

A&W Revenue Royalties Income Fund

Q3

Third Quarter Report to Unitholders
for the period ended
September 10, 2006

Report to Unitholders	1
-----------------------	---

A&W Revenue Royalties Income Fund	
Management Discussion and Analysis	3
Financial Statements	18
Notes to the Interim Financial Statements	21

A&W Trade Marks Inc.	
Financial Statements	24
Notes to the Interim Financial Statements	27

Unitholder Information	32
------------------------	----



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 for the third quarter ended September 10, 2006. It was an excellent quarter with same store sales increasing by 9.0% over the same period in 2005. This is the fourteenth straight quarter of same store sales increases. Building on the strong performance of the first two quarters, the year to date same store sales have increased by 8.1%.

Supported by this strong performance, the trustees have increased the distribution rate from 9.7 cents to 10.0 cents per unit per month. On an annualized basis this represents a distribution rate of \$1.20 per unit, which is an increase of 11.1% year to date. The new distribution rate is effective with the October distribution which is payable on November 30th to shareholders of record on November 15th.

The source of revenue for the Fund is through its 64% ownership in A&W Trade Marks Inc., which in turn receives royalty income from A&W Food Services of Canada Inc. based on 3% of the sales of the 654 A&W restaurants in the Royalty Pool. As such, increases in same store sales are one of the most important drivers of success for the Fund. The Royalty Pool was expanded on January 5, 2006 from 638 restaurants to 654 restaurants to reflect the addition of new restaurants opened between September 2004 and September 2005, adjusted for restaurants which closed during 2005.

The strong results in the third quarter were driven primarily by key strategic initiatives which are being implemented in the A&W business. In particular the marketing initiatives to enhance A&W's appeal to the target baby boomer customers continued to be very successful. New advertising campaigns were launched in English Canada and Quebec during the quarter, both of which enjoyed very favourable response. In addition, the Cruisin' the Dub program was very successful. Over 1300 Cruisin' events were held at freestanding A&W restaurants across Canada throughout the summer and were extremely popular. The key initiative to build the breakfast daypart also yielded strong results. Finally, through the first half of 2006, the foodservice industry in Canada enjoyed overall improved performance, and this overall growth in the market has helped the performance of the A&W restaurants.

As a result of the strong same store sales coupled with the increase in the number of restaurants in the Royalty Pool in January 2006, the Fund enjoyed strong performance on all key measures:

- Royalty income increased by 13.2% for the quarter and 11.4% year to date
- Total distributable cash increased by 15.8% for the quarter and 13.7% year to date
- Distributable cash per fully diluted unit increased from 29.8 to 33.3 cents per unit for the quarter, an increase of 11.7% compared to the prior year
- Year to date, distributable cash per unit increased from 80.5 to 88.3 cents per unit as compared to the prior year.

In response to this strong performance, the Trustees are pleased to be able to increase the distribution rate for the fourth time this year, while at the same time maintaining a conservative payout ratio. Since the inception of the Fund in February 2002, shareholders have placed their trust in the Fund to deliver expected distributions and the Fund has delivered in every single month. Our commitment is to continue to manage the Fund conservatively, consistent with this trust that unitholders have placed in us.



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

The following is a discussion on the unaudited financial statements and results of operations of the A&W Revenue Royalties Income Fund (the Fund) for the quarter ended September 10, 2006. This report is dated October 17, 2006 and should be read in conjunction with the interim unaudited financial statements for the quarter ended September 10, 2006 and the annual audited financial statements for the year ended December 31, 2005. A copy of this report and additional information about the Fund is available at www.sedar.com or www.awincomefund.ca.

In addition, readers are directed to the annual audited financial statements of A&W Trade Marks Inc. (Trade Marks) for the year ended December 31, 2005 and the interim unaudited financial statements for the quarter ended September 10, 2006.

Readers should be aware that 2006 results are not directly comparable to the prior year due to the increase in the number of restaurants in the Royalty Pool from 638 in 2005 to 654 in 2006. In addition, the first quarter of 2006 is not directly comparable to the first quarter of 2005 as there were 85 days in Q1 2006 compared to 86 days in Q1 2005. The second and third quarters had an equal number of days in 2006 and 2005. Year to date same store sales growth is based on an equal number of days in both years.

OVERALL PERFORMANCE

Same store sales growth for the restaurants in the Royalty Pool was 9.0% for the quarter and 8.1% year to date. Royalty income for the quarter increased 13.2% over the same quarter in 2005 and 11.4% year to date, due to the same store sales growth and the increase in the number of restaurants in the Royalty Pool from 638 during 2005 to 654 during 2006.

The Fund's net earnings for the quarter were \$2,467,000 or 29.6¢ per unit compared to \$2,223,000 or 26.7¢ for the same quarter in 2005. Year to date net earnings were \$6,653,000 or 79.8¢ per unit, compared to \$6,101,000 or 73.2¢ per unit for the prior year. Trade Marks' net earnings increased by \$388,000 to \$629,000 for the quarter compared to \$241,000 for the third quarter of 2005. Trade Marks' year to date net earnings were \$684,000 compared to a loss of \$208,000 for 2005. The increase in the Fund's and Trade Marks' earnings is due primarily to the increase in royalty income.

Distributable cash (see page 10 for a definition and reconciliation of distributable cash) available to pay distributions to unitholders and dividends on Class A and B preferred shares and common shares increased by 15.8% to \$4,339,000 for the quarter and by 13.7% to \$11,510,000 year to date. This increase in distributable cash was generated primarily through growth in royalty income. Overall cash taxes

and expenses for Trade Marks and the Fund decreased by \$69,000 for the quarter and \$136,000 year to date. Year to date general and administrative expenses increased \$25,000 over the prior year, however this increase was more than offset by the elimination of the federal Large Corporations Tax and reduction in net interest expense.

The Fund is pleased to announce that, as a result of this continued strong performance, it is increasing monthly distributions to unitholders by 3.1% to 10 cents per month beginning with the October 2006 distribution which is payable on November 30, 2006. On an annualized basis this represents a distribution rate of \$1.20 per unit. This is the fourth increase in the distribution rate this year.

FINANCIAL HIGHLIGHTS

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

(dollars in thousands except per unit amounts)	12 week period ended Sep 10, 2006	12 week period ended Sep 11, 2005	Period from Jan 1, 2006 to Sep 10, 2006	Period from Jan 1, 2005 to Sep 11, 2005
Same store sales growth	9.0%	3.2%	8.1%	3.8%
Number of restaurants in the Royalty Pool	654	638	654	638
Sales reported by the restaurants in the Royalty Pool	\$149,755	\$132,345	\$407,077	\$365,295
Royalty income	\$4,492	\$3,970	\$12,212	\$10,959
Cash taxes and expenses	\$153	\$222	\$702	\$838
The Fund's net earnings	\$2,467	\$2,223	\$6,653	\$6,101
The Fund's basic and diluted earnings per unit (8,340,000 units)	\$0.296	\$0.267	\$0.798	\$0.732
Trade Marks' net earnings (loss)	\$629	\$241	\$684	(\$208)
Total distributable cash generated for distributions and dividends	\$4,339	\$3,748	\$11,510	\$10,121
Distributable cash per equivalent unit (2006 – 13,039,828 units; 2005 – 12,579,462 units)	\$0.333	\$0.298	\$0.883	\$0.805
Distributions declared per unit (8,340,000 units)	\$0.289	\$0.270	\$0.758	\$0.720

OVERVIEW

The Fund

The Fund is a limited purpose trust established to invest in Trade Marks, which owns the A&W trade-marks used in the A&W quick service restaurant business in Canada. The trade-marks comprise some of the best-known brand names in the Canadian foodservice industry.

The Fund earns interest income on A&W notes issued by Trade Marks. The A&W notes are in the amount of \$83,399,000, bear interest at 10.75% per annum and mature on February 15, 2034. Payments of interest only are receivable from Trade Marks monthly in arrears.

The Fund also earns dividends from its 64% investment in the common shares of Trade Marks.

The Fund's distributions to unitholders are based on its net cash receipts, less minimal expenses of the Fund which are limited to bank charges.

The Fund is not taxed on any income that is distributed to unitholders. Income tax obligations related to the distributions by the Fund are obligations of the unitholders.

Trade Marks

On February 15, 2002, Trade Marks acquired the A&W trade-marks used in the A&W quick service restaurant business in Canada for \$152,676,000, of which \$84,876,000 was paid in cash, \$27,800,000 was paid by the issuance of 2,779,975 Class A preferred shares and 2,780,000 common shares of Trade Marks and the balance (the Balance) of \$40,000,000 is due without interest on January 31, 2010.

Concurrent with the purchase of the A&W trade-marks, Trade Marks granted Food Services a licence to use the A&W trade-marks in Canada for a term of 99 years, for which Food Services pays Trade Marks a royalty of 3% of the sales reported to Food Services by A&W restaurants in the Royalty Pool (the Licence and Royalty Agreement). In the event that a restaurant in the Royalty Pool closes, Food Services pays the royalties that would have been paid to Trade Marks if the restaurant had not closed, until the next adjustment to the Royalty Pool.

The Balance of the purchase price will be reduced by all amounts Trade Marks is required to pay Food Services in respect of annual adjustments to the Royalty Pool up to January 31, 2010. If the total annual adjustments are less than the Balance, the obligation of Trade Marks to pay the remaining Balance of the purchase price is extinguished.

The Royalty Pool is adjusted in January of each year to reflect sales from new restaurants, net of the sales of any A&W restaurants that have permanently closed. Trade Marks pays Food Services for the additional royalty stream related to the sales of the net new restaurants, based on a formula set out in the Licence and Royalty Agreement. The formula provides for a payment to Food Services based on the amount of estimated sales from the net new restaurants and the current yield on the units of the Fund, discounted by 7.5%. The payment is in the form of common shares and Class B preferred shares of Trade Marks which are the economic equivalent of units of the Fund. Twenty percent of the shares are held in escrow for a year until the actual sales of the new restaurants are known and the corresponding adjustment is made to the consideration.

Trade Marks' expenses include general and administrative expenses, amortization of deferred financing fees, interest expenses on its \$10 million term loan and the A&W notes, and taxes. Also, generally accepted accounting principles (GAAP) stipulate that the dividends on the Class A and B preferred shares be classified as interest expense by Trade Marks.

Trade Marks' general and administrative expenses include the expenses of the Fund as the Fund has entered into an administration agreement with Trade Marks whereby Trade Marks, at its expense, provides or arranges for the provision of services required in the administration of the Fund.

The Class A and Class B preferred shares of Trade Marks are owned by Food Services and comprise:

(dollars in thousands)	September 10, 2006		December 31, 2005	
	#	\$	#	\$
Class A shares - at cost	2,779,975	27,800	2,779,975	27,800
Class B shares - at cost:				
2003 annual adjustment	452,469	5,108	452,469	5,108
2004 annual adjustment	495,681	5,210	495,681	5,210
2005 annual adjustment	511,337	6,197	511,337	6,197
2006 annual adjustment	460,366	5,695	-	-
	1,919,853	22,210	1,459,487	16,515
Accrued dividends		134		360
		50,144		44,675

The Class A and B preferred shares entitle Food Services to a fixed cumulative preferential cash dividend at a rate of \$1.075 per share per annum. The Class A and B preferred shares may be redeemed at the option of Food Services into A&W notes of Trade Marks on the basis of \$10 principal amount of A&W notes for one Class A or Class B preferred share and, in turn, one common share of Trade Marks and a \$10 A&W note are exchangeable for a unit in the Fund.

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

	The Fund		Food Services		Total
	#	%	#	%	#
February 15, 2002	8,340,000	75.0%	2,780,000	25.0%	11,120,000
2003 annual adjustment		-2.9%	452,469	2.9%	452,469
2004 annual adjustment		-3.0%	495,681	3.0%	495,681
2005 annual adjustment		-2.8%	511,337	2.8%	511,337
2006 annual adjustment		-2.3%	460,366	2.3%	460,366
	8,340,000	64.0%	4,699,853	36.0%	13,039,853

Summary

Trade Marks earns royalty income from Food Services and distributes its available cash by way of dividends on its shares held by the Fund and Food Services, after satisfaction of its debt service obligations, provisions for administrative expenses of Trade Marks and the Fund, and retention of reasonable working capital reserves. The Fund receives interest income and dividends from Trade Marks and pays its net cash receipts to unitholders. An important aspect of the structure of the Fund is that, provided Food Services holds an indirect interest in the Fund, distributions to unitholders are made in priority to dividends to Food Services. Food Services' consolidated financial statements are included as a supplement to this report.

EXPANSION OF THE ROYALTY POOL

On January 5, 2006, the number of A&W restaurants for which royalties are paid to Trade Marks was increased by 27 new restaurants less 11 restaurants which permanently closed during 2005. Trade Marks paid Food Services \$5,695,000, by issuance of 460,366 Class B preferred shares and 460,366 common shares of Trade Marks, as initial consideration for the estimated royalty stream from the 16 net restaurants added to the Royalty Pool. Together these shares are the economic equivalent of units of the Fund and are valued at \$12.37 per share, being the weighted average trading price of the units of the Fund for the 20 trading days ending October 31, 2005. After the January 5, 2006 adjustment to the Royalty Pool, Food Services owns the equivalent of 36% of the units of the Fund on a fully-diluted basis.

A final adjustment to the share consideration will be made in December 2006 based upon the actual annual sales reported by the new restaurants. Until then, 20% of the shares will be held in escrow. At this time, management believes that the actual sales of the new restaurants will be higher than the estimate, which will result in the shares held in escrow being released to Food Services and additional Class B and common shares being issued to Food Services in December 2006.

The next adjustment to the Royalty Pool will take place on December 31, 2006. The number of A&W restaurants for which royalties are paid to Trade Marks is forecast to increase by 19 new restaurants less 13 projected restaurant closures. The initial consideration and number of Class B and common shares issued by Trade Marks for the estimated royalty stream from the 6 net restaurants added to the Royalty Pool will be determined in December 2006. Twenty percent of the shares will be held in escrow until December 2007 when the final consideration will be determined based on the actual sales of the new restaurants.

OWNERSHIP OF THE FUND

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

	September 10, 2006 ⁽¹⁾		December 31, 2005	
	#	%	#	%
Fund units held by public unitholders	8,340,000	63.96	8,340,000	66.30
Trade Marks' Class A and B preferred shares held by Food Services: ⁽²⁾				
Class A ⁽³⁾	2,779,975	21.32	2,779,975	22.10
Class B ⁽⁴⁾	1,919,853	14.72	1,459,487	11.60
	4,699,828	36.04	4,239,462	33.70
Total equivalent units	13,039,828	100.00	12,579,462	100.00

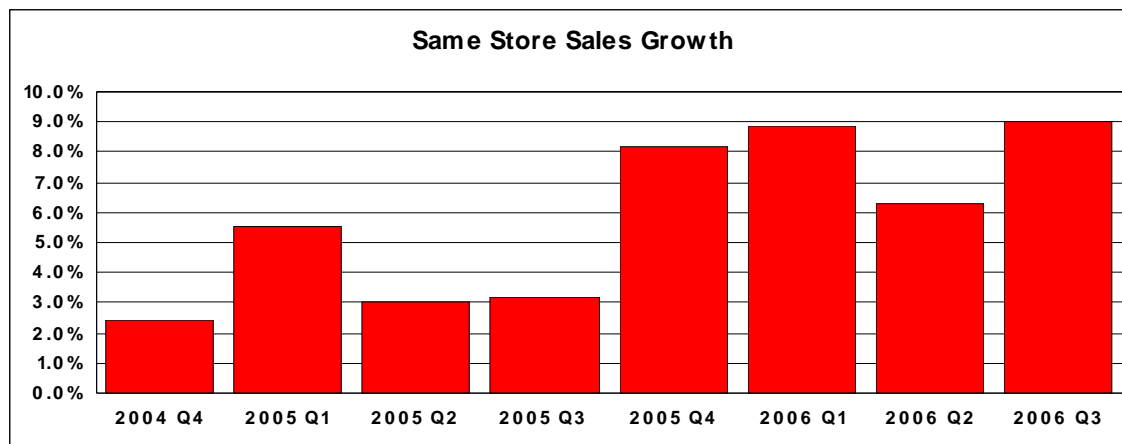
Notes:

- (1) Information is current as at October 17, 2006.
- (2) May be redeemed into A&W notes of Trade Marks on the basis of \$10 principal amount of A&W notes for one Class A or Class B preferred share and, in turn, one common share of Trade Marks and a \$10 A&W note are exchangeable for a unit in the Fund.
- (3) Represents Food Services' initial 25% equivalent ownership of the Fund, prior to the issuance of the Class B preferred shares.
- (4) Represents Class B preferred shares issued to Food Services as consideration for annual adjustments to the Royalty Pool.

SAME STORE SALES GROWTH

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

Same store sales growth was 9.0% for the quarter and 8.1% year to date. Same store sales growth has now been positive for 14 consecutive quarters. The following chart shows the percentage change in same store sales by A&W restaurants for the eight most recently completed quarters:



RESULTS OF OPERATIONS

Income

During the quarter ended September 10, 2006, the Fund earned interest income from Trade Marks on the A&W notes of \$2,064,000. Year to date interest income was \$6,215,000, compared to \$6,239,000 for 2005. The \$24,000 decrease is due to the shorter first quarter in 2006. The Fund's share of Trade Marks' earnings was \$403,000 for the quarter and \$438,000 year to date, compared to earnings of \$160,000 for the quarter and losses of \$138,000 year to date last year. The increase in earnings was due to the increase in Trade Marks' royalty income discussed below.

Royalty income earned by Trade Marks from Food Services in the third quarter was \$4,492,000 based on sales of \$149,755,000 reported by the A&W restaurants in the Royalty Pool. This is an increase of 13.2% over royalty income of \$3,970,000 and sales of \$132,345,000 during the same quarter of 2005. Year to date royalty income was \$12,212,000 based on sales of \$407,077,000, an increase of 11.4% over royalty income of \$10,959,000 and sales of \$365,295,000 for 2005. These increases are due to the combined impact of the additional 16 restaurants in the Royalty Pool and the same store sales increase of 8.1%.

Expenses and Taxes

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

(dollars in thousands)	12 week period ended Sep 10, 2006	12 week period ended Sep 11, 2005	Period from Jan 1, 2006 to Sep 10, 2006	Period from Jan 1, 2005 to Sep 11, 2005
General and administrative	\$41	\$52	\$345	\$320
Amortization of deferred financing fees	4	5	13	13
Interest on term loan	112	133	357	408
Interest on A&W notes	2,064	2,063	6,215	6,239
Accrued dividends on Class A&B preferred shares ⁽¹⁾	1,163	1,050	3,502	3,177
Large corporations tax	-	37	-	110
Future income taxes	479	389	1,096	900

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

General and administrative expenses in the third quarter, including expenses for the Fund under the administration agreement between Trade Marks and the Fund, decreased by \$11,000 to \$41,000, compared to \$52,000 in 2005. The decrease in expenses in the quarter was due to lower legal costs than last year. Year to date general and administrative expenses increased by \$25,000 due to increased public reporting costs, including higher printing and postage costs for the annual report and higher filing fees.

Trade Marks' net interest expense on its term loan decreased by \$21,000 to \$112,000 in the quarter and decreased by \$51,000 to \$357,000 year to date. The decrease was due to the interest rate swap agreement effective February 16, 2005 which reduced the effective interest rate to 5.81% and higher interest income which is netted against interest expense. Interest on the A&W notes was \$2,064,000 in the third quarter, and decreased by \$24,000 to \$6,215,000 year to date. The year to date decrease is due to the first quarter of 2006 being one day shorter than the first quarter of 2005.

The Class A and B preferred shares entitle Food Services to a fixed cumulative preferential cash dividend at a rate of \$1.075 per share per annum. In accordance with GAAP, the cumulative dividends are treated for accounting purposes by Trade Marks as interest expense and, as such, are accrued and deducted to arrive at net earnings. Class A and Class B preferred share dividends accrued in the quarter increased by \$113,000, from \$1,050,000 in the third quarter of 2005 to \$1,163,000 in 2006. The year to date increase was \$325,000, from \$3,177,000 in 2005 to \$3,502,000 in 2006. The increase is due to the additional Class B shares which were issued in January 2006.

The federal Large Corporations Tax was eliminated in June 2006, retroactive to January 1, 2006, resulting in no Large Corporations Tax expense for 2006 compared to \$37,000 in the third quarter of 2005 and \$110,000 year to date in 2005. Future income taxes, a non-cash expense, increased by \$90,000 for the quarter and \$196,000 year to date. The increase is attributable to the increase in earnings before taxes for the year.

Net Earnings

The Fund's net earnings for the quarter were \$2,467,000 or 29.6¢ per unit compared to \$2,223,000 or 26.7¢ for the same quarter in 2005. Year to date net earnings were \$6,653,000 or 79.8¢ per unit, compared to \$6,101,000 or 73.2¢ per unit for the prior year. Trade Marks' net earnings increased by \$388,000 to \$629,000 for the quarter compared to \$241,000 for the third quarter of 2005. Trade Marks' year to date net earnings were \$684,000 compared to a loss of \$208,000 for 2005. The increase in the Fund's and Trade Marks' earnings is due primarily to the increase in royalty income.

DISTRIBUTABLE CASH

The distributable cash measure is provided as it identifies the amount of actual cash available to pay distributions to unitholders and dividends to Food Services. Distributable cash is not an earnings measure recognized by GAAP and therefore may not be comparable to similar measures presented by other issuers. Distributable cash is calculated as the combined operating cash flows of the Fund and Trade Marks, adjusted for the dividends on Trade Marks' Class A and B preferred shares and changes in non-cash working capital. The following chart reconciles distributable cash to the most directly comparable measure calculated in accordance with GAAP, cash flows from operating activities including changes in non-cash working capital balances:

(dollars in thousands except per unit amounts)	12 week period ended Sep 10, 2006	12 week period ended Sep 11, 2005	Period from Jan 1, 2006 to Sep 10, 2006	Period from Jan 1, 2005 to Sep 11, 2005
Trade Marks' cash flow from operating activities ⁽¹⁾	\$634	\$367	\$1,877	\$853
Add: Change in accrued dividends	100	96	226	216
Dividends on Class A & B preferred shares	1,163	1,050	3,502	3,177
Changes in non-cash working capital ⁽²⁾	378	172	(310)	(364)
Distributable cash – Trade Marks	2,275	1,685	5,295	3,882
The Fund's cash flow from operating activities ⁽¹⁾	2,260	2,259	6,004	6,016
Add: Changes in non-cash working capital ⁽²⁾	(196)	(196)	211	223
Distributable cash – the Fund	2,064	2,063	6,215	6,239
Total distributable cash	4,339	3,748	11,510	10,121
Cumulative surplus – beginning of period	2,016	311	1,692	269
Distributable cash for unitholders	(2,246)	(2,073)	(6,625)	(6,268)
Distributable cash for Food Services	(1,265)	(1,056)	(3,733)	(3,192)
Cumulative surplus – end of period	\$2,844	\$930	\$2,844	\$930
Distributable cash per equivalent unit	\$0.333	\$0.298	\$0.883	\$0.805
Number of equivalent units	13,039,828	12,579,462	13,039,828	12,579,462
Distributions declared per unit (8,340,000 units)	\$0.289	\$0.270	\$0.758	\$0.720

- (1) Cash flows from operating activities have been restated to include changes in non-cash working capital balances to conform with the requirements of the Canadian Securities Administrators.
- (2) Distributable cash is adjusted to exclude changes in non-cash working capital as Trade Marks' and the Fund's working capital requirements are not permanent and are primarily due to the timing of payments from related parties.

Total distributable cash increased by \$591,000 to \$4,339,000 for the quarter and by \$1,389,000 to \$11,510,000 year to date, due to the increase in royalty income and decrease in cash taxes and expenses discussed previously.

Distributable cash for unitholders increased to \$2,246,000 from \$2,073,000 for the quarter and to \$6,625,000 from \$6,268,000 year to date due to the increase in the annual distribution rate.

Distributable cash for dividends to Food Services increased to \$1,265,000 from \$1,056,000 for the quarter and to \$3,733,000 from \$3,192,000 year to date. The increase is due to the additional common and Class B preferred shares issued to Food Services in January 2006 as a result of the annual adjustment to the Royalty Pool and the increase in the annual distribution rate.

The amount of cash distributed to unitholders and Food Services was \$0.289 per equivalent unit for the quarter compared to distributable cash generated of \$0.333. Year to date distributions declared were \$0.758 per equivalent unit compared to distributable cash generated of \$0.883. The trailing 12 month payout ratio is 88% (2005 – 92%).

At the end of the third quarter there was a cumulative surplus of distributable cash of \$2,844,000 compared to a cumulative surplus of \$1,692,000 at the end of 2005. Due to the continued strong performance of the Fund, the Trustees have announced an increase in monthly distributions to unitholders from 9.7 cents per unit to 10.0 cents per unit starting with the October 2006 distribution which will be paid on November 30, 2006 to unitholders of record on November 15, 2006. The new monthly distribution rate translates into an annualized distribution of \$1.20 per unit, an increase of 3.1% from the prior level of \$1.164. This is the fourth increase in the distribution rate this year. To date, the annualized distribution rate has increased by 11.1%. The Fund will continue to periodically review distribution levels and distribute available cash in order to maximize returns to unitholders and maintain uniformity of distributions.

DISTRIBUTIONS TO UNITHOLDERS

During the quarter ended September 10, 2006, the Fund declared distributions to unitholders of \$2,410,000 or \$0.289 per unit, compared to \$2,252,000 or \$0.270 per unit in the same quarter of 2005. Year to date distributions were as follows:

(dollars in thousands except per unit amounts)	Declaration date	Payment date	Amount	Per unit
January 2006	February 6, 2006	February 28, 2006	\$ 776	\$0.093
February 2006	March 6, 2006	March 31, 2006	776	0.093
March 2006	April 4, 2006	April 28, 2006	776	0.093
April 2006	May 4, 2006	May 31, 2006	792	0.095
May 2006	June 6, 2006	June 30, 2006	792	0.095
June 2006	July 5, 2006	July 31, 2006	792	0.095
July 2006	July 25, 2006	August 31, 2006	809	0.097
August 2006	September 6, 2006	September 29, 2006	809	0.097
			\$6,322	\$0.758

The distribution for December 2005 of \$751,000, which was paid on January 31, 2006, was declared and recorded for income tax purposes in 2005, the period in which it was earned. Therefore, consistent with prior years, only two distributions were declared during the first quarter.

The August 2006 distribution of \$809,000 which was declared on September 6, 2006 and paid on September 29, 2006 is reported as a current liability at September 10, 2006. On October 3, 2006, the Fund declared the September 2006 distribution of \$809,000 or \$0.097 per unit, payable to unitholders on October 31, 2006.

DIVIDENDS ON TRADE MARKS' COMMON SHARES

During the quarter, Trade Marks declared dividends on its common shares of \$264,000 or \$0.0202 per share. The August 2006 dividend on common shares of \$97,000 was declared on September 6, 2006 and paid on September 29, 2006 and is reported as a current liability at September 10, 2006. Year to date common share dividends are as follows:

(dollars in thousands except per share amounts)	Declaration date	Payment date	Food Services	The Fund	Total	Per Share
January 2006	February 6, 2006	February 28, 2006	\$ 16	\$ 28	\$ 44	\$.0034
February 2006	March 6, 2006	March 31, 2006	15	29	44	.0034
March 2006	April 4, 2006	April 28, 2006	16	29	45	.0034
April 2006	May 4, 2006	May 31, 2006	26	45	71	.0054
May 2006	June 6, 2006	June 30, 2006	26	45	71	.0054
June 2006	July 5, 2006	July 31, 2006	25	45	70	.0054
July 2006	July 25, 2006	August 31, 2006	35	62	97	.0074
August 2006	September 6, 2006	September 29, 2006	36	61	97	.0074
Total common share dividends			\$195	\$344	\$539	\$.0412

On October 3, 2006, Trade Marks declared a dividend on common shares of \$97,000 or \$0.0074 per share, payable on October 31, 2006.

DIVIDENDS ON TRADE MARKS' CLASS A AND B PREFERRED SHARES

During the quarter, Trade Marks declared dividends on Class A and B preferred shares of \$1,263,000 or \$0.2688 per share. The August 2006 dividend of \$421,000 was declared on September 6, 2006 and paid on September 29, 2006 and is reported as a current liability at September 10, 2006. Year to date dividends are as follows:

(dollars in thousands except per share amounts)	Declaration date	Payment date	Amount	Per Share
Total dividends in respect of 2005			\$ 360	
January 2006	February 6, 2006	February 28, 2006	421	\$.0896
February 2006	March 6, 2006	March 31, 2006	421	.0896
March 2006	April 4, 2006	April 28, 2006	421	.0896
April 2006	May 4, 2006	May 31, 2006	421	.0896
May 2006	June 6, 2006	June 30, 2006	421	.0896
June 2006	July 5, 2006	July 31, 2006	421	.0896
July 2006	July 25, 2006	August 31, 2006	421	.0896
August 2006	September 6, 2006	September 29, 2006	421	.0896
Total dividends in respect of 2006			3,368	\$0.7168
Total Class A and B preferred share dividends			\$3,728	

On October 3, 2006, Trade Marks declared a dividend on Class A and B preferred shares of \$421,000 or \$0.0896 per share, payable to Food Services on October 31, 2006.

SUMMARY OF QUARTERLY RESULTS

(dollars in thousands except per unit amounts)	Q3 2006	Q2 2006	Q1 2006	Q4 2005
Number of restaurants in the Royalty Pool	654	654	654	638
Royalty income	\$4,492	\$4,069	\$3,651	\$5,202
The Fund's interest income	\$2,064	\$2,063	\$2,088	\$2,726
The Fund's net earnings	\$2,467	\$2,262	\$1,924	\$3,343
Basic and diluted earnings per unit	\$0.296	\$0.271	\$0.231	\$0.401
Distributable cash	\$4,339	\$3,930	\$3,241	\$4,887
Number of equivalent units	13,039,828	13,039,828	13,039,828	12,579,462
Distributable cash per equivalent unit	\$0.333	\$0.301	\$0.249	\$0.388
Distributions declared	\$2,410	\$2,360	\$1,552	\$3,002
Distributions declared per unit (8,340,000 units)	\$0.289	\$0.283	\$0.186	\$0.360
Number of days in the quarter	84	84	85	111

(dollars in thousands except per unit amounts)	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Number of restaurants in the Royalty Pool	638	638	638	620
Royalty income	\$3,970	\$3,708	\$3,281	\$4,849
The Fund's interest income	\$2,063	\$2,063	\$2,113	\$2,866
The Fund's net earnings	\$2,223	\$2,054	\$1,824	\$2,850
Basic and diluted earnings per unit	\$0.267	\$0.246	\$0.219	\$0.342
Distributable cash	\$3,748	\$3,418	\$2,955	\$4,493
Number of equivalent units	12,579,462	12,579,462	12,579,462	12,068,125
Distributable cash per equivalent unit	\$0.298	\$0.272	\$0.235	\$0.372
Distributions declared	\$2,252	\$2,252	\$1,501	\$3,002
Distributions declared per unit (8,340,000 units)	\$0.270	\$0.270	\$0.180	\$0.360
Number of days in the quarter	84	84	86	117

SEASONALITY

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

LIQUIDITY AND CAPITAL RESOURCES

The Fund has sufficient financial resources to pay ongoing future distributions as it receives income by way of interest on the A&W notes and dividends on its common shares of Trade Marks.

Trade Marks has a demand operating loan facility with HSBC Bank Canada of up to \$2,000,000 to fund its working capital requirements and to meet its cash flow needs. The operating loan bears interest at bank prime rate plus 0.5% and is repayable on demand. As at September 10, 2006, the full amount of the facility was available.

Trade Marks has a term loan with HSBC Bank Canada in the amount of \$10,000,000. The term loan is repayable on March 15, 2008 and bears interest at bank prime rate plus between 0.0% and 0.5% depending on specified financial ratios. Interest only is payable monthly, provided that 12 month trailing earnings before interest, taxes, depreciation and amortization (EBITDA) at any time are not less than \$10,000,000. In the event that EBITDA is less than \$10,000,000, the term loan will be fully amortized over the remaining term and repayment will be by way of blended monthly instalments of principal and interest.

An interest rate swap effective February 16, 2005 and maturing February 18, 2008 fixes the interest rate on Trade Marks' term loan at 5.81% per annum.

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS AND BALANCES

Trade Marks' interest expense and the Fund's interest income on the A&W notes for the year to date was \$6,215,000 (2005 - \$6,239,000), of which \$1,007,000 (December 31, 2005 - \$761,000) is receivable by the Fund from Trade Marks at September 10, 2006. Interest on the A&W notes for the quarter was \$2,064,000 (2005 - \$2,063,000).

Royalty income of \$12,212,000 (2005 - \$10,959,000) was earned by Trade Marks from Food Services for the year to date, of which \$1,501,000 (December 31, 2005 - \$1,316,000) is receivable by Trade Marks at September 10, 2006. Royalty income for the quarter was \$4,492,000 (2005 - \$3,970,000).

As at September 10, 2006, \$66,000 (December 31, 2005 - \$31,000) is due to Trade Marks by the Fund, without interest and on demand.

The Fund has entered into an administration agreement with Trade Marks whereby Trade Marks, at its expense, will provide or arrange for the provision of services required for the administration of the Fund. Trade Marks has arranged for management, administrative and accounting services to be provided by Food Services at no cost until 2011.

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

CRITICAL ACCOUNTING ESTIMATES

Trade Marks' intangible assets consist of the A&W trade-marks and are recorded at cost. Management tests the intangible assets annually for impairment or more frequently if events or changes in circumstances indicate that the assets might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in income for the excess, if any. Management believes that there has been no impairment of the intangible assets during the period ended September 10, 2006.

FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash, accounts receivable, investment in Trade Marks, distribution payable to unitholders, and due to Trade Marks. It is management's opinion that the Fund is not exposed to significant interest or credit risks arising from these financial instruments. Management estimates that the fair values of these financial instruments, except for the investment in Trade Marks, approximate their carrying values. It is not practicable to determine the fair value of the investment in Trade Marks given the many terms and conditions that would influence such a determination.

Trade Marks' fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and dividends payable approximate their carrying values given the short term to maturity of these instruments. The fair value of Trade Marks' term loan approximates its carrying value due to the floating interest rate. The fair value of the interest rate swap is \$20,000 favourable. It is not practicable to determine the fair value of the A&W notes payable and Class A and B preferred shares given the many terms and conditions that would influence such a determination.

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

RISKS AND UNCERTAINTIES

The net earnings and distributable cash generated by the Fund is dependent upon the interest income and dividends it receives from Trade Marks. The net earnings and distributable cash generated by Trade Marks is dependent on the royalty it receives from Food Services. The amount of the royalty is dependent upon the sales of the A&W restaurants in the Royalty Pool. Sales are subject to a number of factors that affect the restaurant industry generally and the quick service segment of this industry in particular, including the highly competitive nature of the industry, traffic patterns, demographic considerations and the type, number and proximity of competing quick service restaurants. In addition, factors such as the availability of

experienced management and hourly employees may also adversely affect the sales of the quick service restaurant industry in general and the sales by A&W restaurants in particular.

Food Services competes with other companies, including other well-capitalized franchisors with extensive financial, technological, marketing and personnel resources and high brand name recognition and awareness. There can be no assurance that Food Services will be able to respond to various competitive factors affecting the franchise operations of Food Services in the quick service restaurant industry.

Any significant event that adversely affects consumption of hamburgers, chicken, fries and soft drinks, such as cost, changing tastes or health concerns, could adversely impact the sales of A&W restaurants and consequently, the amount of the royalty payable to Trade Marks.

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

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

OUTLOOK

The strong results in the third quarter were driven primarily by the key strategic initiatives which are being implemented in the A&W business to build A&W's appeal to baby boomers. Looking forward, ongoing implementation of these initiatives should continue to contribute to same store sales growth.

Advertising and Marketing Campaigns

A&W's marketing initiatives designed to enhance its appeal to its target baby boomer customers continued to be successful. The "Drive" television commercial which was launched in 2004 and followed up in 2005 with the equally successful "Burger Family" spot appealed to the strong emotional connection that boomers

have with A&W. New advertising campaigns were launched in English Canada and Quebec during the third quarter, both of which enjoyed very favourable response.

The Cruisin' the Dub program continues to be very successful. Over 1300 Cruisin' events were held at freestanding restaurants across the country throughout the summer and were extremely popular, celebrating the music and classic cars of the boomers' youth.

Menu Innovation

A&W's menu strategy is focussed on appealing to baby boomers and building three strong dayparts. In 2005, A&W introduced the new Homestyle Breakfast sandwiches and the Fresh Choices menu (featuring the premium Swiss Veggie Deluxe burger, a new tossed salad program and a reformulated all white meat Chicken Grill Deluxe sandwich). In 2006, A&W will continue to focus on building the important breakfast daypart and to build on its dominant market position in Canada for best tasting burgers.

Restaurant Re-imaging

The roll out of the retro-modern restaurant image is continuing during 2006. The cost of these upgrades is paid entirely by the franchise operator and therefore there is no cost impact on Trade Marks or the Fund.

Certain statements in this Management Discussion and Analysis and the annual report of the Fund may be forward-looking in nature. These include references to liquidity, subordinated dividends, earnings and anticipated earnings from growth in same store sales and new restaurant openings. Actual results may differ materially from those expressed or implied in these forward-looking statements. The forward-looking statements are based on assumptions that management considered reasonable at the time they were prepared. These forward-looking statements are subject to a number of risk factors, including the ability of A&W Food Services of Canada Inc. to implement its marketing strategies, the opening of new A&W restaurants, general economic and business conditions, financial and political instability, and other factors disclosed previously and from time to time in the Fund's public filings. The forward looking information contained in this document is current only as of the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

A&W Revenue Royalties Income Fund

Financial Statements

For the third quarter ended September 10, 2006

Balance Sheets

Unaudited
(in thousands of dollars)

	September 10 2006	December 31 2005
Assets		
Current assets		
Cash	\$ 23	\$ -
Accounts receivable (note 4)	1,068	761
	1,091	761
Investment in A&W Trade Marks Inc. (note 2)	75,829	75,735
	\$ 76,920	\$ 76,496
Liabilities		
Current liabilities		
Distribution payable to unitholders (note 3)	\$ 809	\$ 751
Due to A&W Trade Marks Inc. (note 4)	66	31
	875	782
Unitholders' Equity:		
Capital contributions	77,115	77,115
Accumulated earnings	40,099	33,446
Accumulated distributions (note 3)	(41,169)	(34,847)
	76,045	75,714
	\$ 76,920	\$ 76,496

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	12 week	Period from	Period from
	period ended	period ended	Jan 1, 2006 to	Jan 1, 2005 to
	Sep 10, 2006	Sep 11, 2005	Sep 10, 2006	Sep 11, 2005
Interest income	\$ 2,064	\$ 2,063	\$ 6,215	\$ 6,239
Equity in earnings (loss) of A&W Trade Marks Inc.	403	160	438	(138)
Net earnings for the period	2,467	2,223	6,653	6,101
Accumulated earnings - beginning of period	37,632	27,880	33,446	24,002
Accumulated earnings - end of period	\$ 40,099	\$ 30,103	\$ 40,099	\$ 30,103
Basic and diluted earnings per Unit (8,340,000 Units)	\$ 0.296	\$ 0.267	\$ 0.798	\$ 0.732

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 Sep 10, 2006	12 week period ended Sep 11, 2005	Period from Jan 1, 2006 to Sep 10, 2006	Period from Jan 1, 2005 to Sep 11, 2005
Cash flows from operating activities				
Net earnings for the period	\$ 2,467	\$ 2,223	\$ 6,653	\$ 6,101
Items not affecting cash				
Equity in (earnings) loss of A&W Trade Marks Inc.	(403)	(160)	(438)	138
	2,064	2,063	6,215	6,239
Net changes in non-cash working capital	196	196	(211)	(223)
	2,260	2,259	6,004	6,016
Cash flows from investing activities				
Dividends received from A&W Trade Marks Inc.	152	-	283	-
Cash flows from financing activities				
Distributions paid to unitholders	(2,394)	(2,252)	(6,264)	(6,005)
Increase in cash for the period	18	7	23	11
Cash - beginning of period	5	6	-	2
Cash - end of period	\$ 23	\$ 13	\$ 23	\$ 13
Supplementary cash flow information				
Interest received	\$ 2,260	\$ 2,260	\$ 5,969	\$ 5,967

See accompanying notes to these financial statements.

A&W Revenue Royalties Income Fund

Notes to the Interim Financial Statements

For the third quarter ended September 10, 2006

Unaudited

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

1. Nature of operations and basis of presentation

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

The Fund prepares its interim unaudited financial statements in accordance with Canadian generally accepted accounting principles (GAAP) and has applied the accounting policies described in the annual audited financial statements for the year ended December 31, 2005. 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, 2005 and the annual audited financial statements of Trade Marks for the year ended December 31, 2005, and the interim unaudited financial statements of Trade Marks for the quarter ended September 10, 2006.

The Fund uses a fiscal year ending December 31. A&W Food Services of Canada Inc. (Food Services) uses a fiscal year comprising a 52 or 53 week period ending the Sunday nearest December 31, therefore Food Services' 2005 fiscal year ended January 1, 2006 (2004 – January 2, 2005). To align its financial reporting with that of Food Services, the Fund's third quarter of 2006 ended September 10, 2006 (2005 – September 11, 2005), 36 weeks after Food Services' fiscal year end.

2. Investment in A&W Trade Marks Inc.

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

	September 10, 2006	December 31, 2005
Common shares	\$1	\$1
A&W notes receivable	83,399	83,399
Cumulative equity in loss	(7,101)	(7,539)
Cumulative dividends	(470)	(126)
	<u>\$75,829</u>	<u>\$75,735</u>

The Fund's 64% (2005 – 66%) investment in the common shares of Trade Marks is recorded using the equity method. Trade Marks owns the A&W trade-marks used in the A&W quick service restaurant business in Canada. Concurrently 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 Royalty Pool is adjusted in January of each year to include new restaurants, less any restaurants that permanently closed. Trade Marks pays Food Services for the additional royalty stream from the net new restaurants by issuing additional common shares and Class B preferred shares. As a result, the Fund's equity interest in Trade Marks is diluted as annual adjustments to the Royalty Pool take place.

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
2003 annual adjustment		-2.9%	452,469	2.9%	452,469
2004 annual adjustment		-3.0%	495,681	3.0%	495,681
2005 annual adjustment		-2.8%	511,337	2.8%	511,337
2006 annual adjustment		-2.3%	460,366	2.3%	460,366
	8,340,000	64.0%	4,699,853	36.0%	13,039,853

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.

3. Distributions

During the year to date ended September 10, 2006, the Fund declared distributions to Unitholders of \$6,322,000 or \$0.758 per Unit. The amounts of these distributions were as follows:

Month	Declaration date	Payment date	Amount	Per Unit
January 2006	February 6, 2006	February 28, 2006	\$ 776	\$ 0.093
February 2006	March 6, 2006	March 31, 2006	776	0.093
March 2006	April 4, 2006	April 28, 2006	776	0.093
April 2006	May 4, 2006	May 31, 2006	792	0.095
May 2006	June 6, 2006	June 30, 2006	792	0.095
June 2006	July 5, 2006	July 31, 2006	792	0.095
July 2006	July 25, 2006	August 31, 2006	809	0.097
August 2006	September 6, 2006	September 29, 2006	809	0.097
			6,322	\$ 0.758
Accumulated distributions - beginning of period			34,847	
Accumulated distributions - end of period			\$ 41,169	

The August 2006 distribution of \$809,000 which was declared on September 6, 2006 and paid on September 29, 2006 is reported as a current liability at September 10, 2006.

4. Related party transactions and balances

During the year to date ended September 10, 2006, interest income of \$6,215,000 (2005 - \$6,239,000) was earned from Trade Marks on the A&W notes, of which \$1,007,000 (December 31, 2005 - \$761,000) is receivable at September 10, 2006. Interest income on the A&W notes for the quarter was \$2,064,000 (2005 - \$2,063,000).

The Fund's share of dividends declared by Trade Marks for the year to date period ended September 10, 2006 was \$344,000 (2005 - \$nil), of which \$61,000 (December 31, 2005 - \$nil) is receivable at September 10, 2006. The Fund's share of dividends declared in the quarter was \$168,000 (2005 - \$nil).

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

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

5. Subsequent event

On October 3, 2006, the Fund declared a distribution to Unitholders of \$0.097 per Unit or \$809,000, payable on October 31, 2006 to Unitholders of record as at October 15, 2006.

A&W Trade Marks Inc.

Financial Statements

For the third quarter ended September 10, 2006

Balance Sheets

Unaudited

(in thousands of dollars)

	September 10 2006	December 31 2005
Assets		
Current assets		
Cash and cash equivalents	\$ 3,059	\$ 1,624
Accounts receivable (note 8)	1,567	1,351
Corporate taxes recoverable	65	18
Prepaid interest	106	48
	4,797	3,041
Intangible assets (note 3)	142,966	137,271
Deferred financing fees	28	41
	\$ 147,791	\$ 140,353
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	\$ 1,144	\$ 934
Dividends payable (notes 6 and 7)	518	-
	1,662	934
Term loan (note 4)	10,000	10,000
Future income taxes	10,579	9,483
A&W notes payable (note 5)	83,399	83,399
Class A and Class B preferred shares (note 6)	50,144	44,675
	155,784	148,491
Shareholders' deficiency		
Common shares (note 7)	1	1
Deficit	(7,994)	(8,139)
	(7,993)	(8,138)
	\$ 147,791	\$ 140,353

Subsequent events (note 9)

These unaudited interim financial statements of the company have been prepared by and are the responsibility of the company's management. As the company is a private entity, the company's auditor has not performed a review of these financial statements.

See accompanying notes to these financial statements.

A&W Trade Marks Inc.

Statements of Earnings and Deficit

Unaudited

(in thousands of dollars)

	12 week period ended Sep 10, 2006	12 week period ended Sep 11, 2005	Period from Jan 1, 2006 to Sep 10, 2006	Period from Jan 1, 2005 to Sep 11, 2005
Gross sales reported by A&W restaurants in the Royalty Pool	\$ 149,755	\$ 132,345	\$ 407,077	\$ 365,295
Royalty income	\$ 4,492	\$ 3,970	\$ 12,212	\$ 10,959
Expenses				
General and administrative	41	52	345	320
Amortization of deferred financing fees	4	5	13	13
Interest expense				
- term loan	112	133	357	408
- A&W notes payable	2,064	2,063	6,215	6,239
- Class A and B preferred share dividends	1,163	1,050	3,502	3,177
	3,384	3,303	10,432	10,157
Earnings before income taxes	1,108	667	1,780	802
Provision for income taxes				
Large corporations tax	-	37	-	110
Future income taxes	479	389	1,096	900
	479	426	1,096	1,010
Net earnings (loss) for the period	629	241	684	(208)
Deficit - beginning of period	(8,359)	(9,248)	(8,139)	(8,799)
Dividends declared on common shares	(264)	-	(539)	-
Deficit - end of period	\$ (7,994)	\$ (9,007)	\$ (7,994)	\$ (9,007)

See accompanying notes to these financial statements.

A&W Trade Marks Inc.

Statements of Cash Flows

Unaudited

(in thousands of dollars)

	12 week period ended Sep 10, 2006	12 week period ended Sep 11, 2005	Period from Jan 1, 2006 to Sep 10, 2006	Period from Jan 1, 2005 to Sep 11, 2005
Cash flows from operating activities				
Net earnings (loss) for the period	\$ 629	\$ 241	\$ 684	\$ (208)
Items not affecting cash				
Amortization of deferred financing fees	4	5	13	13
Provision for future income taxes	479	389	1,096	900
Change in accrued dividends	(100)	(96)	(226)	(216)
	1,012	539	1,567	489
Changes in non-cash working capital	(378)	(172)	310	364
	634	367	1,877	853
Cash flows from financing activities				
Dividends paid on common shares	(238)	-	(442)	-
Increase in cash for the period	396	367	1,435	853
Cash - beginning of period	2,663	889	1,624	403
Cash - end of period	\$ 3,059	\$ 1,256	\$ 3,059	\$ 1,256
Supplementary cash flow information				
Interest paid on term loan and A&W notes payable	\$ (2,388)	\$ (2,409)	\$ (6,384)	\$ (6,414)
Dividends paid on Class A and B preferred shares	\$ (1,263)	\$ (1,146)	\$ (3,307)	\$ (3,401)
Taxes recovered (paid)	\$ -	\$ 41	\$ (47)	\$ (52)
Non-cash financing activities				
Issuance of Class B preferred and common shares	\$ -	\$ -	\$ 5,695	\$ 6,197

See accompanying notes to these financial statements.

A&W Trade Marks Inc.

Notes to the Interim Financial Statements

For the third quarter ended September 10, 2006

Unaudited

(figures in tables are expressed in thousands of dollars)

1. Nature of operations and basis of presentation

The business of A&W Trade Marks Inc. (Trade Marks) is the ownership of the A&W trade-marks and through a Licence and Royalty Agreement with A&W Food Services of Canada Inc. (Food Services), the exploitation of the A&W trade-marks including the development of new A&W restaurants by Food Services, and the collection of the royalty payable under the Licence and Royalty Agreement. Food Services is a leading franchisor of hamburger quick service restaurants in Canada.

The common shares of Trade Marks are owned by A&W Revenue Royalties Income Fund (the Fund) (64%) and Food Services (36%).

Trade Marks prepares its interim unaudited financial statements in accordance with Canadian generally accepted accounting principles (GAAP) and has applied the accounting policies described in the annual audited financial statements for the year ended December 31, 2005. 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 Trade Marks for the year ended December 31, 2005 and the annual audited financial statements of the Fund for the year ended December 31, 2005, and the interim unaudited financial statements of the Fund for the quarter ended September 10, 2006.

Trade Marks uses a fiscal year ending December 31. Food Services uses a fiscal year comprising a 52 or 53 week period ending the Sunday nearest December 31, therefore Food Services' 2005 fiscal year ended January 1, 2006 (2004 – January 2, 2005). To align its financial reporting with that of Food Services, Trade Marks' third quarter of 2006 ended September 10, 2006 (2005 – September 11, 2005), 36 weeks after Food Services' fiscal year end.

2. 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.

3. Intangible Assets

On February 15, 2002, Trade Marks acquired the A&W trade-marks used in the A&W quick service restaurant business in Canada for \$152,676,000, of which \$84,876,000 was paid in cash, \$27,800,000 was paid by the issuance of 2,779,975 Class A preferred shares and 2,780,000 common shares of Trade Marks, and the balance of the purchase price (the Balance) of \$40,000,000 is due, without interest, on January 31, 2010.

Concurrent with the purchase of the A&W trade-marks, Trade Marks granted Food Services a licence to use the A&W trade-marks in Canada for a term of 99 years, for which Food Services pays Trade Marks a royalty of 3% of the sales reported to Food Services by A&W restaurants in the Royalty Pool (the Licence and Royalty Agreement).

The Balance of the purchase price will be reduced by all amounts Trade Marks is required to pay Food Services in respect of annual adjustments to the Royalty Pool up to January 31, 2010. If the total annual adjustments are less than the Balance, the obligation of Trade Marks to pay the remaining Balance of the purchase price is extinguished. Accordingly, for accounting purposes, the Balance is being recognized in the periods such adjustments become payable. The annual adjustments to the Royalty Pool are as follows:

	New restaurants	Closed restaurants	Royalty Pool	Share consideration			Amount \$
				Common shares	Class A shares	Class B shares	
Initial consideration							
Cash	585	-	585	-	-	-	84,876
Shares	-	-	-	2,780,000	2,779,975	-	27,800
Future income taxes	-	-	-	-	-	-	8,080
	585	-	585	2,780,000	2,779,975	-	120,756
2003 annual adjustment	27	(8)	19	452,469	-	452,469	5,108
2004 annual adjustment	28	(12)	16	495,681	-	495,681	5,210
2005 annual adjustment	27	(9)	18	511,337	-	511,337	6,197
2006 annual adjustment	27	(11)	16	460,366	-	460,366	5,695
	694	(40)	654	4,699,853	2,779,975	1,919,853	142,966

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

On January 5, 2006, the number of A&W restaurants for which royalties are paid to Trade Marks was increased by 27 new restaurants, less 11 restaurants that permanently closed during 2005. The consideration Trade Marks provided to Food Services for the additional net 16 restaurants added to the Royalty Pool consisted of shares of Trade Marks, based upon a formula set out in the Licence and Royalty Agreement. The formula is based on the estimated sales from the net new restaurants and the current yield on the Units of the Fund, discounted by 7.5%. The consideration provided by Trade Marks to Food Services for this additional royalty stream was \$5,695,000, by the issuance of 460,366 Class B preferred shares and 460,366 common shares of Trade Marks. These shares are the economic equivalent of Units of the Fund and have been valued at \$12.37 per share, being the weighted average trading price of the Units of the Fund for

the 20 trading days ending October 31, 2005. A final adjustment to the share consideration will be made in December 2006 based upon the actual annual gross sales reported by the new restaurants. Until then, 20% of the shares will be held in escrow.

4. Term loan and operating bank line of credit

Trade Marks has a demand operating loan facility of \$2,000,000 to fund working capital requirements and for general corporate purposes. The operating loan bears interest at the bank prime rate plus 0.5% and is repayable on demand. As at September 10, 2006, the full amount of the facility was available.

Trade Marks has a term loan in the amount of \$10,000,000. The term loan is repayable on March 15, 2008 and bears interest at bank prime rate plus between 0% and 0.5% depending on specified financial ratios. Interest only is payable monthly, providing 12 month trailing earnings before interest, taxes, depreciation and amortization (EBITDA) at any time is not less than \$10,000,000. In the event that EBITDA is less than \$10,000,000, the term loan will be fully amortized over the remaining term and repayment will be by way of blended monthly instalments of principal and interest.

An interest rate swap effective February 16, 2005 and maturing February 18, 2008 fixes the interest rate on the term loan at 5.81% per annum.

5. 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 payments are payable monthly in arrears.

6. Class A and Class B preferred shares

The preferred shares are owned by Food Services and comprise:

	September 10, 2006		December 31, 2005	
	#	\$	#	\$
Class A shares - at cost	2,779,975	27,800	2,779,975	27,800
Class B shares - at cost:				
2003 annual adjustment	452,469	5,108	452,469	5,108
2004 annual adjustment	495,681	5,210	495,681	5,210
2005 annual adjustment	511,337	6,197	511,337	6,197
2006 annual adjustment	460,366	5,695	-	-
	1,919,853	22,210	1,459,487	16,515
Accrued dividends		134		360
		50,144		44,675

On January 5, 2006, Trade Marks issued 460,366 (2005 – 511,337) Class B preferred and common shares as consideration of \$5,695,000 (2005 - \$6,197,000) for the royalty stream from the 16 (2005 - 18) net restaurants added to the Royalty Pool (note 3).

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 common share of Trade Marks and a \$10 A&W note are exchangeable for a unit in the Fund. Accordingly, the Class A and Class B preferred shares are classified as liabilities of Trade Marks and the cumulative dividends are classified as interest expense in the statement of earnings.

During the year to date ended September 10, 2006, Trade Marks declared dividends on the Class A and B preferred shares of \$3,728,000 of which \$360,000 was in respect of 2005 and \$3,368,000 or \$0.7168 per share was in respect of 2006. \$3,307,000 has been paid and \$421,000, payable on September 29, 2006, is reported as a current liability at September 10, 2006. During the quarter, Trade Marks declared dividends on the Class A and B preferred shares of \$1,263,000 and paid dividends of \$1,263,000.

7. Common shares

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

	The Fund		Food Services		Total	
	#	%	#	%	#	\$
February 15, 2002	8,340,000	75.0%	2,780,000	25.0%	11,120,000	1
2003 annual adjustment		-2.9%	452,469	2.9%	452,469	-
2004 annual adjustment		-3.0%	495,681	3.0%	495,681	-
2005 annual adjustment		-2.8%	511,337	2.8%	511,337	-
2006 annual adjustment		-2.3%	460,366	2.3%	460,366	-
	8,340,000	64.0%	4,699,853	36.0%	13,039,853	1

During the year to date ended September 10, 2006, Trade Marks declared dividends on common shares of \$539,000 or \$0.0412 per share. \$442,000 has been paid and \$97,000, payable on September 29, 2006, is reported as a current liability as at September 10, 2006. During the quarter, Trade Marks declared common share dividends of \$264,000 and paid dividends of \$238,000.

8. Related party transactions and balances

During the year to date ended September 10, 2006, royalty income of \$12,212,000 (2005 - \$10,959,000) was earned from Food Services, of which \$1,501,000 (December 31, 2005 - \$1,316,000) is receivable at September 10, 2006. During the quarter, royalty income of \$4,492,000 (2005 - \$3,970,000) was earned from Food Services.

Trade Marks has entered into an administration agreement with the Fund whereby Trade Marks, at its expense, provides or arranges for the provision of services required in the administration of the Fund. Trade Marks has arranged for management, administrative and accounting services to be provided by Food Services at no cost until 2011.

Interest expense on the A&W notes for the year to date ended September 10, 2006 was \$6,215,000 (2005 - \$6,239,000), of which \$1,007,000 (December 31, 2005 - \$761,000) is payable to the Fund at September 10, 2006. Interest expense on the A&W notes for the quarter was \$2,064,000 (2005 - \$2,063,000).

Included in accounts receivable is \$66,000 (December 31, 2005 – \$31,000) due from the Fund without interest and due on demand.

9. Subsequent events

On October 3, 2006, Trade Marks declared a dividend on Class A and Class B preferred shares of \$421,000 or \$0.0896 per share and a dividend on common shares of \$97,000 or \$0.0074 per share, payable on October 31, 2006.

Unitholder Information

Corporate Head Office

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

Mailing Address

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 and Officers

John R. McLernon ⁽²⁾
Chairman
Carl P. Vanderspek ⁽²⁾
President
Conrad A. Pinette ⁽²⁾
Secretary-Treasurer
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

Don Leslie
Chief Financial Officer

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

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



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

www.awincomefund.ca



A&W Food Services of Canada Inc.

Q3/2006

**Consolidated Financial
Statements**

For the third quarter ended
September 10, 2006

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 2, 2006 to September 10, 2006

This report and the unaudited consolidated financial statements of A&W Food Services of Canada Inc. are provided as a supplement to the quarterly report of the A&W Revenue Royalties Income Fund. This report is dated October 17, 2006 and should be read in conjunction with the interim unaudited consolidated financial statements for A&W Food Services of Canada Inc. for the quarter ended September 10, 2006 and the annual audited consolidated financial statements for the year ended January 1, 2006. A copy of this report and additional information about the Fund and Food Services is available at www.sedar.com or www.awincomefund.ca.

Glossary

Consolidated Financial Statements	Consolidated financial statements which include the accounts of A&W Food Services of Canada Inc., its 60% owned subsidiary, A&W Root Beer Beverages of Canada Inc., and its 36% ownership interest in A&W Trade Marks Inc.
Food Services	Financial results of A&W Food Services of Canada Inc. and A&W Root Beer Beverages of Canada Inc.
The Fund	A&W Revenue Royalties Income Fund
Trade Marks	A&W Trade Marks Inc.
Beverages	A&W Root Beer Beverages of Canada Inc.

Same Store Sales

Same store sales at A&W restaurants grew by 9.0% in the third quarter of 2006. This marks the fourteenth consecutive quarter of positive same store sales growth. Year to date same store sales growth is 8.1%. These strong same store sales increases were driven by key strategic initiatives which are being implemented in the A&W business.

System Sales

System sales grew 10.8% for the quarter and 10.4% year to date. For the 12 weeks ended September 10, 2006, total system sales for all A&W restaurants in Canada were \$152,649,000, an increase of \$14,905,000 from the same period in 2005.

Year to date system sales were \$414,403,000, an increase of \$38,957,000 from the prior year. This increase is due to the increase in the number of restaurants from 654 to 660 and the 8.1% same store sales growth.

New Restaurant Development and Restaurant Closures

Food Services opened four new franchised restaurants in the third quarter of 2006, the same as in the third quarter of 2005. Seven new A&W restaurants have been opened in 2006 year to date, compared to twelve in 2005 year to date. The timing of new restaurant openings is later in 2006 as compared to previous years.

Four restaurants were closed in the third quarter compared to one closure in the third quarter of the prior year. Year to date, eleven restaurants have closed in 2006 compared to six in 2005. All of the closed restaurants were older shopping centre restaurants with low volumes at the end of their lease and Food Services and the respective franchisees chose to close the restaurants.

The total number of franchised restaurants as at September 10, 2006 is 649. Eight restaurants are corporately owned and operated in the Ottawa region, and three restaurants are currently being operated corporately while being held for refranchising, bringing the total number of restaurants to 660.

Consolidated Financial Highlights

(dollars in thousands)	12 week period ended Sep 10, 2006	12 week period ended Sep 11, 2005	36 week period ended Sep 10, 2006	36 week period ended Sep 11, 2005
System sales	\$152,649	\$137,744	\$414,403	\$375,446
System sales growth	10.8%	7.2%	10.4%	7.8%
Same store sales growth	9.0%	3.2%	8.1%	3.8%
New restaurants opened	4	4	7	12
Restaurants closed	4	1	11	6
Number of restaurants	660	654	660	654
Franchising & corporate restaurant revenue	\$12,994	\$12,972	\$35,632	\$35,681
Direct costs and administrative expenses	\$7,477	\$7,908	\$22,959	\$24,323
Earnings before interest, amortization, taxes and non-controlling interests	\$5,517	\$5,064	\$12,673	\$11,358
Net earnings	\$1,897	\$1,723	\$2,635	\$2,343

Overview

Food Services is the franchisor of the A&W restaurant chain in Canada and derives revenues from franchise fees, sales in corporate-owned restaurants, sales of goods and services to franchisees, initial and regrant franchise fees, lease guarantee fees and other fees. Food Services also receives revenue from its subsidiary's sales of flavour concentrate to licensed bottlers who produce and distribute A&W Root Beer for sale in retail grocery stores.

Food Services' direct costs and administrative expenses include the cost of materials and supplies and equipment sold either directly to franchisees or to distributors that service the restaurants or that are sold to the licenced bottlers. In addition, direct costs include the expenses and costs of the restaurants operated corporately by Food Services and salaries and general and administrative costs associated with providing services to the franchised A&W restaurants and establishing new A&W restaurants.

Also included in direct costs and administrative expenses in the Consolidated Financial Statements are Trade Marks' general and administrative expenses. Trade Marks' general and administrative expenses include the expenses of the Fund under an administration agreement between Trade Marks and the Fund. Under this agreement, Trade Marks, at its expense, provides or arranges for the provision of services required in the administration of the Fund.

Sale of A&W Trade-marks and Licence and Royalty Agreement

On February 15, 2002, Food Services sold the A&W trade-marks used in the A&W quick service restaurant business in Canada to Trade Marks. Trade Marks in turn granted Food Services a licence to use the A&W trade-marks in Canada for a term of 99 years, for which Food Services pays Trade Marks a royalty of three per cent of the sales reported to Food Services by A&W restaurants in the Royalty Pool.

The Royalty Pool is adjusted in January of each year to reflect sales from new restaurants, net of the sales of any A&W restaurants that have permanently closed. Trade Marks pays Food Services for the additional royalty stream related to the sales of the net new restaurants, based on a formula set out in the Licence and Royalty Agreement. The formula provides for a payment to Food Services based on the amount of estimated sales from the net new restaurants and the current yield on the units of the Fund, discounted by 7.5%. The payment is in the form of common shares and Class B preferred shares of Trade Marks which are the economic equivalent of units of the Fund. Twenty percent of the shares are held in escrow for a year until the actual sales of the new restaurants are known and the corresponding adjustment is made to the consideration.

The fourth adjustment to the Royalty Pool took place on January 5, 2006. The number of A&W restaurants for which royalties are paid increased by 27 new restaurants less 11 restaurants which permanently closed during 2005. Food Services was paid \$5,695,000, by issuance of 460,366 Class B preferred shares and 460,366 common shares, as initial consideration for the estimated royalty stream from the 16 net new restaurants added to the Royalty Pool.

A final adjustment to the share consideration will be made in December 2006 based upon the actual annual sales reported by the new restaurants. Until then, 20% of the shares will be held in escrow. At this time, Food Services believes that the actual sales of the new restaurants will be higher than the estimate, which will result in the shares held in escrow being released to Food Services and additional Class B preferred shares and common shares being issued to Food Services in

December 2006.

The next adjustment to the Royalty Pool will take place on December 31, 2006. The number of A&W restaurants for which royalties are paid to Trade Marks is forecast to increase by 19 new restaurants less 13 projected restaurant closures. The initial consideration and number of Class B preferred shares and common shares issued by Trade Marks for the estimated royalty stream from the 6 net restaurants added to the Royalty Pool will be determined in December 2006. Twenty percent of the shares will be held in escrow until December 2007 when the final consideration will be determined based on the actual sales of the net new restaurants.

After the January 5, 2006 adjustment to the Royalty Pool, Food Services owns 36% (2005 – 34%) of the common shares of Trade Marks with the majority interest held by the Fund as follows:

	The Fund		Food Services		Total
	#	%	#	%	#
February 15, 2002	8,340,000	75.0%	2,780,000	25.0%	11,120,000
2003 annual adjustment		-2.9%	452,469	2.9%	452,469
2004 annual adjustment		-3.0%	495,681	3.0%	495,681
2005 annual adjustment		-2.8%	511,337	2.8%	511,337
2006 annual adjustment		-2.3%	460,366	2.3%	460,366
	8,340,000	64.0%	4,699,853	36.0%	13,039,853

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

(dollars in thousands)	September 10, 2006		January 1, 2006	
	#	\$	#	\$
Class A shares - at cost	2,779,975	27,800	2,779,975	27,800
Class B shares - at cost:				
2003 annual adjustment	452,469	5,108	452,469	5,108
2004 annual adjustment	495,681	5,210	495,681	5,210
2005 annual adjustment	511,337	6,197	511,337	6,197
2006 annual adjustment	460,366	5,695	-	-
	1,919,853	22,210	1,459,487	16,515
Accrued dividends		134		360
		50,144		44,675

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 36% (2005 – 34%) of the units of the Fund.

Basis of Consolidation

Food Services and its related entities were required to adopt the Canadian Institute of Chartered Accountants' Accounting Guideline (AcG-15), "Consolidation of Variable Interest Entities" (VIE), effective January 1, 2005. As a result of the adoption of AcG-15, these Consolidated Financial Statements include the accounts of Trade Marks, and the trade-marks sold to Trade Marks by Food Services are

recorded on the consolidated balance sheet at their book value at the time of the transaction. Food Services' investment in Trade Marks, its deferred gain on the sale of the trade-marks, and Trade Marks' intangible assets and Class A and B preferred shares held by Food Services are eliminated upon consolidation. The adoption of AcG-15 does not change the contractual obligations nor the cash flows between Food Services and Trade Marks. It is important to note that Trade Marks continues to legally own the A&W trade-marks and receive royalty income from Food Services and pay dividends to Food Services and the Fund. The liabilities of Trade Marks, comprising the A&W notes payable to the Fund and the term loan, are obligations of Trade Marks, not Food Services. For further information on the financial results of the Fund and Trade Marks, readers are referred to the Fund's third quarter report for the quarter ended September 10, 2006 (which includes the financial statements of Trade Marks) which is available at www.sedar.com or on the Fund's website at www.awincomefund.ca.

2006 Third Quarter Operating Results

Revenue

Food Services' third quarter franchising and corporate revenues increased by \$22,000 to \$12,994,000, from \$12,972,000 in the third quarter of 2005. Year to date franchising and corporate revenues decreased by \$49,000 to \$35,632,000 from \$35,681,000 in 2005.

Key components in the changes in revenue are:

- increase in franchising revenue from existing restaurants of \$500,000 for the quarter and \$1,991,000 year to date due to the system sales growth;
- decrease in new restaurant fees and sales of equipment of \$705,000 for the quarter and \$2,136,000 year to date due to fewer new restaurant openings this year compared to last year;
- increase in sales in the eight corporate restaurants in Ottawa of \$88,000 for the quarter and \$299,000 year to date;
- increase in sales in restaurants being operated corporately while being held for refranchising of \$139,000 for the quarter and decrease of \$203,000 year to date.

Expenses and Operating Contribution Margin

Direct costs and administrative expenses decreased by \$431,000 to \$7,477,000 for the third quarter of 2006 compared to \$7,908,000 in 2005. Year to date expenses decreased by \$1,364,000 from \$24,323,000 in 2005 to \$22,959,000 in 2006. Direct costs and administrative expenses decreased at a higher rate than the decrease in revenue, resulting in an improved operating contribution margin of 35.6% for 2006, compared to 31.8% in 2005.

Earnings before Interest, Amortization, Taxes and Non-controlling Interests

Earnings before interest, amortization, taxes and non-controlling interests increased by \$453,000 to \$5,517,000 for the third quarter and by \$1,315,000 to \$12,673,000 year to date due to the improved operating contribution margin as noted above.

Interest Expense

Interest expense is comprised primarily of Trade Marks' net interest expense on its term loan and the A&W notes payable to the Fund. Interest expense decreased by \$69,000 to \$2,095,000 for the quarter and by \$150,000 to \$6,385,000 year to date. The decrease is due to a new interest rate swap agreement which came into effect on February 16, 2005 and higher interest income which is netted against interest expense. These debt service obligations are obligations of Trade Marks, not of Food Services.

Income Taxes

Year to date income taxes increased due to a provision for taxes payable on a portion of the capital gain on the 2002 sale of the trade-marks which had been deferred until 2006.

Non-controlling Interests

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

The Fund's interest in Trade Marks represents the common equity of Trade Marks held by the Fund. The Fund's share of Trade Marks' earnings was \$403,000 for the quarter and \$438,000 year to date, compared to earnings of \$160,000 for the quarter and losses of \$138,000 year to date last year. The increase in Trade Marks' earnings was due to higher royalty income.

Net Earnings

Net earnings for the quarter increased by \$174,000, from \$1,723,000 in 2005 to \$1,897,000 in 2006. Year to date net earnings increased by \$292,000 from \$2,343,000 in 2005 to \$2,635,000 in 2006.

Liquidity and Capital Resources

Food Services is primarily a franchise business with 649 of its 660 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. Food Services has no long term debt obligations. Food Services has sufficient cash on hand to meet its obligations and has a demand operating loan available of up to \$5,000,000 to fund its working capital requirements and for general corporate purposes. Food Services' operating facility is secured by the Class A preferred shares and 2,780,000 common shares of Trade Marks owned by Food Services. As at September 10, 2006, the full amount of the facility was available.

Trade Marks has a demand operating loan facility of up to \$2,000,000 to fund its working capital requirements and to meet its cash flow needs. The operating loan bears interest at bank prime rate plus 0.5% and is repayable on demand. As at September 10, 2006, the full amount of the facility was available.

Trade Marks has a term loan in the amount of \$10,000,000. The term loan is

repayable on March 15, 2008 and bears interest at bank prime rate plus between 0.0% and 0.5% depending on specified financial ratios of Trade Marks. Interest only is payable monthly, provided that Trade Marks' 12 month trailing earnings before interest, taxes, depreciation and amortization (EBITDA) at any time is not less than \$10,000,000. In the event that EBITDA is less than \$10,000,000, the term loan will be fully amortized over the remaining term and repayment will be by way of blended monthly instalments of principal and interest. An interest rate swap effective February 16, 2005 and maturing February 18, 2008 fixes the interest rate on the term loan at 5.81% per annum. A general security agreement over the assets of Trade Marks has been provided as security for Trade Marks' demand operating loan facility and term loan.

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 payments are 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.

Off-Balance Sheet Instruments

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

Related Party Transactions and Balances

Trade Marks' interest expense on the A&W notes for the year to date was \$6,215,000 (2005 - \$6,239,000), of which \$1,007,000 (January 1, 2006 - \$761,000) is payable to the Fund by Trade Marks at September 10, 2006. Interest expense on the A&W notes for the quarter was \$2,064,000 (2005 - \$2,063,000).

During the year to date, Trade Marks declared dividends on its common shares held by the Fund of \$344,000 (2005 - \$nil), of which \$61,000 (January 1, 2006 - \$nil) is payable to the Fund by Trade Marks as at September 10, 2006. Dividends declared payable to the Fund in the quarter were \$168,000 (2005 - \$nil).

Included in accounts receivable is \$66,000 (January 1, 2006 - \$31,000) due to Trade Marks by the Fund without interest and due on demand.

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

management, administrative and accounting services to be provided by Food Services at no cost until 2011.

Other related party transactions and balances are referred to elsewhere in this report.

Related party transactions and balances that were eliminated upon the consolidation of Food Services and Trade Marks are as follows:

- royalty income earned by Trade Marks from Food Services was \$4,492,000 for the quarter and \$12,212,000 year to date, of which \$1,501,000 is payable by Food Services to Trade Marks at September 10, 2006;
- dividends on Trade Marks' Class A and B preferred shares of \$1,263,000 were declared by Trade Marks during the quarter and \$3,728,000 year to date, of which \$421,000 is payable by Trade Marks to Food Services at September 10, 2006;
- dividends on Trade Marks' common shares held by Food Services of \$96,000 were declared by Trade Marks during the quarter and \$195,000 year to date, of which \$36,000 is payable by Trade Marks to Food Services at September 10, 2006.

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 year to date period ended September 10, 2006.

Financial Instruments

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying values given the short term to maturity of these instruments. The long term notes receivable bear interest at market rates and therefore it is management's opinion that the carrying value approximates the fair value.

The fair value of Trade Marks' term loan approximates its carrying value due to the floating interest rate. The fair value of the interest rate swap is \$20,000 favourable.

It is not practicable to determine the fair value of the net liabilities due the Fund given the many terms and conditions that would influence such a determination.

Exposure to credit risk is as indicated by the carrying amount of its accounts receivable. Food Services does not have a significant exposure to any individual franchisee.

All of the financial instruments are non-interest bearing except for the operating line of credit and Trade Marks' term loan and A&W notes, which bear interest as disclosed previously.

Risks and Uncertainties

The success of Food Services is dependent on the ability of Food Services to (i) grow same store sales, (ii) maintain and grow the current system of franchises, (iii) locate new retail sites in prime locations and (iv) obtain qualified operators to become A&W franchisees. Sales are subject to a number of factors that affect the restaurant industry generally and the quick service segment of this industry in particular, including the highly competitive nature of the industry, traffic patterns, demographic considerations and the type, number and proximity of competing quick service restaurants. In addition, factors such as the availability of experienced management and hourly employees may also adversely affect the gross sales of the quick service restaurant industry in general and the gross sales by A&W restaurants in particular.

Food Services competes with other companies, including other well-capitalized franchisors with extensive financial, technological, marketing and personnel resources and high brand name recognition and awareness. There can be no assurance that Food Services will be able to respond to various competitive factors affecting the franchise operations of Food Services in the quick service restaurant industry.

Any significant event that adversely affects consumption of hamburgers, chicken, fries and soft drinks, such as cost, changing tastes or health concerns, could adversely impact the gross sales of A&W restaurants.

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

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

Outlook

A&W's strategy is to focus on attracting baby boomers who are the core customer for the restaurants. Key initiatives in marketing and advertising, menu and product development, and restaurant design are being implemented in the A&W business. Further information on these initiatives is contained in the Fund's Management Discussion and Analysis for the quarter ended September 10, 2006.

In 2006, Food Services anticipates that up to 24 new A&W restaurants will open across Canada, with a continued emphasis on Ontario and Atlantic Canada. New restaurant expansion in Ontario continues to gain momentum, with an increasing level of interest among prospective franchisees and a strong consumer response to the new restaurant openings. The timing of new restaurant openings is later in 2006 as compared to previous years and the bulk of new restaurants will open in the fourth quarter.

In 2005 a new profit management system was selected for A&W franchise operators. The purpose of this new "back of the house" administration system is to provide the A&W franchise operators with better tools to operate their day to day business and to control costs more effectively. This system also provides Food Services as the franchisor with more useful information on the performance of the overall business. The new system was implemented in over 140 restaurants in 2005 and roll-out is continuing in 2006. Response from franchisees has been very favourable, with a total of over 250 A&W restaurants now utilizing the system.

Subsequent Events

On October 3, 2006, Trade Marks declared a dividend on common shares of \$97,000 or \$0.0074 per share, of which \$35,000 is payable to Food Services and \$62,000 is payable to the Fund on October 31, 2006.

On October 17, 2006, Food Services declared a dividend on common shares of \$3,000,000, payable to its shareholder on October 18, 2006.

This report contains certain forward-looking statements based on assumptions that management considered reasonable at the time they were prepared. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. These forward-looking statements are subject to a number of risk factors, including the ability of A&W Food Services of Canada Inc. to implement its marketing strategies, the opening of new A&W restaurants, general economic and business conditions, financial and political instability, and other factors disclosed previously and from time to time in the Fund's public filings.

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

For the third quarter ended September 10, 2006

Consolidated Balance Sheets

Unaudited

(in thousands of dollars)

	September 10 2006	January 1 2006
Assets		
Current assets		
Cash and cash equivalents	\$ 7,223	\$ 4,238
Accounts receivable	7,224	8,819
Inventories	1,410	674
Prepaid expenses	332	161
Future income taxes	243	239
	16,432	14,131
Intangible assets	80,384	80,384
Deferred financing fees	28	41
Future income taxes	6,556	7,648
Property, plant and equipment	1,524	1,556
Notes receivable	364	417
	\$ 105,288	\$ 104,177
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	\$ 9,907	\$ 12,029
Deposits on franchise and equipment sales	3,868	789
Income taxes payable	573	391
	14,348	13,209
Net liabilities due to A&W Revenue Royalties Income Fund (note 3)	75,829	75,735
Term loan (note 4)	10,000	10,000
Long-term liabilities	6,041	5,895
Non-controlling interest	591	223
	106,809	105,062
Shareholders' Equity		
Capital stock	10,500	10,500
Deficit	(12,021)	(11,385)
	(1,521)	(885)
	\$ 105,288	\$ 104,177

Subsequent events (note 7)

These unaudited interim financial statements of the company have been prepared by and are the responsibility of the company's management. As the company is a private entity, the company's auditor has not performed a review of these financial statements.

See accompanying notes to these financial statements.

Consolidated Statements of Earnings and Deficit

Unaudited

(in thousands of dollars)

	12 Week Period Ended Sep 10, 2006	12 Week Period Ended Sep 11, 2005	36 Week Period Ended Sep 10, 2006	36 Week Period Ended Sep 11, 2005
Revenue				
Franchising	\$ 11,208	\$ 11,413	\$ 30,717	\$ 30,862
Corporate restaurants	1,786	1,559	4,915	4,819
	12,994	12,972	35,632	35,681
Direct costs and administrative expenses	7,477	7,908	22,959	24,323
Earnings before the following:	5,517	5,064	12,673	11,358
Interest expense (note 6)	2,095	2,164	6,385	6,535
Amortization of deferred financing fees	4	5	13	13
Amortization of property, plant and equipment	140	109	362	314
Earnings before income taxes and non-controlling interests	3,278	2,786	5,913	4,496
Provision for income taxes				
Current	323	236	1,384	866
Future income taxes	476	486	1,088	1,089
	799	722	2,472	1,955
Earnings for the period before non-controlling interests	2,479	2,064	3,441	2,541
Non-controlling interest in A&W Root Beer Beverages of Canada Inc.	(179)	(181)	(368)	(336)
A&W Revenue Royalties Income Fund's interest in (earnings) loss of A&W Trade Marks Inc.	(403)	(160)	(438)	138
Net earnings for the period	1,897	1,723	2,635	2,343
Deficit - beginning of period	(13,807)	(11,661)	(11,385)	(8,157)
Dividends paid	-	-	(3,000)	(4,000)
Refundable dividend tax paid	(111)	(63)	(271)	(187)
Deficit - end of period	\$ (12,021)	\$ (10,001)	\$ (12,021)	\$ (10,001)

See accompanying notes to these financial statements.

Consolidated Statements of Cash Flows

Unaudited

(in thousands of dollars)

	12 Week Period Ended Sep 10, 2006	12 Week Period Ended Sep 11, 2005	36 Week Period Ended Sep 10, 2006	36 Week Period Ended Sep 11, 2005
Cash flows from operating activities				
Net earnings for the period	\$ 1,897	\$ 1,723	\$ 2,635	\$ 2,343
Items not affecting cash				
Amortization of deferred financing fees	4	5	13	13
Amortization of property, plant and equipment	140	109	362	314
Future income taxes	476	486	1,088	1,089
Loss (gain) on disposal of property, plant and equipment	5	(1)	6	(6)
Increase in long-term liabilities	75	25	146	51
Non-controlling interest in A&W Root Beer Beverages of Canada Inc.	179	181	368	336
A&W Revenue Royalties Income Fund's interest in earnings (loss) of A&W Trade Marks Inc.	403	160	438	(138)
	3,179	2,688	5,056	4,002
Net changes in non-cash working capital	(395)	1,314	1,766	2,882
	2,784	4,002	6,822	6,884
Cash flows from investing activities				
Decrease (increase) in notes receivable	56	3	53	(12)
Purchase of property, plant and equipment	(179)	(33)	(338)	(151)
Proceeds from disposal of property, plant and equipment	1	-	2	6
	(122)	(30)	(283)	(157)
Cash flows from financing activities				
Refundable dividend tax paid	(111)	(63)	(271)	(187)
Payment of dividends	-	-	(3,000)	(4,000)
Dividend to A&W Revenue Royalties Income Fund	(152)	-	(283)	-
	(263)	(63)	(3,554)	(4,187)
Increase in cash and cash equivalents	2,399	3,909	2,985	2,540
Cash and cash equivalents - beginning of period	4,824	2,273	4,238	3,642
Cash and cash equivalents - end of period	\$ 7,223	\$ 6,182	\$ 7,223	\$ 6,182
Supplementary cash flow information				
Net interest paid	\$ (2,307)	\$ (2,377)	\$ (6,197)	\$ (6,302)
Net income taxes paid	\$ (285)	\$ (50)	\$ (1,473)	\$ (598)

See accompanying notes to these financial statements.

A&W Food Services of Canada Inc.

Notes to the Interim Consolidated Financial Statements

For the third quarter ended September 10, 2006

Unaudited

(figures in tables are expressed in thousands of dollars)

1. Nature of operations and basis of presentation

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

Food Services prepares its interim unaudited financial statements in accordance with Canadian generally accepted accounting principles (GAAP) and has applied the accounting policies described in the annual audited consolidated financial statements for the year ended January 1, 2006. 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 Food Services' annual audited consolidated financial statements for the year ended January 1, 2006.

These interim unaudited consolidated financial statements include the accounts of Food Services and its 60% owned subsidiary, A&W Root Beer Beverages of Canada Inc. (Beverages), and its 36% ownership interest in A&W Trade Marks Inc. (Trade Marks). The non controlling interest comprises 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).

Food Services uses a fiscal year comprising a 52 or 53 week period ending Sunday nearest December 31, therefore Food Services' 2005 fiscal year ended January 1, 2006 (2004 – January 2, 2005). Food Services' third quarter of 2006 ends 36 weeks after its fiscal year end.

2. Seasonality

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

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

The Class A and B preferred shares of Trade Marks are owned by Food Services and the common shares of Trade Marks are owned by Food Services and the Fund. As a result, the Fund has an equity interest in Trade Marks. The issued and outstanding common shares of Trade Marks are as follows:

	The Fund		Food Services		Total
	#	%	#	%	#
February 15, 2002	8,340,000	75.0%	2,780,000	25.0%	11,120,000
2003 annual adjustment		-2.9%	452,469	2.9%	452,469
2004 annual adjustment		-3.0%	495,681	3.0%	495,681
2005 annual adjustment		-2.8%	511,337	2.8%	511,337
2006 annual adjustment		-2.3%	460,366	2.3%	460,366
	8,340,000	64.0%	4,699,853	36.0%	13,039,853

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

	September 10, 2006	January 1, 2006
A&W notes payable	83,399	83,399
The Fund's equity interest in A&W Trade Marks Inc.	(7,570)	(7,664)
	\$75,829	\$75,735

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 payments are payable monthly in arrears.

The A&W notes are contractual obligations of Trade Marks, not Food Services.

4. Term loan and operating bank line of credit

Food Services has a demand operating facility of \$5,000,000 to fund working capital requirements and for general corporate purposes. The operating loan bears interest at the bank prime rate plus 0.5% and is repayable on demand. As at September 10, 2006, the full amount of the facility was available.

Trade Marks has a demand operating loan facility of \$2,000,000 to fund working capital requirements and for general corporate purposes. The operating loan bears interest at the bank prime rate plus 0.5% and is repayable on demand. As at September 10, 2006, the full amount of the facility was available.

Trade Marks has a term loan in the amount of \$10,000,000. The term loan is repayable on March 15, 2008 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 Trade Marks' 12 month trailing earnings before interest, taxes, depreciation and amortization (EBITDA) at any time is not less than \$10,000,000. In the event that EBITDA is less than \$10,000,000, the term loan will be fully amortized over the remaining term and

repayment will be by way of blended monthly instalments of principal and interest.

An interest rate swap effective February 16, 2005 and maturing February 18, 2008 fixes the interest rate on Trade Marks' term loan at 5.81% per annum.

Trade Marks' operating facility and term loan are contractual obligations of Trade Marks, not Food Services.

5. Related party transactions and balances

Trade Marks' interest expense on the A&W notes for the year to date ended September 10, 2006 was \$6,215,000 (2005 - \$6,239,000), of which \$1,007,000 (January 1, 2006 - \$761,000) is payable to the Fund by Trade Marks at September 10, 2006. Interest expense on the A&W notes for the quarter was \$2,064,000 (2005 - \$2,063,000).

Included in accounts receivable is \$66,000 (January 1, 2006 - \$31,000) due to Trade Marks from the Fund without interest and due on demand.

During the year to date ended September 10, 2006, Trade Marks declared dividends on its common shares of \$539,000 (2005 - \$nil) of which \$344,000 was earned by the Fund. \$283,000 has been paid to the Fund and \$61,000, payable on September 29, 2006, is reported as a current liability at September 10, 2006. Dividends of \$264,000 were declared in the quarter and \$152,000 was paid to the Fund in the quarter.

6. Interest expense

	12 Week Period Ended Sep 10, 2006	12 Week Period Ended Sep 11, 2005	36 Week Period Ended Sep 10, 2006	36 Week Period Ended Sep 11, 2005
Interest				
Interest income	\$ (81)	\$ (32)	\$ (187)	\$ (112)
Term loan	112	133	357	408
A&W notes payable	2,064	2,063	6,215	6,239
	\$ 2,095	\$ 2,164	\$ 6,385	\$ 6,535

7. Subsequent events

On October 3, 2006, Trade Marks declared a dividend on common shares of \$97,000 or \$0.00742 per share, of which \$35,000 is payable to Food Services and \$62,000 is payable to the Fund on October 31, 2006.

On October 17, 2006, Food Services declared a dividend on common shares of \$3,000,000, payable to its shareholder on October 18, 2006.



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

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