to the Vancouver Canadians by Food Services. \$nil was paid to the Vancouver Canadians Professional Baseball Club during the quarter (2009 - \$85,000).

During the year to date, Trade Marks declared dividends on its common shares totaling \$2,662,000 or \$0.182 per share (2009 - \$2,597,000 or \$0.182 per share) of which \$1,519,000 (2009 - \$1,519,000) was earned by the Fund and \$1,143,000 (2009 - \$1,078,000) was earned by Food Services. The May 2010 dividend of \$240,000 was paid on June 30, 2010, and the Fund's share of \$137,000 is reported as a current liability at June 20, 2010. During the quarter, Trade Marks declared common share dividends totaling \$2,182,000 (2009 - \$2,129,000).

Food Services maintains an advertising fund that is supported by prescribed contributions from corporate and franchise restaurants. The advertising fund paid \$245,000 (2009 - \$234,000) to Food Services during the year to date for marketing, promotional and administrative services provided to the advertising fund. During the quarter, the advertising fund paid Food Services \$122,000 (2009 - \$117,000).

6. Interest expense

	12 Week Period Ended Jun 20, 2010	12 Week Period Ended Jun 14, 2009	24 Week Period Ended Jun 20, 2010	24 Week Period Ended Jun 14, 2009
Interest				
Other interest (income) expense	\$ 17	\$ 4	\$ 32	\$ (7)
Term loan	134	134	273	263
A&W notes payable	2,063	2,063	4,200	4,053
Amortization of deferred financing fees	2	2	4	4
	\$ 2,216	\$ 2,203	\$ 4,509	\$ 4,313

7. Subsequent event

On July 5, 2010, Trade Marks declared dividends on its common shares of \$240,000, payable to Food Services and the Fund on July 30, 2010.



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