THE KEG ROYALTIES INCOME FUND

FIRST QUARTER REPORT

For the three months ended March 31, 2020

TO OUR UNITHOLDERS

On behalf of the Board of Trustees, I am pleased to present the results of The Keg Royalties Income Fund (the "Fund") for the three months ended March 31, 2020.

RESULTS

The gross sales reported by the 106 Keg restaurants in the Royalty Pool were $142,653,000 for the quarter, a decrease of $23,123,000 or 13.9% from the comparable quarter of the prior year. These Royalty Pool sales include the sales of the one net new Keg restaurant opened during the period from October 3, 2018 to October 3, 2019, which was added to the Royalty Pool on January 1, 2020, net of a same store sales decrease of 0.3% for the quarter, and the loss of $26,708,000 in Royalty Pool sales due to the temporary closure of all Keg restaurants on March 17, 2020, due to the Covid-19 crisis.

Royalty income decreased by $980,000 or 14.7% from $6,686,000 in the three months ended March 31, 2019 to $5,706,000 in the three months ended March 31, 2020.

Distributable cash before SIFT tax increased by $55,000 from $5,120,000 (45.1 cents/Fund unit) to $5,175,000 (45.6 cents/Fund unit) for the quarter. Distributable cash available to pay distributions to public unitholders increased by $286,000 from $3,867,000 (34.1 cents/Fund unit) to $4,153,000 (36.6 cents/Fund unit) for the quarter. Distributions paid to Fund unitholders remained the same during the first quarter of 2020 at $3,222,000 (28.4 cents/Fund unit). The payout ratio for the quarter was 77.6% as compared with 83.3% for the comparable quarter of the prior year.

The Fund remains financially well positioned with cash on hand of $2,835,000 and a positive working capital balance of $3,461,000 as at March 31, 2020.

OUTLOOK

It has now been over seven weeks since the Covid-19 pandemic significantly disrupted our everyday lives, the world's economy and society in general. Despite these unprecedented times, management of KRL has indicated to the Trustees of the Fund, that KRL fully intends to make all royalty and interest payments to the Fund as they come due, in accordance with the Licence and Royalty Agreement. All of the Keg's 107 restaurants, 106 of which are included in the Royalty Pool, currently remain temporarily closed. It is difficult to predict sales levels of the Kegs following re-opening with any level of certainty, as those sales levels will be impacted not only by the timing and restrictions regarding re-opening imposed by provincial and state governments, but also by any changes in consumer behaviours as a result of the Covid-19 crisis, as well as the pace of the economic recovery in each of the markets in which The Keg operates. What can be said with a high degree of certainty and confidence is that upon re-opening, The Keg will once again deliver the highest levels of food quality and best-in-class service that it is renowned for providing to its guests.

COMPETITIVE STRENGTH AND GROWTH

The Keg remains an industry leader in the full-service restaurant category in Canada; a category it has resided in for over 47 years. KRL's management team remains committed to maintaining and improving the legendary high standards that have come to define the brand throughout North America, including The Keg's high quality menu, unmatched hospitality and marketing innovation. KRL has consistently demonstrated its ability to deliver growth in both system sales and same store sales over the long term, providing stability and growth in distributable cash and distributions to the Fund's unitholders.

Sincerely,

C.C. Woodward
Chairman, The Keg Royalties Income Fund
on behalf of the Board of Trustees
May 13, 2020

FINANCIAL HIGHLIGHTS

($000's except per unit amounts)	Jan. 1 to Mar. 31, 2020	Jan. 1 to Mar. 31, 2019
Restaurants in the Royalty Pool	**106**	**105**
Royalty Pool sales [1]	**$ 142,653**	**$ 165,776**
Royalty income [2]	$ 5,706	$ 6,686
Interest income [3]	1,070	1,062
Total income	**$ 6,776**	**$ 7,748**
Administrative expenses [4]	(98)	(107)
Interest and financing expenses [5]	(141)	(150)
Operating income	**$ 6,537**	**$ 7,491**
Distributions to KRL [6]	(2,675)	(2,834)
Profit before fair value gain (loss) and income taxes	**$ 3,862**	**$ 4,657**
Fair value gain (loss) [7]	32,600	(5,332)
Income taxes [8]	(883)	(1,272)
Profit (loss) and comprehensive income (loss)	**$ 35,579**	**$ (1,947)**
Distributable cash before SIFT tax [9]	**$ 5,175**	**$ 5,120**
Distributable cash [10]	**$ 4,153**	**$ 3,867**
Distributions to Fund unitholders [11]	**$ 3,222**	**$ 3,222**
Payout ratio [12]	**77.6%**	**83.3%**
Per Fund unit information [13]		
Profit before fair value gain (loss) and income taxes	$ .340	$ .410
Profit (loss) and comprehensive income (loss)	$ 3.134	$ (.171)
Distributable cash before SIFT tax [9]	**$ .456**	**$ .451**
Distributable cash [10]	**$ .366**	**$ .341**
Distributions to Fund unitholders [11]	**$ .284**	**$ .284**
SSSG [14]		
Canada	(0.5) %	1.1 %
United States	2.5 %	3.8 %
Consolidated	(0.3) %	1.8 %
Restaurants in KRL System [15]		
# Beginning of Period	107	105
Opened	--	2
Closed	--	(2)
# End of Period	107	105

Notes:

(1) Royalty Pool sales are the gross sales reported by Keg Restaurants included in the Royalty Pool in any period. As of March 31, 2020, the Royalty Pool includes 106 Keg restaurants, 49 of which are owned and operated by KRL and its subsidiaries, (39 in Canada and 10 in the United Sates), and 57 Keg restaurants which are owned and operated by Keg franchisees (all of which are in Canada).

(2) The Fund, indirectly through The Keg Rights Limited Partnership (the "Partnership"), earns royalty income equal to 4% of gross sales of Keg restaurants in the Royalty Pool.

(3) The Fund directly earns interest income on the $57.0 million Keg Loan, with interest income accruing at 7.5% per annum, payable monthly.

(4) The Fund, indirectly through the Partnership, incurs administrative expenses and interest on the operating line of credit, to the extent utilized.

(5) The Fund, indirectly through The Keg Holdings Trust (the "Trust"), incurs interest expense on the $14.0 million term loan and amortization of deferred financing charges.

(6) Represents the distributions of the Partnership attributable to KRL during the respective periods on the Class A, entitled Class B, and Class D Partnership units ("Exchangeable units") and Class C Partnership units held by KRL. The Exchangeable units are exchangeable into Fund units on a one-for-one basis. These distributions are presented as interest expense in the financial statements.

(7) Fair value gain (loss) is the non-cash decrease or increase in the market value of the Exchangeable units held by KRL during the respective period. Exchangeable units are classified as a financial liability under IFRS. The Fund is required to determine the fair value of that liability at the end of each reporting period and adjust for any increase or decrease, taking into consideration the sale of any Exchangeable units and Additional Entitlements during the same period.

(8) Income taxes include the Specified Investment Flow-through Trust tax ("SIFT tax") expense, and either a non-cash deferred tax expense or deferred tax recovery. The deferred tax expense or recovery primarily results from differences in income recognition between the Fund's accounting methods and enacted tax laws. It is also partially due to temporary differences between accounting and tax bases of the Keg Rights owned by the Partnership.

(9) Distributable cash before SIFT tax is defined as the periodic cash flows from operating activities as reported in the IFRS condensed consolidated financial statements, including the effects of changes in non-cash working capital, plus SIFT tax paid (including current year instalments), less interest and financing fees paid on the term loan, less the Partnership distributions attributable to KRL through its ownership of Exchangeable units. Distributable cash before SIFT tax is a non-IFRS financial measure that does not have a standardized meaning prescribed by IFRS, and therefore may not be comparable to similar measures presented by other issuers.

(10) Distributable cash is the amount of cash available for distribution to the Fund's public unitholders and is calculated as distributable cash before SIFT tax, less current year SIFT tax expense. Distributable cash is a non-IFRS financial measure that does not have a standardized meaning prescribed by IFRS, and therefore may not be comparable to similar measures presented by other issuers. However, the Fund believes that distributable cash, both before and after SIFT tax, provides useful information regarding the amount of cash available for distribution to the Fund's public unitholders.

(11) Distributions to Fund unitholders include all regular monthly cash distributions paid to Fund unitholders during a period and any special distributions, either declared or paid, to Fund unitholders in the same period.

(12) Payout ratio is computed as the ratio of aggregate cash distributions paid during the period plus any special distributions declared or paid during the same period (numerator) to the aggregate distributable cash of the period (denominator).

(13) All per unit amounts are calculated based on the weighted average number of Fund units outstanding, which are those units held by public unitholders during the respective period. The weighted average number of Fund units outstanding for the three months ended March 31, 2020 were 11,353,500 (three months ended March 31, 2019 – 11,353,500).

(14) Same Store Sales Growth ("SSSG") is the overall increase or decrease in gross sales from Keg restaurants (that operated during the entire period of both the current and the prior year) as compared to gross sales for the same period of the prior year. The Covid-19 crisis had a significant negative impact on restaurant sales beginning in early March 2020, due physical distancing measures and concerns, and ultimately resulted in the temporary closure of all restaurants effective March 17, 2020. Management of KRL has elected to present SSSG metrics for periods that were not materially affected by the Covid-19 crisis, which for the first quarter of 2020 was the 8-week period ended February 23, 2020, and for the first quarter of 2019, was the 8-week period ended February 24, 2019. SSSG is not an IFRS financial measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. However, the management of KRL believe that SSSG provides useful information regarding the increase or decrease in gross sales for comparable restaurants.

(15) The number of restaurants included in the Royalty Pool, may differ from the number of restaurants in the KRL system at any time as the periods for which they are reported differ. The number of restaurants added or removed from the Royalty Pool during any period will differ from the number of restaurant openings and closings reported by KRL, as the periods for which they are reported differ as well.

(16) The interim financial results for all periods presented herein have not been audited.

SUMMARY OF QUARTERLY RESULTS

($000's except per unit amounts)	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Restaurants in the Royalty Pool	**106**	**105**	**105**	**105**
Royalty Pool sales (1)	**$ 142,653**	**$ 154,788**	**$ 152,454**	**$ 150,731**
Royalty income (2)	$ 5,706	$ 6,340	$ 6,225	$ 6,136
Interest income (3)	1,070	1,085	1,086	1,074
Total income	**$ 6,776**	**$ 7,425**	**$ 7,311**	**$ 7,210**
Administrative expenses (4)	(98)	(101)	(98)	(79)
Interest and financing expenses (5)	(141)	(152)	(159)	(151)
Operating income	**$ 6,537**	**$ 7,172**	**$ 7,054**	**$ 6,980**
Distributions to KRL (6)	(2,675)	(2,777)	(2,807)	(2,682)
Profit before fair value gain (loss) and income taxes	**$ 3,862**	**$ 4,395**	**$ 4,247**	**$ 4,298**
Fair value gain (loss) (7)	32,600	5,508	2,980	907
Income taxes (8)	(883)	(1,178)	(1,126)	(1,086)
Profit (loss) and comprehensive income (loss)	**$ 35,579**	**$ 8,725**	**$ 6,101**	**$ 4,119**
Distributable cash before SIFT tax (9)	**$ 5,175**	**$ 4,067**	**$ 4,168**	**$ 4,311**
Distributable cash (10)	**$ 4,153**	**$ 2,905**	**$ 3,036**	**$ 3,207**
Distributions to Fund unitholders (11)	**$ 3,222**	**$ 3,222**	**$ 3,222**	**$ 3,222**
Payout ratio (12)	**77.6%**	**110.9%**	**106.1%**	**100.5%**
Per Fund unit information (13)				
Profit before fair value gain (loss) and income taxes	$ .340	$ .387	$ .374	$ .379
Profit (loss) and comprehensive income (loss)	$ 3.134	$ .768	$ .537	$ .363
Distributable cash before SIFT tax (9)	**$ .456**	**$ .358**	**$ .367**	**$ .380**
Distributable cash (10)	**$ .366**	**$ .256**	**$ .267**	**$ .282**
Distributions to Fund unitholders (11)	**$ .284**	**$ .284**	**$ .284**	**$ .284**
SSSG (14)				
Canada	(0.5) %	(2.8) %	(3.8) %	(1.8) %
United States	2.5 %	(0.1) %	(1.9) %	1.2 %
Consolidated	(0.3) %	(2.5) %	(3.6) %	(1.2) %
Restaurants in KRL System (15)				
# Beginning of Period	107	106	105	105
Opened	--	1	2	1
Closed	--	--	(1)	(1)
# End of Period	107	107	106	105

SUMMARY OF QUARTERLY RESULTS

($000's except per unit amounts)	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Restaurants in the Royalty Pool	**105**	**103**	**103**	**103**
Royalty Pool sales (1)	**$ 165,776**	**$ 161,310**	**$ 157,910**	**$ 150,974**
Royalty income (2)	$ 6,686	$ 6,486	$ 6,350	$ 6,044
Interest income (3)	1,062	1,085	1,084	1,070
Total income	**$ 7,748**	**$ 7,571**	**$ 7,434**	**$ 7,114**
Administrative expenses (4)	(107)	(99)	(105)	(95)
Interest and financing expenses (5)	(150)	(150)	(148)	(134)
Operating income	**$ 7,491**	**$ 7,322**	**$ 7,181**	**$ 6,885**
Distributions to KRL (6)	(2,834)	(2,718)	(2,735)	(2,581)
Profit before fair value gain (loss) and income taxes	**$ 4,657**	**$ 4,604**	**$ 4,446**	**$ 4,304**
Fair value gain (loss) (7)	(5,332)	6,872	(363)	2,620
Income taxes (8)	(1,272)	(1,244)	(1,198)	(1,138)
Profit (loss) and comprehensive income (loss)	**$ (1,947)**	**$ 10,232**	**$ 2,885**	**$ 5,786**
Distributable cash before SIFT tax (9)	**$ 5,120**	**$ 4,173**	**$ 4,417**	**$ 4,332**
Distributable cash (10)	**$ 3,867**	**$ 2,955**	**$ 3,234**	**$ 3,189**
Distributions to Fund unitholders (11)	**$ 3,222**	**$ 3,563**	**$ 3,222**	**$ 3,222**
Payout ratio (12)	**83.3%**	**120.6%**	**99.6%**	**101.0%**
Per Fund unit information (13)				
Profit before fair value gain (loss) and income taxes	$ .410	$ .406	$ .392	$ .379
Profit (loss) and comprehensive income (loss)	$ (.171)	$ .901	$ .254	$ .510
Distributable cash before SIFT tax (9)	**$ .451**	**$ .368**	**$ .389**	**$ .382**
Distributable cash (10)	**$ .341**	**$ .260**	**$ .285**	**$ .281**
Distributions to Fund unitholders (11)	**$ .284**	**$ .314**	**$ .284**	**$ .284**
SSSG (14)				
Canada	1.1 %	0.2 %	2.3 %	0.8 %
United States	3.8 %	2.5 %	6.3 %	4.1 %
Consolidated	1.8 %	3.0 %	3.0 %	0.7 %
Restaurants in KRL System (15)				
# Beginning of Period	105	105	105	106
Opened	2	--	--	--
Closed	(2)	--	--	(1)
# End of Period	105	105	105	105

SELECTED ANNUAL INFORMATION

($000's except per unit amounts)	Jan. 1 to Dec. 31, 2019	Jan. 1 to Dec. 31, 2018	Jan. 1 to Dec. 31, 2017
Restaurants in the Royalty Pool	**105**	**103**	**100**
Royalty Pool sales [1]	**$ 623,748**	**$ 632,157**	**$ 600,969**
Royalty income [2]	$ 25,388	$ 25,359	$ 24,294
Interest income [3]	4,306	4,299	4,283
Total income	**$ 29,694**	**$ 29,658**	**$ 28,577**
Administrative expenses [4]	(385)	(411)	(379)
Interest and financing expenses [5]	(612)	(564)	(463)
Operating income	**$ 28,697**	**$ 28,683**	**$ 27,735**
Distributions to KRL [6]	(11,099)	(10,729)	(9,969)
Profit before fair value gain (loss) and income taxes	**$ 17,598**	**$ 17,954**	**$ 17,766**
Fair value gain (loss) [7]	4,063	16,054	3,991
Income taxes [8]	(4,662)	(4,791)	(4,700)
Profit (loss) and comprehensive income (loss)	**$ 16,999**	**$ 29,217**	**$ 17,057**
Distributable cash before SIFT tax [9]	**$ 17,665**	**$ 17,894**	**$ 17,649**
Distributable cash [10]	**$ 13,014**	**$ 13,130**	**$ 13,129**
Distributions to Fund unitholders [11]	**$ 12,888**	**$ 13,229**	**$ 12,911**
Payout ratio [12]	**99.0%**	**100.8%**	**98.3%**
Per Fund unit information [13]			
Profit before fair value gain (loss) and income taxes	$ 1.550	$ 1.581	$ 1.565
Profit (loss) and comprehensive income (loss)	$ 1.497	$ 2.573	$ 1.502
Distributable cash before SIFT tax [9]	**$ 1.556**	**$ 1.576**	**$ 1.554**
Distributable cash [10]	**$ 1.146**	**$ 1.156**	**$ 1.156**
Distributions to Fund unitholders [11]	**$ 1.135**	**$ 1.165**	**$ 1.137**
SSSG [14]			
Canada	(1.8) %	1.2 %	5.1 %
United States	0.9 %	4.5 %	4.3 %
Consolidated	(1.3) %	1.5 %	4.7 %
Restaurants in KRL System [15]			
# Beginning of Period	105	106	101
Opened	6	--	7
Closed	(4)	(1)	(2)
# End of Period	107	105	106

	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Total assets	$ 245,041	$ 239,837	$ 230,671
Total liabilities	143,402	142,309	149,131

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three Months Ended March 31, 2020
As of May 13, 2020

OVERVIEW

KEY ATTRIBUTES OF THE FUND

The Keg Royalties Income Fund (the "Fund") is a limited purpose, open-ended trust which trades on the Toronto Stock Exchange ("TSX") under the symbol KEG.UN. On May 31, 2002, as part of the Initial Public Offering (the "IPO"), the Fund, through its subsidiary The Keg Rights Limited Partnership (the "Partnership"), purchased The Keg trademarks and other related intellectual property (collectively, the "Keg Rights") from Keg Restaurants Ltd. ("KRL"). The Partnership, in turn, granted KRL an exclusive licence to use the Keg Rights for a term of 99 years pursuant to a licence and royalty agreement, which obligates KRL to make monthly royalty payments to the Partnership equal to 4% of gross sales of Keg restaurants included in a specific royalty pool (the "Royalty Pool").

The key feature of the Fund is that royalty income is based on the top-line, gross sales of Keg restaurants in the Royalty Pool and not on the profitability of either KRL or the Keg restaurants in the Royalty Pool. Moreover, the Fund is not subject to the variability of income or expenses associated with an operating business. The Fund's only expenses are nominal administrative expenses and interest on non-amortizing term debt. Thus, the success of the Fund depends primarily on the ability of KRL to maintain and increase the gross sales of the Keg restaurants in the Royalty Pool.

Increases in gross sales are derived from both same store sales growth from existing restaurants ("SSSG") and from the addition of new Keg restaurants. SSSG is the key driver of growth in royalty income and, since the Fund's expenses are relatively fixed in nature, SSSG results in growth in distributable cash which allows for higher distributions to the Fund's unitholders. KRL has generated SSSG through a combination of increased guest counts and increased guest average cheque. SSSG has been achieved by maintaining operational excellence within each Keg restaurant, innovative marketing and promotional programs, and pricing. Over the past twenty-two years, the period for which current management has been in control of KRL, SSSG has averaged 2.8% annually, a figure that compares very favourably against the restaurant industry as a whole. The gross sales from new Keg restaurants that have opened on or before October 2nd of the prior year, less gross sales from any Keg restaurants that have permanently closed during the preceding calendar year are added to the Royalty Pool on January 1st of each year. In return for adding these net sales to the Royalty Pool, KRL receives the right to indirectly acquire additional Fund units. See "The Royalty Pool" section.

In the event that a Keg restaurant is permanently closed during the year (including the termination of a franchise agreement), KRL will continue to pay the royalty amount for that closed Keg restaurant ("Make-whole Payment") from the date of closure until those sales are replaced with gross sales from new Keg restaurants that are added to the Royalty Pool. The amount of the Make-whole Payment is based on the restaurant's gross sales when it was originally included in the Royalty Pool.

Readers should note that the number of restaurants added to the Royalty Pool each year may differ from the number of restaurant openings and closings reported by KRL on an annual basis, as the periods for which they are reported differ slightly.

On January 23, 2018, Recipe Unlimited Corporation ("Recipe") (formerly Cara Operations Limited) ("Cara"), KRL and the Fund announced that Cara and KRL agreed to merge pursuant to the terms of a binding letter of intent. On February 22, 2018, this transaction was completed but will not impact the operations of the Fund. The Fund will remain in its current form and will continue to receive royalty payments from Keg restaurants included in the Royalty Pool. There were no changes to the contractual relationships between the Fund, KRL and the Partnership arising out of the completion of the Recipe and KRL merger.

THE ROYALTY POOL

Annually, on January 1st, the Royalty Pool is adjusted to include the gross sales from new Keg restaurants that have opened on or before October 2nd of the prior year, less gross sales from any Keg restaurants that have permanently closed during the preceding calendar year. In return for adding these net sales to the Royalty Pool, KRL receives the right to indirectly acquire additional Fund units (the "Additional Entitlement"). The Additional Entitlement is determined based on 92.5% of the estimated net royalty revenue added to the Royalty Pool, divided by the yield of the Fund units, divided by the weighted average unit price of the Fund units. KRL receives 80% of the estimated Additional Entitlement initially, with the balance received on December 25th of each year, to be effective January 1st of each year, when the actual full-year performance of the new restaurants is known with certainty.

Readers should note that the number of restaurants added to the Royalty Pool each year may differ from the number of restaurant openings and closings reported by KRL on an annual basis, as the periods for which they are reported differ slightly.

The total number of Keg restaurants included in the Royalty Pool increased from the 80 Keg restaurants in existence on March 31, 2002, to 105 as of December 31, 2019. Seventy-one new Keg restaurants that opened during the period from April 1, 2002 through October 2, 2018, with annual gross sales of $363,800,000, were added to the Royalty Pool. Forty-six permanently closed Keg restaurants with annual sales of $143,834,000 were removed from the Royalty Pool. This resulted in a net increase in Royalty Pool sales of $219,966,000 annually and KRL receiving a cumulative Additional Entitlement equivalent to 6,701,980 Fund units as of December 31, 2019.

On January 1, 2020, an estimated $19,111,000 in annual net sales were added to the Royalty Pool. Five new restaurants that opened during the period from October 3, 2018 through October 2, 2019, with estimated gross sales of $34,000,000 annually, were added to the Royalty Pool. Four permanently closed Keg restaurants with annual sales of $14,889,000 were removed from the Royalty Pool. The total number of restaurants in the Royalty Pool increased to 106. The pre-tax yield of the Fund units was determined to be 9.72% calculated using a weighted average unit price of $16.42.

As a result of the contribution of additional net sales to the Royalty Pool, and assuming 100% of the Additional Entitlement is received, KRL's Additional Entitlement will be equivalent to 443,015 Fund units, being 2.73% of the Fund units on a fully diluted basis.

On January 1, 2020, KRL received 80% of this entitlement, representing the equivalent of 354,412 Fund units, being 2.20% of the Fund units on a fully diluted basis. KRL also received a proportionate increase in monthly distributions from the Partnership. Therefore, on January 1, 2019, KRL had the right to exchange its units in the capital of the Partnership for 4,762,336 Fund units, representing 29.55% of the Fund units on a fully diluted basis.

The balance of the Additional Entitlement will be adjusted on December 25, 2020, to be effective January 1, 2020, once the actual performance of the new restaurants has been confirmed. If KRL were to receive 100% of the estimated Additional Entitlement for 2020, it would have the right to exchange its Partnership units for 4,850,939 Fund units, representing 29.94% of the Fund units on the fully diluted basis.

On April 1, 2019, KRL and the Fund amended the Limited Partnership Agreement, an agreement between the two entities, to change the final adjustment date ("Final Adjustment Date") from December 31st to December 25th in each year. The Final Adjustment Date is the date on which KRL is granted the remaining balance of any Additional Entitlement from the roll-in of net new sales to the Royalty Pool on the preceding January 1st. The change was agreed to align the reporting of KRL's investment in the Fund in the financial statements of both KRL and the Fund, at their respective year-end dates. The change will also ensure that KRL receives the remaining balance of any Additional Entitlement during the fiscal year in which it was earned.

KRL'S INTEREST IN THE FUND

KRL's interest in the earnings of the Partnership is from its ownership of Class A, entitled Class B, Class C and Class D Partnership units. The Class A, entitled Class B and Class D Partnership units are exchangeable into Fund units on a one-for-one basis in certain circumstances ("Exchangeable units"). KRL's effective ownership of the Fund and its interest in the earnings of the Partnership has grown from 10.00% at the time of the IPO to 27.97% as of December 31, 2019. The increase in KRL's effective ownership of the Fund is due to the cumulative Additional Entitlement received by KRL equivalent to 6,701,980 Fund units, less 3,200,000 Exchangeable units exchanged by KRL for Fund units and sold through the facilities of the TSX. The sale of the 3,200,000 Fund units increased the number of issued and outstanding Fund units from 8,153,500 at the time of the IPO to 11,353,500 as of February 8, 2011.

On January 1, 2020, KRL became entitled to the initial 80% of the Additional Entitlement for 2020, consisting of 354,412 Exchangeable units, increasing its effective ownership of the Fund to 29.55%. See "The Royalty Pool" section.

FAIR VALUE GAIN (LOSS)

Fair value gain (loss) is the non-cash decrease or increase in the market value of the Exchangeable units held by KRL during the respective period. It is a non-cash adjustment and, therefore, does not affect distributable cash. The Exchangeable units held by KRL are classified as a financial liability under IFRS. The Fund is required to determine the fair value of that liability at the end of each reporting period and adjust for any increase or decrease, during the same period. The closing market price of a Fund unit at the end of each reporting period is used to determine the fair value of the Exchangeable unit liability, since Exchangeable units are exchangeable into Fund units on a one-for-one basis. If the market price of a Fund unit increases during a period, the financial liability of the Fund also increases, and a non-cash loss is recorded during that period. If the market price of a Fund unit decreases during a period, the financial liability of the Fund also decreases, and a non-cash gain is recorded during that period.

FEDERAL GOVERNMENT TAX ON INCOME FUNDS

On January 1, 2011, legislative changes to the tax treatment of certain income trusts, as a result of the Specified Investment Flow-through Trust tax (the "SIFT tax"), came into effect. Due to these changes, income trusts will not be entitled to deduct distributions of certain types of income for tax purposes, and will therefore be subject to taxation similar to corporations. As a result of this taxation imposed by the Federal Government, the Fund's Trustees had to adopt a new distribution policy which reflects the Fund's obligation to make the SIFT tax payments. See "Distributions to Unitholders". The Fund is subject to tax at a rate of 26% for 2017. Effective January 1, 2018, the British Columbia general corporate tax rate increased from 11% to 12%, resulting in the Fund being subject to an income tax rate of 27% for the 2018 and later taxation years.

DISTRIBUTIONS TO UNITHOLDERS

The Fund's objective is to provide consistent monthly distributions to unitholders at the highest sustainable level, and the Trustees of the Fund continue to review distribution levels on an ongoing basis to fulfill that objective. Since the inception of the Fund in May 2002 until December 31, 2017, monthly distributions to unitholders have been increased fourteen times, from the original level of 9.0 cents/Fund unit at the time of the IPO, to 13.0 cents/Fund unit, on a pre-tax basis (9.46 cents/Fund unit on an after-tax basis), an increase of 44.0%.

In addition, special distributions of 7.0 cents/Fund unit were declared in December 2015, 3.0 cents/Fund unit in December 2016, 3.0 cents/Fund unit in December 2017, and 3.0 cents/Fund unit in December 2018. For Fund reporting purposes these special distributions were treated as distributions in the year in which they were declared.

As a result of the SIFT tax that came into effect on January 1, 2011, the Fund's Trustees had to adopt a new distribution policy which reflects the Fund's obligation to make these tax payments. The eligible dividend portion of the Fund's distribution, combined with the return of capital component of the distribution, should provide taxable Canadian individuals with an effective after-tax cash return very closely comparable to the return that existed before the imposition of the SIFT tax.

Annually, two distributions are expected to be declared during the first quarter, three distributions in each of the second and third quarters, and four distributions in the fourth quarter. This is done to ensure that the distribution based on the Royalty Pool sales for the month of December (which is paid the following month in January), is recorded in the period in which it was earned for income tax purposes.

The determination to declare and make payable distributions from the Fund are at the discretion of the Board of Trustees of the Fund and until declared payable, the Fund has no requirement to pay cash distributions to Fund unitholders.

On April 13, 2020, the Fund announced a temporary reduction in monthly distributions to unitholders from 9.46 cents/Fund unit to 3.5 cents/Fund unit beginning with the April 30, 2020 distribution. The reduction was made in response to the loss of sales as a result of the temporary closure of all Keg restaurants on March 17, 2020, due to the Covid-19 crisis.

Year-to-date distributions paid were as follows:

		Distributions		
Period	**Payment Date**	**$ / Unit**	**Total $**	**Year-to-Date $**
December 1-31, 2019	January 31, 2020	9.46¢	$ 1,074,041	$ 1,074,041
January 1-31, 2020	February 28, 2020	9.46¢	$ 1,074,041	$ 2,148,082
February 1-29, 2020	March 31, 2020	9.46¢	$ 1,074,041	$ 3,222,123
March 1-31, 2020	April 30, 2020	3.50¢*	$ 397,733*	$ 3,619,856*

*Paid subsequent to the period

Distributions paid during the period were funded entirely by cash flow from operations and no debt was incurred at any point during the year to fund distributions.

A special distribution of $341,000 (3.0 cents/Fund unit) which was declared in December 2018 and paid January 31, 2019 was treated as a distribution in 2018 for Fund reporting purposes.

Since inception, the Fund has generated $203,639,000 of distributable cash, and paid cumulative distributions of $201,383,000 which has resulted in a cumulative surplus of $2,256,000. The cumulative payout ratio (the ratio of cumulative cash distributions paid plus any special distributions declared since inception, to the cumulative distributable cash generated since inception) is 98.9%.

DISTRIBUTABLE CASH

Distributable cash is defined as the periodic cash flows from operating activities as reported in the consolidated financial statements, including the change in non-cash working capital balances, plus SIFT tax paid (including current year instalments), less interest and financing fees paid on the term loan, less the Partnership distributions attributable to KRL, less current year SIFT tax expense. Distributable cash is a non-IFRS financial measure that does not have a standardized meaning prescribed by IFRS, and therefore may not be comparable to similar measures presented by other issuers.

Distributable cash is calculated as follows:

($000's)

	Jan. 1 to Mar. 31, 2020	Jan. 1 to Mar. 31, 2019
Cash flow from operations [1]	$ 7,310	$ 6,702
SIFT tax paid on Fund units [2]	685	1,398
Interest and financing fees paid on term loan [3]	(145)	(146)
KRL's interest [4]	(2,675)	(2,834)
Distributable cash before current year SIFT tax	$ 5,175	$ 5,120
SIFT tax expense on Fund units [5]	(1,022)	(1,253)
Distributable cash [6]	$ 4,153	$ 3,867

Notes:

(1) Represents the cash flow from operations as reported in the consolidated statements of cash flows.

(2) Includes SIFT taxes actually paid during the respective period. During the first quarter of 2020, $685,000 was paid on account of 2020, (first quarter of 2019 – $1,398,000, $1,159,000 on account of 2019, and $239,000 on account of 2018).

(3) Represents the interest and financing fees paid on the term loan.

(4) Represents the distributions of the Partnership attributable to KRL during the respective periods on the Exchangeable and Class C units held by KRL. The distributions attributable to KRL will differ from the actual distributions paid to KRL during the same periods, due to the timing of the declaration of distributions.

(5) Represents the SIFT tax expense for the respective period calculated at 27.0% of estimated taxable income for 2020 and 2019.

(6) Distributable cash is the amount of cash available for distribution to the Fund's public unitholders. It is defined as the periodic cash flows from operating activities as reported in the IFRS condensed consolidated financial statements, including the change in non-cash working capital, plus SIFT tax paid (including current year instalments), less interest and financing fees paid on the term loan, less the Partnership distributions attributable to KRL, and less current year SIFT tax expense.

OWNERSHIP OF THE FUND

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

	March 31, 2020 (1)		March 31, 2019 (1)	
	#	%	#	%
Fund units held by public unitholders (2)	11,353,500	70.45	11,353,500	72.44
Exchangeable Partnership units held by KRL: (3)				
Class A units (4)	905,944	5.62	905,944	5.78
Class B units (5)	176,700	1.10	176,700	1.13
Class D units (5)	3,679,692	22.83	3,236,213	20.65
Total Exchangeable Partnership units (6)	4,762,336	29.55	4,318,857	27.56
Total Fund and Exchangeable Partnership units	16,115,836	100.00	15,672,357	100.00

Notes:

(1) Information is current as of March 31, 2020. On January 1, 2020, KRL became entitled to the initial 80% of the Additional Entitlement for 2020, consisting of 354,412 Exchangeable units, increasing its effective ownership of the Fund to 29.55% on a fully diluted basis. As of March 31, 2020, there are 11,353,500 Fund units outstanding, and 4,762,336 Exchangeable Partnership units issued and outstanding, all of which are entitled to distributions.

(2) Represents the public's total effective ownership of the Fund as of March 31, 2020 and March 31, 2019. The public's average effective ownership of the Fund (based on the weighted average number of Fund units held by public unitholders during the respective period) was 70.45% during the three months ended March 31, 2020 (three months ended March 31, 2019 – 72.44%). The weighted average number of Fund units outstanding for the three months ended March 31, 2020 were 11,353,500 (three months ended March 31, 2019 – 11,353,500).

(3) Exchangeable into Fund units on a one-for-one basis.

(4) Represents KRL's initial 10% effective ownership of the Fund, prior to the entitlement of Class B or Class D units.

(5) These Exchangeable Partnership units are issued to KRL in return for adding net sales to the Royalty Pool on an annual basis. Class D units are equivalent to Class B units in all material respects but began to be issued once all Class B units became fully entitled to distributions on January 1, 2008. As of March 31, 2020, KRL is the registered holder of 176,700 Class B units and 3,679,692 Class D units, all of which are entitled (March 31, 2019 – 176,700 Class B units and 3,236,213 Class D units, all of which were entitled). Also included in these figures is 80% of the Additional Entitlement estimated at the beginning of each calendar year, pursuant to which KRL receives a proportionate increase in monthly distributions from the Partnership. The remaining 20% of KRL's Additional Entitlement of Class B and Class D units is adjusted retroactively to January 1st of each year once the actual sales performance of the new restaurants has been confirmed. KRL is not entitled to proportionate monthly distributions from the Partnership on the remaining 20% of KRL's Additional Entitlement until such time as the Additional Entitlement is adjusted retroactively at the end of each calendar year.

(6) Represents KRL's total effective ownership of the Fund as of March 31, 2020 and March 31, 2019. KRL's average effective ownership of the Fund (based on the weighted average number of Exchangeable units held by KRL during the respective period) was 29.55% during the three months ended March 31, 2020 (three months ended March 31, 2019 – 27.56%). The weighted average number of Exchangeable units held by KRL during the three months ended March 31, 2020 were 4,762,336 (three months ended March 31, 2019 – 4,318,857).

SYSTEM SALES

While the Fund’s income is indirectly based on a royalty of 4% of sales of Keg restaurants in the Royalty Pool, the total system sales of The Keg chain are of interest to the Fund and its unitholders as the total system sales best reflect the chain’s overall performance. The following table sets out The Keg’s total system sales for the periods indicated below:

($000’s)	13 weeks ended Mar. 31, 2020	13 weeks ended Mar. 31, 2019
Corporate Keg restaurants [(1)]	$ 73,340	$ 86,233
Franchised Keg restaurants [(2)]	70,773	82,065
Total system sales	$ 144,113	$ 168,298

Notes:

[(1)] The amount of system sales for the corporate Keg restaurants is the amount of gross sales from corporate Keg restaurants only.

[(2)] The amount of system sales for the franchised Keg restaurants is the amount of gross sales reported to KRL by franchised Keg restaurants without independent audit.

FIRST QUARTER

System sales for the 13 weeks ended March 29, 2020 were $144,113,000 compared to $168,298,000 for the 13 weeks ended March 31, 2019, a decrease of $24,185,000 or 14.3%. The decrease was due to the net impact of the same store sales decreases at comparable restaurants during the quarter ($245,000 decrease in sales), the positive effect of the exchange rate increase on the translation of the US restaurant sales into their Canadian dollar equivalent ($124,000 increase in sales), the loss of sales from restaurants temporarily closed due to the Covid-19 crisis ($26,723,000 decrease in sales), the sales of the new restaurants that operated during the quarter ($6,977,000 increase in sales), the sales of restaurants temporarily closed for renovation during the first quarter of the prior year ($74,000 increase in sales), and the loss from permanently closed restaurants that did not operate during the comparable quarter of the current fiscal year ($4,392,000 decrease in sales).

During the 13 weeks ended March 29, 2020, no new restaurants were opened, and no restaurants were permanently closed. During the 13 weeks ended March 31, 2019, no new restaurants were opened, two franchise restaurants in Canada were relocated, and no restaurants were permanently closed. As of March 29, 2020, there were a total of 107 Keg restaurants as compared with 105 Keg restaurants at March 31, 2019.

Same store sales (sales of restaurants that operated during the entire 8-week period ended February 23,2020 in the current year, and in the 8-week period ended February 24,2019 in the prior year) decreased by 0.5% in Canada and increased by 2.5% in the US. After translating the sales of the US restaurants into their Canadian dollar equivalent, consolidated same store sales for the comparable 8-week periods decreased by 0.3%. The average exchange rate moved from 1.3301 in the first quarter of the prior year to 1.3407 in the first quarter of the current year, slightly increasing the Canadian dollar equivalent of the US restaurant sales.

OPERATING RESULTS

FIRST QUARTER

ROYALTY POOL SALES

Royalty Pool sales decreased by $23,123,000 from $165,776,000 to $142,653,000 for the comparable quarter. The decrease in Royalty Pool sales was due to the net impact of same store sales decreases at comparable royalty pool restaurants during the comparable 13-week periods ($246,000 decrease in Royalty Pool sales), the positive effect of the exchange rate increase on the translation of the US restaurant sales into their Canadian dollar equivalent ($32,000 increase in Royalty Pool sales), the loss of sales from restaurants temporarily closed due to the Covid-19 crisis ($26,708,000 decrease in Royalty Pool sales), the sales of new restaurants added to the Royalty Pool on January 1, 2020 ($8,117,000 increase in Royalty Pool sales), the sales of restaurants temporarily closed for renovation during the first quarter of the prior year ($74,000 increase in Royalty Pool sales), and the loss of sales from permanently closed restaurants that did not operate during the comparable quarter of the current fiscal year ($4,392,000 decrease in Royalty Pool sales).

ROYALTY INCOME

Total royalty income decreased from $6,686,000 in the first quarter of 2019 to $5,706,000 in the first quarter of 2020. The decrease of $980,000 during the comparable quarter consists of a decrease in royalty fee income of $925,000, and an increase in Make-whole fees of $55,000.

The decrease in royalty fee income of $925,000 was due to the net impact of same store sales decreases at comparable royalty pool restaurants during the comparable 13-week periods ($10,000 decrease in royalty fee income), the positive effect of the exchange rate increase on the translation of US restaurant sales into their Canadian dollar equivalent ($1,000 increase in royalty fee income), the loss of sales from restaurants temporarily closed due to the Covid-19 crisis ($1,068,000 decrease in royalty fee income), the sales of new restaurants added to the Royalty Pool on January 1, 2020 ($325,000 increase in royalty fee income), the sales of restaurants temporarily closed for renovation during the first quarter of the prior year ($3,000 increase in royalty fee income), and the loss of sales from permanently closed restaurants that did not operate during the comparable quarter of the current fiscal year ($176,000 decrease in royalty fee income).

Make-whole fees decreased by $55,000 as fewer restaurants were closed during the comparable quarter of the current year. During the first quarter of the current fiscal year, no restaurants were subject to Make-whole payments, whereas in the comparable quarter of the prior fiscal year, two restaurants were subject to Make-whole payments (those restaurants were closed for a total of 16 weeks).

INTEREST INCOME

Interest income earned by the Fund during the first quarter of the current year was $1,070,000, and was comprised of interest income on the Keg Loan of $1,063,000 and other interest income of $7,000. Interest income on the Keg Loan increased by $9,000 during the quarter as it was calculated based on 91 days of a 366-day year, as 2020 is a leap year, rather than on 90 days of a 365-day year, as in the comparable quarter of the prior year. Other interest income earned by the Fund on cash balances decreased by $1,000 during the comparable quarter, due to reduced interest rates applied to cash balances on hand.

ADMINISTRATIVE EXPENSES

Administrative expenses incurred by the Partnership for the quarter ended March 31, 2020 were $98,000, comprised of general and administrative expenses of $100,000, net of interest income of $2,000. The decrease in administrative expenses of $9,000 during the comparable quarter consisted entirely of a decrease in general and administrative expenses as other interest income earned by the Fund on cash balances remained the same during the comparable quarter.

INTEREST AND FINANCING EXPENSES

Interest and financing expenses incurred by the Fund were $141,000 for the three months ended March 31, 2020, and included interest on the bank debt of $138,000, and amortization of deferred financing charges of $3,000. The decrease in interest and financing expenses of $9,000 was due to a decrease in interest expense on the bank debt of $7,000 and a decrease in the amortization of deferred finance charges of $2,000. Interest expense on the bank debt decreased, as the effective interest rate on that debt decreased from 4.20% to 3.96%, as a result of three decreases to the prime lending rate in March 2020.

OPERATING INCOME

The Fund's operating income decreased from $7,491,000 during the first quarter of 2019, to $6,537,000 during the first quarter of 2020. The decrease of $954,000 was due to the net impact of the decrease in royalty income of $980,000, the increase in interest income of $8,000, the decrease in administrative expenses of $9,000, and the decrease in interest and financing expenses of $9,000.

DISTRIBUTIONS TO KRL

Distributions attributable to KRL during the three months ended March 31, 2020 were $2,675,000, which included distributions of $1,606,000 on the Exchangeable units and $1,069,000 on the Class C units. Distributions on the Exchangeable units decreased by $159,000 from the comparable quarter of the prior year, due to the net impact of a decrease in the operating income of the Fund during the first quarter of the current year, which was partially offset by an increase in KRL's average effective ownership of the Fund during that period. KRL's average effective ownership of the Fund increased from 27.56% during the first quarter of the prior year to 29.55% during the first quarter of the current year, primarily as a result of the Additional Entitlement for 2020 received by KRL on January 1, 2020, from the roll-in of sales of net new restaurants on that date. The distributions declared on the Class C units remained the same during the comparable periods, which were $0.0625 per Class C unit per month.

PROFIT BEFORE FAIR VALUE GAIN (LOSS) AND INCOME TAXES

Profit before fair value gain (loss) and income taxes decreased by $795,000 from a profit of $4,657,000 (41.0 cents/Fund unit) in the first quarter of 2019, to a profit of $3,862,000 (34.0 cents/Fund unit) in the first quarter of 2020.

FAIR VALUE GAIN (LOSS)

The fair value of the Exchangeable unit liability decreased by $32,600,000 during the three months ended March 31, 2020, as compared with an increase of $5,332,000 during the three months ended March 31, 2019.

During the three months ended March 31, 2020, the fair value of the 4,407,924 Exchangeable units held by KRL during that entire quarter decreased, as the closing market price of a Fund unit (the basis upon which the Exchangeable units held by KRL are valued) decreased from $15.27 to $8.51, resulting in a non-cash gain to the Fund of $29,797,000. In addition, the fair value of the 354,412 Exchangeable units granted to KRL on January 1, 2020 (as the initial 80% of the Additional Entitlement for 2019), decreased from $16.42 (the roll-in price) to $8.51, resulting in a non-cash gain to the Fund of $2,803,000.

During the three months ended March 31, 2019, the fair value of the 4,083,064 Exchangeable units held by KRL during that entire quarter increased, as the closing market price of a Fund unit (the basis upon which the Exchangeable units held by KRL are valued) increased from $16.09 to $17.40, resulting in a non-cash loss to the Fund of $5,349,000. In addition, the fair value of the 235,793 Exchangeable units granted to KRL on January 1, 2019 (as the initial 80% of the Additional Entitlement for 2019), decreased from $17.47 (the roll-in price) to $17.40, resulting in a non-cash gain to the Fund of $17,000.

INCOME TAXES

Income taxes for the three-month period ended March 31, 2020, were $883,000, and included SIFT tax expense of $1,022,000 and a non-cash deferred income tax recovery of $139,000. Income taxes decreased by $389,000 due to the combined impact of a decrease in SIFT taxes of $231,000 and an increase in deferred income tax recovery of $158,000. SIFT tax expense decreased due to the decrease in the taxable income of the Fund during the comparable quarter. The deferred income tax recovery increased during the comparable quarter, due to changes in the temporary differences between the accounting and tax basis of the Keg Rights owned by the Partnership.

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Profit (loss) increased by $37,526,000 from a loss of $1,947,000 (17.1 cents/Fund unit) in the first quarter of 2019, to a profit of $35,579,000 ($3.134/Fund unit) in the first quarter of 2020, mostly due to the change in the non-cash fair value adjustment of the Exchangeable unit liability.

DISTRIBUTABLE CASH

Distributable cash before SIFT tax increased by $55,000 from $5,120,000 (45.1 cents/Fund unit) to $5,175,000 (45.6 cents/Fund unit) during the comparable quarter. Cash available for distribution to Fund unitholders increased by $286,000 from $3,867,000 (34.1 cents/Fund unit) to $4,153,000 (36.6 cents/Fund unit) during the comparable quarter. The difference between the Fund's profit (loss) and distributable cash is due to non-cash items such as amortization, fair value gain (loss), and deferred income taxes included in the Fund's profit (loss), as well as changes in non-cash working capital balances.

DISTRIBUTIONS TO FUND UNITHOLDERS

Annually, two distributions are expected to be declared during the first quarter, three distributions in each of the third and third quarters and four distributions in the fourth quarter. This is done to ensure that the distribution based on the Royalty Pool sales for the month of December (which is paid the following month in January) is recorded in the period in which it was earned for income tax purposes.

During the first quarter of both 2019 and 2018, distributions to Fund unitholders included regular cash distributions paid of $3,222,000 (28.4 cents/Fund unit).

LIQUIDITY & CAPITAL RESOURCES

It is the Fund's policy to distribute all available cash on a monthly basis in order to provide consistent returns to unitholders and to maximize those returns. Any increase in distributions in the future will be implemented in such a manner so as to maintain uniform monthly distributions.

The special distribution declared in December 2018, which was paid on January 31, 2019, was treated as a distribution in 2018 for Fund reporting purposes.

During the first quarter of 2020, the Fund generated $4,153,000 in distributable cash, and paid distributions of $3,222,000 to public unitholders, resulting in a surplus of $931,000.

During the quarter ended March 31, 2020, KRL was significantly impacted by the global crisis resulting from the spread of Covid-19 and the corresponding government mandated closures of non-essential services. Consequently, on March 17, 2020, KRL proactively announced the temporary closures of all 107 Keg restaurant locations across Canada and the United States, 106 of which are in the Royalty Pool.

Management of KRL has indicated to the Trustees of the Fund, that KRL fully intends to make all royalty and interest payments owing to the Fund as they come due, in accordance with the Licence and Royalty Agreement. As at March 31, 2020, the Fund remains financially well positioned with cash on hand of $2,835,000 and a positive working capital balance of $3,461,000.

As at March 31, 2020, the Fund is in compliance with all banking covenants, and based upon current 12-month projections, expects to remain in compliance with all covenants related to the term loan.

While this disruption is expected to be temporary in nature, there is significant uncertainty concerning the duration and potential adverse affects on KRL's results from operations and cash flows due to Covid-19, and as a result, could adversely affect the royalty and ability of KRL to pay the royalty, the Make-whole Payments or interest on the Keg Loan. See "Subsequent Events".

TERM LOAN

The Trust has a $14 million non-revolving term loan facility, which bears interest at bank prime plus 0.25% per annum. The facility was originally arranged during the IPO to partially finance the purchase of the Keg Rights from KRL, and to provide term debt as part of the capital structure. On September 26, 2019, the Fund amended the terms of this loan with its existing banking syndicate and extended the maturity date to October 1, 2020, and on November 29, 2019 further extended the maturity date to July 4, 2022. The term loan held by the Trust is subject to certain financial covenants, including minimum equity amounts in both the Trust and the Partnership, and a minimum Partnership cash flow level defined as profit (loss) before interest, fair value gain (loss), taxes, depreciation and amortization ("EBITDA"). As at March 31, 2020, the Trust and Partnership are in compliance with all financial covenants associated with this facility.

OPERATING LINE OF CREDIT

The Partnership, a subsidiary of the Fund, has a $1 million operating line of credit, which bears interest at bank prime plus 0.25% per annum. This facility is used primarily to bridge timing differences between the receipt of the royalty payments and distributions on the Partnership securities. This operating line is also available for general working capital purposes or, if required, to help finance periodic differences between receipt of the royalty payment (which may vary due to small seasonal variations in the gross sales of those restaurants in the Royalty Pool), and distributions to unitholders. On September 26, 2019, the Fund amended the terms of this credit facility with its existing banking syndicate and extended the maturity date to October 1, 2020, and on November 29, 2019 further extended the maturity date to July 4, 2022. As at March 31, 2020, the entire $1 million facility is available for use.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer of The Keg GP Ltd., managing general partner of the Partnership and administrator to the Fund, have designed or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS and applicable securities legislation.

The control framework used to design the internal controls over financial reporting is "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013. There have been no significant changes to the internal control over financial reporting for the quarter ended March 31, 2020 that have had or are reasonably likely to have a material effect on the Fund's internal controls over financial reporting.

It should be noted that a control system, including the Fund's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Fund's consolidated financial statements in conformity with IFRS requires estimates and judgements to be made that affect the reported amounts of assets and liabilities, income and expenses, and related disclosures. These estimates are based on historical experience and knowledge of economics, market factors and the restaurant industry along with various other assumptions that are believed to be reasonable under the circumstances.

The Fund believes that the following selected accounting policies are critical to understanding the estimates, assumptions and uncertainties that affect the amounts reported and disclosed in the Fund's consolidated financial statements and related notes.

CONSOLIDATION

Applying the criteria outlined in IFRS 10, *"Consolidated Financial Statements"*, judgement is required in determining whether the Fund controls the Partnership. Making this judgement involves taking into consideration the concept of power over the Partnership, exposure to variable returns, and the ability to use power to direct the relevant activities of the Partnership so as to generate economic returns. Using these criteria, management has determined that the Fund ultimately controls the Partnership through its 90% ownership of the managing general partner, The Keg GP Ltd.

KEG RIGHTS

The Fund carries the Keg Rights at historical cost comprising the amount of consideration paid for the Keg Rights in 2002 as part of the Fund's IPO, as well as the value of additional sales of net new Keg restaurants added to the Royalty Pool since inception. The value of the gross sales of new Keg restaurants added to the Royalty Pool is determined on a formula basis that is designed to estimate the present value of the cash flows due to the Fund as a result of the sales of these new Keg restaurants being added to the Royalty Pool. As such, the calculation is dependent on a number of variables including the estimated long-term sales of the new Keg restaurants and a discount rate. The value assigned to the sales of net new Keg restaurants, and as a result, the value assigned to the Keg Rights, could differ from actual results.

The Fund tests the Keg Rights for impairment annually, which requires that the Fund use a valuation technique to determine if impairment exists. This valuation technique may not represent the actual fair value less costs to sell that the Fund expects the Keg Rights to generate.

Covid-19 has had an overall negative effect on the performance of restaurants in the Royalty Pool, which ultimately impacts the royalty revenue of the Fund and the expected value of Keg Rights. The impact that this had on the performance of restaurants in the Royalty Pool was considered to be an impairment trigger, and therefore the Fund performed an impairment test of the Keg Rights as at March 31, 2020. Management used a value-in-use model to determine the recoverable amount of the Keg Rights, which had a carrying value of $188,431,000 as at March 31, 2020. As a result of this test, it was concluded that no impairment was required

CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

KEG RIGHTS (CONTINUED)

The value-in-use calculations were based on the Fund's and KRL's internal forecasts and represent management's best estimates at a specific point in time, and as a result are subject to estimation uncertainty. In arriving at its estimated future cash flows, the Fund and KRL considered past experience, economic trends and forecasted industry trends. A significant assumption is when Keg restaurants will be permitted to re-open and at what capacity. The Fund projected systems sales and cash flows for a period of five years and extrapolated the cash flows beyond that using an estimated growth rate of 2%, and an after-tax discount rate of 10% was used to calculate the present value of its projected cash flows

The Fund also performed a sensitivity analysis on the estimated growth rate of 2% and the discount rate of 10%. A 1% increase in the discount rate would have decreased the amount by which the recoverable amount exceeded the carrying value by $34,300,000, and would not have resulted in an impairment. A 1% decrease in the estimate growth rate would have decreased the amount by which the recoverable amount exceeded the carrying value by approximately $31,000,000, and would not have resulted in an impairment.

EXCHANGEABLE UNIT FAIR VALUE GAIN (LOSS)

The Fund is required under IFRS to classify the Exchangeable units as a financial liability at fair value. This requires that the Fund uses a valuation technique to determine the fair value of the Exchangeable units at the applicable reporting dates.

The Fund estimates the fair value of this financial liability using the Fund's market capitalization at the end of the applicable period and allocating KRL's entitlement based upon its percentage ownership of the Fund on a fully-diluted basis as at March 31, 2020.

As at March 31, 2020, the closing price of a Fund unit was $8.51 resulting in a market capitalization of $137.1 million. KRL's 29.55% ownership of the Fund (on a fully-diluted basis) was calculated to be $40.5 million. This valuation technique may not represent the actual value of the financial liability should such Exchangeable units be extinguished, and changes in the distribution rate on the Exchangeable units and the yield of the Fund's units could materially impact the Fund's financial position and results of operations.

DEFERRED INCOME TAX EXPENSE

The Fund uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred income tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of such changes.

The determination of deferred income taxes requires the use of judgement and estimates. If certain judgements or estimates prove to be inaccurate, or if certain tax rates or laws change, the Fund's results of operations and financial position could be materially impacted.

FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash and cash equivalents, royalty fee receivable from KRL, interest on note receivable from KRL, note receivable from KRL, accounts payable and accrued liabilities, interest payable on the term loan, distributions payable to Fund unitholders, distributions payable to KRL, Class C Partnership unit liability and the term loan.

The requirement for the Fund to settle its note receivable from KRL in exchange for Class C Partnership units is classified as a derivative instrument. The Fund has reviewed the net impact of this potential exchange requirement on its cash flows and has determined that there is no significant value applicable to this feature.

FINANCIAL INSTRUMENTS (CONTINUED)

The fair values of the amount due from KRL, accounts payable and accrued liabilities, interest payable on the term loan and the distributions payable to Fund unitholders approximate their carrying amounts, largely due to the short-term maturities of these instruments. The fair value of the note receivable from KRL and the Class C unit liability approximate their carrying values due to the requirement of the Fund to settle the note receivable from KRL in exchange for Class C Partnership units equal to $10.00 per Class C unit transferred. The fair value of the term loan is not materially different from its carrying value as the variable rate of interest on the facility would not be significantly different from the current market rate of interest due to the considerable security held by the banking syndicate.

SUBSEQUENT EVENTS

COVID-19 PANDEMIC

The temporary closure of all 107 Keg restaurants, 106 of which are included in the Royalty Pool, has resulted in a 100% decline in Royalty Pool sales. On April 13, 2020, the Trustees of the Fund announced a reduction in monthly distributions to unitholders from 9.46 cents/Fund unit to 3.5 cents/Fund unit, commencing with the April 30, 2020 distribution due to the uncertainty regarding the length of time the Keg restaurants will remain closed.

On April 29, 2020, KRL paid all royalties and interest owning to the Fund in full, in accordance with the Licence and Royalty Agreement.

RESTAURANT CLOSURE

On April 1, 2020, one franchise restaurant located in British Columbia, Canada was permanency closed due to the expiry of its lease.

OUTLOOK

It has now been over seven weeks since the Covid-19 pandemic significantly disrupted our everyday lives, the world's economy and society in general. Despite these unprecedented times, management of KRL has indicated to the Trustees of the Fund, that KRL fully intends to make all royalty and interest payments to the Fund as they come due, in accordance with the Licence and Royalty Agreement. All of the Keg's 107 restaurants, 106 of which are included in the Royalty Pool, currently remain temporarily closed. It is difficult to predict sales levels of the Kegs following re-opening with any level of certainty, as those sales levels will be impacted not only by the timing and restrictions regarding re-opening imposed by provincial and state governments, but also by any changes in consumer behaviours as a result of the Covid-19 crisis, as well as the pace of the economic recovery in each of the markets in which The Keg operates. What can be said with a high degree of certainty and confidence is that upon re-opening, The Keg will once again deliver the highest levels of food quality and best-in-class service that it is renowned for providing to its guests.

KRL continues to refurbish, and in some cases, relocate existing Keg restaurants in order to better serve its guests and to protect and enhance the strong leadership position The Keg brand has enjoyed for over forty-seven years. KRL relocated three restaurants and opened two new restaurants prior to October 2, 2019, and those restaurants were added to the Royalty Pool on January 1, 2020.

Management of KRL currently expects to open one new corporate, and one new franchise restaurant prior to October 2, 2020. The scheduled opening of these new restaurants remains conditional upon the approval of the Ontario government regarding the re-opening of restaurants due to the Covid-19 crisis, as well as the timely receipt of municipal approvals, construction permits, and ongoing evaluation of the current economic environment.

RISKS AND UNCERTAINTIES

The Fund continues to recognize certain risks and uncertainties associated with the ordinary course of business, including those associated with the business and operations of KRL, upon which the Fund relies solely for its income.

THE RESTAURANT INDUSTRY

The performance of the Fund is directly dependent upon the royalty and interest payments received from KRL. The amount of the royalty is dependent upon restaurant sales, which is subject to a number of factors that affect the restaurant industry generally and the casual dining segment of the industry in particular. The casual dining segment of the restaurant industry is intensely competitive with respect to price, service, location and food quality. There are many well-established competitors, particularly in the US, with substantially greater financial and other resources than KRL. Competitors include national and regional chains, as well as individually owned restaurants.

Recently, competition has increased in the mid-price, full-service, casual dining segment in which Keg restaurants operate. If KRL and The Keg franchisees are unable to successfully compete in the casual dining segment of the restaurant industry, sales may be adversely affected, the amount of the royalty reduced and the ability of KRL to pay the royalty or interest on the Keg Loan may be impaired. The restaurant business is also affected by changes in demographic trends, traffic patterns, and the type, number, and location of competing restaurants.

In addition, factors such as inflation; increased food; labour and benefits costs; government regulations; smoking by-laws; and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and therefore potentially KRL and its franchisees. Changing consumer preferences, discretionary spending patterns and factors affecting the availability of beef could force KRL to modify its restaurant content and menu, and could result in a reduction of restaurant sales. Accordingly, this could impact the amount of the royalty and financial condition of KRL.

Consumer preferences could be affected by health concerns about the consumption of beef, the primary item served at Keg restaurants, and specific events such as the outbreak of “mad cow disease” could reduce the available supply of beef or significantly raise the price of beef.

KRL’s success also depends on numerous factors affecting discretionary consumer spending including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce restaurant sales and operating income, which could adversely affect the royalty and the ability of KRL to pay the royalty, the Make-whole Payment or interest on the Keg Loan.

PUBLIC HEALTH AND SAFETY ISSUES

Adverse conditions, such as pandemics or other outbreaks or perceived outbreaks of disease (including coronavirus, avian flu, H1N1, SARS or other similar illnesses), or the threat of terrorist attacks, or acts of war may have a negative impact on the restaurant industry and the economy in general. These incidents can adversely affect restaurant traffic, discretionary consumer spending and consumer confidence, which may result in decreased patronage in KRL’s restaurants or KRL. The occurrence, re-occurrence, continuation or escalation of such local, regional, national or international events or circumstances could reduce the royalty paid by KRL to the Fund which could have an adverse effect on the Fund’s financial condition and results of operations.

AVAILABILITY AND QUALITY OF RAW MATERIALS

Management of KRL continues to monitor any cases of mad cow disease found in North America. The continued widespread testing of herds confirms that these were isolated cases; the risk to human health appears to be negligible. Most importantly to The Keg, there has not been any significant negative consumer reaction to beef in North America and there has not been a material impact on its restaurant traffic. KRL has maintained an uninterrupted supply of quality beef that meets its demanding specifications despite previous border closures. Management of KRL expects the demand for beef to remain strong among consumers and its supply to continue uninterrupted.

RISKS AND UNCERTAINTIES (CONTINUED)

FLUCTUATIONS IN FOREIGN EXCHANGE RATES

As at December 31, 2019, KRL has 10 restaurants located in the US, all of which are corporately owned through its wholly owned subsidiaries. Keg restaurants located in the US generate sales in US dollars, which must be translated into their Canadian dollar equivalent for Fund reporting purposes. Fluctuations in foreign exchange rates will affect the Canadian dollar equivalent of the sales of the restaurants located in the US, which will affect the amount of the royalty.

FORWARD LOOKING INFORMATION

Certain information included in this report contains forward-looking statements within the meaning of applicable securities laws. These statements include, but are not limited to, statements made in the Overview, Outlook, Competitive Strength and Growth, The Royalty Pool, Distributions to Unitholders, and Critical Accounting Estimates sections and other statements concerning the Fund's business plans and objectives, activities and management's beliefs, plans, estimates and intentions, and similar statements concerning the Fund's anticipated future events, results, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "would", "expect", "intend", "estimate", "anticipate", "believe", "should", "plan", "continue", or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. All forward-looking statements in this Management's Discussion and Analysis are qualified by these cautionary statements.

These forward looking statements are not guarantees of future events or performance and, by their nature, are based on the Fund's current estimates and assumptions, which are subject to risks and uncertainties, including those described in this Management's Discussion and Analysis, which could cause actual events or results to differ materially from the forward looking statements made in this Management's Discussion and Analysis. Those risks and uncertainties include, but are not limited to:

- changes in national and local business and economic conditions that may affect competition in the restaurant industry, changes in demographic trends, or changes in consumer preferences and discretionary spending patterns;
- availability and quality of raw materials;
- growth of the royalty fee and the impact on the royalty amount from the closure of Keg restaurants;
- the ability of franchisees' to generate sales and pay franchise fees and other amounts;
- dependence on key personnel;
- maintenance of strong intellectual property and brand equity;
- unexpected costs or liabilities related to changes in regulations governing alcoholic beverages, income or sales tax legislation, environmental matters or food-borne illnesses; and
- fluctuations in the foreign exchange rate between the Canadian and US dollar.

The foregoing list of factors is not exhaustive and should be considered in conjunction with the risks and uncertainties set out in KRL's Management's Discussion and Analysis for the 52 weeks ended December 29, 2019, which are available on SEDAR at www.sedar.com.

Material assumptions or factors that were applied in drawing a conclusion or making an estimate set out in the forward looking information may include, but are not limited to:

- a stable pace of real estate development opportunities;
- absence of material changes in law;
- protection of the Keg Rights;
- continued access to financing by each of KRL and its franchisees;
- no unexpected closings of Keg restaurants that will have a material adverse affect on the royalty amount; and
- expectations related to future general economic conditions.

Although the forward looking information contained in this Management's Discussion and Analysis is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward looking statements. The forward-looking information contained in this document is current only as of the date of this document and reflects current expectations regarding future events and operating performance. Except as required by law, the Fund undertakes no obligation to publicly update, supplement or revise any forward looking statement, whether as a result of new information, changing circumstances, future events or otherwise. Certain statements included in this Management's Discussion and Analysis may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this Management's Discussion and Analysis.

ADDITIONAL INFORMATION

Additional information about the Fund including the Fund's most recent annual information form is available on SEDAR at www.sedar.com.

UNITHOLDER INFORMATION

CORPORATE HEAD OFFICE

The Keg Royalties Income Fund
10100 Shellbridge Way
Richmond, BC V6X 2W7

BOARD OF TRUSTEES

C. C. Woodward

George Killy

Tim Kerr

BOARD OF DIRECTORS AND OFFICERS OF THE KEG GP LTD., THE GENERAL PARTNER OF THE KEG RIGHTS LIMITED PARTNERSHIP

C. C. Woodward*
Chairman and Director

David Aisenstat
President and Director

Neil Maclean
Secretary, Treasurer and Director

George Killy*
Director

Tim Kerr*
Director

* Audit Committee and Governance Committee Member

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

STOCK EXCHANGE LISTING

Toronto Stock Exchange: KEG.UN

INVESTOR ENQUIRIES

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THE KEG ROYALTIES INCOME FUND

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2020 and 2019

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of dollars)

	Note	March 31, 2020 (unaudited)	December 31, 2019
ASSETS			
Current assets:			
Cash		$ 2,835	$ 2,064
Prepaid expenses and deposits		66	9
Royalty fee receivable from Keg Restaurants Ltd.	9	1,432	2,901
Interest on note receivable from Keg Restaurants Ltd.	9	362	363
Current income tax receivable		-	92
		4,695	5,429
Note receivable from Keg Restaurants Ltd.		57,000	57,000
Intangible assets, Keg Rights	5	188,431	182,612
		$ 250,126	$ 245,041
LIABILITIES AND UNITHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		$ 212	$ 307
Interest payable on term loan		42	50
Distributions payable to Fund unitholders		-	1,074
Distributions payable to Keg Restaurants Ltd.	9	735	1,231
Current income tax payable	8	245	-
		1,234	2,662
Term loan, net of deferred financing charges		13,972	13,969
Deferred income taxes	8	2,323	2,462
Class C Partnership units		57,000	57,000
Exchangeable Partnership units	7	40,527	67,309
Unitholders' equity:			
Fund units		123,275	123,275
Retained earnings (accumulated deficit)		11,795	(21,636)
		135,070	101,639
		$ 250,126	$ 245,041

Subsequent events (note 11)

The accompanying notes are an integral part of these condensed consolidated financial statements.

Approved on behalf of the Board of Trustees

"C.C. Woodward"
C.C. Woodward, Trustee

"Tim Kerr"
Tim Kerr, Trustee

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Expressed in thousands of dollars, except unit and per unit amounts - unaudited)

	Note	January 1 to March 31, 2020	January 1 to March 31, 2019
Revenue:			
Royalty income	4	$ 5,706	$ 6,686
Interest income		1,070	1,062
		6,776	7,748
Expenses:			
General and administrative		(98)	(107)
Interest and financing fees		(138)	(145)
Amortization of deferred financing charges		(3)	(5)
		(239)	(257)
Profit before distributions, fair value gain and income taxes		6,537	7,491
Distributions recorded as interest:			
Class C Partnership units		(1,069)	(1,069)
Exchangeable Partnership units	7	(1,606)	(1,765)
		(2,675)	(2,834)
Profit before fair value gain (loss) and income taxes		3,862	4,657
Fair value gain (loss) on Exchangeable Partnership units	7	32,600	(5,332)
Profit (loss) before income taxes		36,462	(675)
Income tax recovery (expense):			
Current	8	(1,022)	(1,253)
Deferred	8	139	(19)
		(883)	(1,272)
Profit (loss) and comprehensive income (loss) for the period		$ 35,579	$ (1,947)
Weighted average Fund units outstanding	3	11,353,500	11,353,500
Weighted average diluted units outstanding	3	16,115,836	15,672,357
Basic earnings (loss) per Fund unit	3	$ 3.13	$ (0.17)
Diluted earnings (loss) per Fund unit	3	$ 0.26	$ (0.17)

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

(Expressed in thousands of dollars - unaudited)

	Note	Unitholders' Fund units	Retained earnings (accumulated deficit)	equity
Balance, January 1, 2019		$ 123,275	$ (25,747)	$ 97,528
Loss and comprehensive loss for the period		-	(1,947)	(1,947)
Distributions declared to Fund unitholders	6	-	(2,148)	(2,148)
Balance, March 31, 2019		$ 123,275	$ (29,842)	$ 93,433
Balance, January 1, 2020		$ 123,275	$ (21,636)	$ 101,639
Profit and comprehensive income for the period		-	35,579	35,579
Distributions declared to Fund unitholders	6	-	(2,148)	(2,148)
Balance, March 31, 2020		$ 123,275	$ 11,795	$ 135,070

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of dollars - unaudited)

	Note	January 1 to March 31, 2020	January 1 to March 31, 2019
Cash provided by (used for):			
OPERATIONS:			
Profit (loss) for the period		$ 35,579	$ (1,947)
Items not involving cash:			
Amortization of deferred financing charges		3	5
Deferred income tax expense (recovery)	8	(139)	19
Fair value loss (gain) on Exchangeable Partnership units	7	(32,600)	5,332
Distributions recorded as interest:			
Class C Partnership units		1,069	1,069
Exchangeable Partnership units	7	1,606	1,765
Changes in non-cash operating working capital:			
Royalty fee receivable from Keg Restaurants Ltd.		1,469	414
Prepaid expenses and deposits		(57)	(56)
Accounts payable and accrued liabilities		(95)	101
Interest and financing fees		138	145
Interest income		(1,070)	(1,062)
Current income tax expense	8	1,022	1,253
Interest received		1,070	1,062
Income taxes paid	8	(685)	(1,398)
		7,310	6,702
FINANCING:			
Distributions paid to Class C unitholder		(1,069)	(1,069)
Distributions paid to Exchangeable unitholder		(2,103)	(1,938)
Distributions paid to Fund unitholders		(3,222)	(3,563)
Interest and financing fees paid		(145)	(146)
		(6,539)	(6,716)
Increase (decrease) in cash		771	(14)
Cash, beginning of period		2,064	2,567
Cash, end of period		$ 2,835	$ 2,553
Non-cash transactions:			
Increase in intangible assets on Royalty Pool net sales roll-in	5, 7	$ 5,818	$ 4,119

The accompanying notes are an integral part of these condensed consolidated financial statements.

(Tabular amounts expressed in thousands of dollars - unaudited)

For the three months ended March 31, 2020 and 2019

1. ORGANIZATION AND NATURE OF BUSINESS:

The Keg Royalties Income Fund (the "Fund") is an unincorporated open-ended limited purpose trust established under the laws of Ontario, with the authority to issue an unlimited number of trust units and is governed by the Declaration of Trust signed May 31, 2002 and as amended on December 20, 2010. The Fund is registered and domiciled in Canada and its principal business office is located at 10100 Shellbridge Way, Richmond, British Columbia.

The Fund was established to invest in The Keg Rights Limited Partnership (the "Partnership"), which owns the trademarks, trade names, operating procedures and systems and other intellectual property (collectively, the "Keg Rights") used in connection with the operation of Keg steakhouse restaurants and bars.

The business of the Partnership is the ownership of the Keg Rights and through a Licence and Royalty Agreement (the "Licence and Royalty Agreement") with Keg Restaurants Ltd. ("KRL") to exploit the use of the Keg Rights and the collection of the royalty payable under the Licence and Royalty Agreement equal to 4% of gross sales of Keg restaurants included in a specific pool (the "Royalty Pool"). KRL's principal activity is the operation and franchising of Keg steakhouse and bar restaurants in Canada and the United States.

On February 22, 2018, Recipe Unlimited Corporation ("RECP") (formerly Cara Operations Limited) and KRL completed the merger previously announced on January 23, 2018. The Fund will remain in its current form and will continue to receive royalty payments from Keg restaurants included in the Royalty Pool. There are no changes to the contractual relationships between the Fund, KRL and the Partnership arising out of the completion of the RECP and KRL merger.

Impact of Covid-19:

During the quarter ended March 31, 2020, KRL was significantly impacted by the global crisis resulting from the spread of coronavirus ("Covid-19") and the corresponding government mandated closures of non-essential services. Consequently, on March 17, 2020, KRL proactively announced the temporary closures of all 107 Keg restaurant locations across Canada and the United States, 106 of which are in the royalty pool.

As at March 31, 2020, the Fund has cash on hand of $2,835,000, a positive working capital balance of $3,461,000 and also has a $1,000,000 operating facility which remains fully available for use. The Fund's term loan is not due until July 4, 2022 and the Fund remains onside of its covenants at March 31, 2020.

Covid-19 has had an overall negative effect on the performance of restaurants in the Royalty Pool, which ultimately impacts the royalty revenue of the Fund and the expected value of the indefinite life intangible assets, the "Keg Rights". The impact that this had on the performance of restaurants in the Royalty Pool was considered to be an impairment trigger, and therefore the Fund performed an impairment test of the Keg Rights as at March 31, 2020. Management used a value-in-use model to determine the recoverable amount of the Keg Rights, which had a carrying value of $188,431,000 as at March 31, 2020. As a result of this test, it was concluded that no impairment was required (note 5).

While this disruption is expected to be temporary in nature, there is significant uncertainty concerning the duration and potential adverse affects on KRL's results from operations and cashflows due to Covid-19, and as a result, could adversely affect the royalty and ability of KRL to pay the royalty, the Make-whole Payments or interest on the note receivable from KRL. See subsequent events (note 11(a)).

For the three months ended March 31, 2020 and 2019

2. BASIS OF PREPARATION:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). These statements represent a condensed set of financial statements, and accordingly, do not include all of the information required for annual financial statements. These statements follow the same accounting policies and methods of their application as the most recent annual financial statements). These condensed consolidated interim financial statements should be read in conjunction with the Fund's consolidated financial statements for the year ended December 31, 2019.

These condensed consolidated interim financial statements were authorized for issue by the Fund's Board of Trustees on May 12, 2020.

(b) Functional and presentation currency:

These condensed consolidated interim financial statements have been prepared in Canadian dollars, which is also the Fund's functional currency.

(Tabular amounts expressed in thousands of dollars, except unit and per unit amounts - unaudited)

3. EARNINGS PER UNIT:

Basic earnings per unit calculations are based on the weighted average number of Fund units outstanding during the period. Diluted earnings per unit calculations are based on the weighted average number of Fund units and Exchangeable Partnership units outstanding during the period.

Diluted earnings per unit includes the Exchangeable Partnership units and is calculated by adjusting the weighted average number of Fund units outstanding to assume conversion of all potentially dilutive Fund units. For the purposes of the weighted average number of units outstanding, units are determined to be outstanding from the date they are issued and adjusted to be effective January 1 of each year on December 31 when the actual full-year performance of the new restaurants is known with certainty.

The following reconciles the basic profit to the diluted profit:

	January 1 to March 31, 2020	January 1 to March 31, 2019
Basic profit (loss) for the period	$ 35,579	$ (1,947)
Distributions on Exchangeable Partnership units	1,606	1,765
Increase in current income tax expense	(434)	(477)
Fair value loss (gain) on Exchangeable Partnership units	(32,600)	5,332
Diluted profit for the period	$ 4,151	$ 4,673
Weighted average number of Fund units	11,353,500	11,353,500
Weighted average number of Exchangeable Partnership units	4,762,336	4,318,857
Weighted average number of units	16,115,836	15,672,357
Basic earnings (loss) per Fund unit	$ 3.13	$ (0.17)
Diluted earnings (loss) per Fund unit	$ 0.26	$ (0.17)

For the three months ended March 31, 2019, the Exchangeable Partnership units are anti-dilutive. Accordingly, the fully diluted earnings per Fund unit equals the basic earnings per Fund unit for this period.

(Tabular amounts expressed in thousands of dollars – unaudited)

4. ROYALTY POOL:

The royalty payment from KRL to the Partnership is four percent of system sales for such period reported by Keg restaurants in a specific royalty pool (the "Royalty Pool") plus a make-whole payment, if required by a restaurant closure, based on four percent of lost system sales. System sales for any period and for any Keg restaurant located in Canada and the United States, as defined in the Licence and Royalty Agreement, means the gross sales by such Keg restaurants for such period.

On January 1, 2020, an estimated $19,111,000 in annual net sales were added to the Royalty Pool. Five new restaurants that opened during the period from October 3, 2018 through October 2, 2019, with estimated gross sales of $34,000,000 annually, were added to the Royalty Pool. Four permanently closed Keg restaurants with annual sales of $14,889,000 was removed from the Royalty Pool. The total number of restaurants in the Royalty Pool increased to 106. The pre-tax yield of the Fund units was determined to be 9.72% calculated using a weighted average unit price of $16.42.

As a result of the contribution of the additional net sales to the Royalty Pool, and assuming 100% of the estimated Additional Entitlement is received, KRL's Additional Entitlement will be equivalent to 443,015 Fund units, being 2.73% of the Fund units on a fully diluted basis.

On January 1, 2020, KRL received 80% of this entitlement, representing the equivalent of 354,412 Fund units, being 2.20% of the Fund units on a fully diluted basis. KRL will also receive a proportionate increase in monthly distributions from the Partnership. Including the initial portion of the Additional Entitlement described above, KRL will have the right to exchange its units in the capital of the Partnership for 4,762,336 Fund units, representing 29.55% of the Fund units on a fully diluted basis.

The balance of the Additional Entitlement will be adjusted on December 25, 2020, to be effective January 1, 2020, once the actual performance of the new restaurants has been confirmed. If KRL were to receive 100% of the estimated Additional Entitlement for 2020, it would have the right to exchange its Partnership units for 4,850,939 Fund units, representing 29.94% of the Fund units on a fully diluted basis.

There were no restaurant closures from January 1 to March 31, 2020 that required a make-whole payment (January 1 to March 31, 2019 – two permanent restaurant closures).

One new corporate restaurant was opened subsequent to October 2, 2019 and will be added to the Royalty Pool on January 1, 2021.

Royalty income was calculated as follows:

	January 1 to March 31, 2020	January 1 to March 31, 2019
Restaurants in Royalty Pool	106	105
Royalty Pool system sales	$ 142,653	$ 165,776
Royalty income at 4% of system sales reported above	5,706	6,631
Make-whole payment, based on 4% of lost system sales	-	55
Total royalty income	$ 5,706	$ 6,686

5. INTANGIBLE ASSETS:

On May 31, 2002, the Partnership acquired the Keg Rights from KRL for $113,546,820 of which $30,487,380 was paid in cash, $9,059,440 was paid by the issuance of 905,944 Class A Partnership units ("Class A Units"), $17,000,000 was paid by the issuance of 3,376,700 Class B Partnership units ("Class B units") and $57,000,000 was paid by the issuance of 5,700,000 Class C units ("Class C units"). Concurrent with the sale of the Keg Rights, the Partnership granted KRL a licence to use the Keg Rights for a period of 99 years. As consideration, KRL pays the Partnership a royalty of four percent of system sales reported by the Keg restaurants included the Royalty Pool (note 4).

The Fund has adopted a policy of accounting for the Additional Entitlement of Class B units and Class D Partnership units ("Class D units") based on the fair value of these units at the date of determination which results in an increase in intangible assets and in the Exchangeable Partnership unit liability. The value of the Keg Rights increased by $5,818,000 as a result of the January 1, 2020 Additional Entitlement (January 1, 2019 Additional Entitlement – $4,119,000).

The Covid-19 crisis (note 1) was considered an impairment trigger, and therefore the Fund performed an impairment test of the Keg Rights as at March 31, 2020. Management used a value-in-use model to determine the recoverable amount of the Keg Rights, which had a carrying value of $188,431,000 as at March 31, 2020. The value-in-use calculations were based on the Fund's and KRL's internal forecasts and represent management's best estimates at a specific point in time, and as a result are subject to estimation uncertainty. In arriving at its estimated future cash flows, the Fund and KRL considered past experience, economic trends and forecasted industry trends. A significant assumption is when Keg restaurants will be permitted to re-open and at what capacity. The Fund projected systems sales and cash flows for a period of five years and extrapolated the cash flows beyond that using an estimated growth rate of 2%, and an after-tax discount rate of 10% was used to calculate the present value of its projected cash flows. As a result of this test, it was concluded that no impairment was required.

The Fund also performed a sensitivity analysis on the estimated growth rate of 2% and the discount rate of 10%. A 1% increase in the discount rate would have decreased the amount by which the recoverable amount exceeded the carrying value by $34,300,000, and would not have resulted in an impairment. A 1% decrease in the estimate growth rate would have decreased the amount by which the recoverable amount exceeded the carrying value by approximately $31,000,000, and would not have resulted in an impairment.

(Tabular amounts expressed in thousands of dollars, except unit and per unit amounts - unaudited)

6. DISTRIBUTIONS ON FUND UNITS:

	January 1 to March 31, 2020	January 1 to March 31, 2019
Distributions declared to Fund unitholders	$ 2,148	$ 2,148
Weighted average Fund units outstanding	11,353,500	11,353,500
Distributions declared per unit	$ 0.189	$ 0.189

Annually, two distributions are expected to be declared during the first quarter, three distributions in each of the second and third quarters and four distributions in the fourth quarter. This is done to ensure that the distribution based on December KRL Royalty Pool system sales, which is paid the following month in January, is recorded in the period it was earned for income tax purposes. The determination to declare and make payable distributions from the Fund are at the discretion of the Board of Trustees of the Fund and until declared payable, the Fund has no requirement to pay cash distributions to Fund unitholders.

7. EXCHANGEABLE PARTNERSHIP UNITS:

KRL has the following Exchangeable Partnership units that are exchangeable into Fund units:

		March 31, 2020	
	Foot note	Total number of Exchangeable Partnership units	Fair Value
Class A Partnership units	(i)	905,944	$ 7,709
Class B Partnership units	(ii)	176,700	1,504
Class D Partnership units	(iii)	3,679,692	31,314
		4,762,336	$ 40,527

		December 31, 2019	
	Foot note	Total number of Exchangeable Partnership units	Fair Value
Class A Partnership units	(i)	905,944	$ 13,834
Class B Partnership units	(ii)	176,700	2,698
Class D Partnership units	(iii)	3,325,280	50,777
		4,407,924	$ 67,309

The Exchangeable Partnership units are presented in the Fund's financial statements as a financial liability and measured at fair value. Changes in fair value are recognized in profit or loss in the period in which they occur. The fair value of the Exchangeable Partnership units is determined by using Level 2 inputs being the closing market price of the Fund units on the Toronto Stock Exchange at the respective reporting date as Exchangeable Partnership units have similar distribution and voting rights as the Fund units. The closing unit price as at March 31, 2020 was $8.51 (December 31, 2019 – $15.27).

(Tabular amounts expressed in thousands of dollars, except unit amounts - unaudited)

7. EXCHANGEABLE PARTNERSHIP UNITS (CONTINUED):

The components of the change in balances in the Exchangeable Partnership unit liability for the three-month periods are as follows:

	Total number of Exchangeable Partnership units	Fair Value
Exchangeable Partnership units, January 1, 2020	4,407,924	$ 67,309
January 1 initial estimate of Class D unit entitlement (80%)	354,412	5,818
Fair value adjustment	-	(32,600)
Fair value of Exchangeable Partnership units, March 31, 2020	4,762,336	$ 40,527

	Total number of Exchangeable Partnership units	Fair Value
Exchangeable Partnership units, January 1, 2019	4,083,064	$ 65,697
January 1 initial estimate of Class D unit entitlement (80%)	235,793	4,119
Fair value adjustment	-	5,332
Fair value of Exchangeable Partnership units, March 31, 2019	4,318,857	$ 75,148

Pursuant to the declaration of trust, the holders (other than the Fund or its subsidiaries) of the Class A units, Class B units and Class D units are entitled to vote in all votes of Fund unitholders as if they were holders of the number of Fund units they would receive if Class A, entitled Class B and Class D units were exchanged into Fund units as of the record date of such votes, and will be treated in all respects as Fund unitholders for the purpose of any such votes.

(i) The Class A units are entitled to a preferential proportionate distribution equal to the distribution on the Class C units, multiplied by the number of Class A units divided by the number of LP Partnership units ("LP units") issued and outstanding. The Keg Holdings Trust, a wholly owned subsidiary of the Fund, holds all of the 8,153,500 LP units issued and outstanding at March 31, 2020. In addition, the Class A units receive a residual distribution proportionately with the Class B units, Class D units, LP units and general partnership units ("GP units") relative to the aggregate number of each class issued and outstanding (or in the case of the Class B units and Class D units, the number issued and outstanding multiplied by the Class B and Class D current distribution entitlement, respectively). Class A units are exchangeable for Fund units on the basis of one Class A unit for one Fund unit and represent KRL's initial 10% effective ownership of the Fund prior to the entitlement of Class B and Class D units.

(ii) The Class B units were issued to KRL in return for adding net sales from new Keg restaurants to the Royalty Pool and are entitled to a preferential proportionate distribution and a residual distribution based on the incremental royalty paid to the Partnership. The distribution entitlements of the Class B units were adjusted annually on January 1 until the January 1, 2008 roll-in when the Class B Termination Date was reached and the last of the Class B units became entitled. Class B units held by KRL are exchangeable for Fund units on the basis of one Class B unit for one Fund unit. Class B units held by KRL receive a distribution entitlement.

(iii) The Class D units were issued to KRL in return for adding net sales from new Keg restaurants to the Royalty Pool and are entitled to a preferential proportionate distribution and a residual distribution based on the incremental royalty paid to the Partnership. The distribution entitlements of the Class D units are adjusted annually on January 1. Class D units held by KRL are exchangeable for Fund units on the basis of one Class D unit for one Fund unit and receive the same distribution entitlement as the Class B units.

(Tabular amounts expressed in thousands of dollars - unaudited)

8. INCOME TAXES:

The Fund is subject to tax at a rate of 27.0% for the 2019 and later taxation years.

The components of income tax expense are as follows:

	January 1 to March 31, 2020	January 1 to March 31, 2019
Current income tax expense	$ (1,022)	$ (1,253)
Deferred income tax recovery (expense)	139	(19)
	$ (883)	$ (1,272)

During the three months ended March 31, 2020, the Fund made cash tax instalment payments of $685,000 (three months ended March 31, 2019 – $1,159,000). Management estimates the Fund's current income tax expense for each reporting period based on actual results and adjusts current income tax expense accordingly. Instalment payments required by the Canada Revenue Agency ("CRA") are an estimate based on prior year's results. In connection with the ongoing Covid-19 pandemic, the CRA has allowed the deferral of income tax instalment payments due between March 18, 2020 and August 31, 2020 to be paid on or before September 1, 2020. The Fund has elected to defer the March 2020 instalment payment. As a result, the Fund has an estimated net $245,000 income tax payable as at March 31, 2020, which is presented net of a $92,000 income tax receivable related to the 2019 taxation year (December 31, 2019 – $92,000 income tax receivable).

Total cash income taxes paid during the respective periods are as follows:

	January 1 to March 31, 2020	January 1 to March 31, 2019
Tax instalment payments related to the current fiscal year	$ (685)	$ (1,159)
Tax payment related to balance owing from the prior fiscal year	-	(239)
	$ (685)	$ (1,398)

The balance of the Fund's deferred income tax liability decreased to $2,323,000 as at March 31, 2020 (December 31, 2019 – $2,462,000). The deferred income tax liability arises mainly as a result of the Fund recording, in the current period, its cumulative share of the temporary differences between the accounting and tax bases of the Keg Rights, owned by the Partnership, generated since inception of the Fund.

The tax effect of the temporary difference that gives rise to the deferred income tax liability is as follows:

	March 31, 2020	December 31, 2019
Deferred income tax liability:		
Temporary difference related to the Keg Rights	$ 2,323	$ 2,462
Deferred income tax liability	$ 2,323	$ 2,,462

(Tabular amounts expressed in thousands of dollars - unaudited)

9. RELATED PARTY TRANSACTIONS AND BALANCES:

KRL is considered to be a related party of the Fund by virtue of common directors of KRL and The Keg GP Ltd., the General Partner of the Partnership and Administrator of the Fund. The Fund has entered into an administrative agreement with its subsidiary, the Partnership, whereby the Partnership will provide, or arrange for the provision of, services required in the administration of the Fund. In turn, the Partnership has arranged for certain of these services to be provided by KRL in its capacity as a partner of the Partnership. KRL provided these services at no cost to the Partnership or the Fund.

The following is a summary of the balances due to and due from KRL:

	March 31, 2020	December 31, 2019
Royalty fee receivable, including GST/HST	$ 1,432	$ 2,901
Interest on note receivable from KRL	362	363
Due from KRL	$ 1,794	$ 3,264

The above amounts were received from KRL when due, subsequent to the end of the above periods to facilitate the following month's distribution to Fund unitholders.

	March 31, 2020	December 31, 2019
Distributions payable to KRL	$ 735	$ 1,231

The above amounts were paid to KRL when due, subsequent to the end of the periods above.

10. FINANCIAL INSTRUMENTS:

The Fund must classify fair value measurements according to a hierarchy that reflects the significance of the inputs used in performing such measurements. The Fund's fair value hierarchy comprises the following levels:

- Level 1 – quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – pricing inputs are other than quoted in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 – valuations in this level are those with inputs for the asset or liability that are not based on observable data.

The fair value of the Exchangeable Partnership unit liability is determined using Level 2 inputs and measured on a recurring basis.

(Tabular amounts expressed in thousands of dollars - unaudited)

10. FINANCIAL INSTRUMENTS (CONTINUED):

The following table presents the carrying amounts of each category of financial assets and liabilities:

	March 31, 2020	December 31, 2019
Financial assets:		
Amortized cost:		
Cash	$ 2,835	$ 2,064
Royalty fee receivable from Keg Restaurants Ltd.	1,432	2,901
Interest on note receivable from Keg Restaurants Ltd.	362	363
Note receivable from Keg Restaurants Ltd.	57,000	57,000
	$ 61,629	$ 62,328
Financial liabilities:		
Amortized cost:		
Accounts payable and accrued liabilities	$ 212	$ 307
Interest payable on term loan	42	50
Distributions payable to Fund unitholders	-	1,074
Distributions payable to Keg Restaurants Ltd.	735	1,231
Term loan, net of deferred financing charges	13,972	13,969
Class C Partnership units	57,000	57,000
Fair value through profit or loss:		
Exchangeable Partnership units	40,527	67,309
	$ 112,488	$ 140,940

11. SUBSEQUENT EVENTS:

(a) Impact of Covid-19:

The temporary closure of all 107 Keg restaurants, 106 of which are included in the Royalty Pool, has resulted in a 100% decline in Royalty Pool sales. On April 13, 2020, the Trustees of the Fund announced a reduction in monthly distributions to unitholders from 9.46 cents/Fund unit to 3.5 cents/Fund unit, commencing with the April 30, 2020 distribution due to the uncertainty regarding the length of time the Keg restaurants will remain closed.

On April 29, 2020, KRL paid all royalties and interest owning to the Fund in full, in accordance with the Licence and Royalty Agreement.

(b) Restaurant Closure:

On April 1, 2020, one franchise restaurant was permanently closed due to the expiry of its lease.