THE KEG ROYALTIES INCOME FUND

FIRST QUARTER REPORT

For the three months ended March 31, 2021

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, 2021.

RESULTS

Royalty Pool sales reported by the 106 Keg restaurants in the Royalty Pool were $68,575,000 for the quarter, a decrease of $74,078,000 or 51.9% from the comparable quarter of the prior year. The decrease in Royalty Pool sales was directly attributed to the loss of sales from comparable Keg restaurants negatively affected by the Covid-19 crisis.

Royalty income decreased by $2,963,000 or 51.9% from $5,706,000 in the three months ended March 31, 2020 to $2,743,000 in the three months ended March 31, 2021.

Distributable cash available to pay distributions to public unitholders decreased by $3,184,000 from $4,153,000 (36.6 cents/Fund unit) to $969,000 (8.5 cents/Fund unit) for the quarter. During the first quarter of 2021, distributions of $1,362,000 (12.0 cents/Fund unit) were paid to Fund unitholders, a decrease of $1,860,000 from the comparable quarter of the prior year. The decrease in distributions paid to Fund unitholders was entirely due to the reduction in monthly distributions from the pre-pandemic level of 9.46 cents/Fund unit per month in the first quarter of the prior year to 5.0 cents/Fund in the month of January 2021, and 3.5 cents/Fund unit for the months of February and March 2021. The reduction in monthly distributions was made in response to the loss of sales from the temporary closure of many of the Keg restaurants in the Royalty Pool by various provincial health mandates in an effort to slow the spread of the Covid-19 virus. The payout ratio was 140.6% for the first quarter of 2021 and 77.6% for 2020.

The Fund remains financially well positioned with cash on hand of $2,549,000 and a positive working capital balance of $3,256,000 as at March 31, 2021.

OUTLOOK

The effects of Covid-19 on many businesses, especially restaurants, have been unexpected, sudden and unprecedented. It is difficult to predict sales levels of the Kegs with any level of certainty, as those sales levels will be impacted not only by the timing and restrictions regarding restaurant re-opening imposed by provincial and state governments, but also by any changes in consumer behaviors 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 49 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 11, 2021

MESSAGE FROM KRL'S CEO

IMPACT OF COVID-19 – 2021

Management of KRL began 2021 optimistic that the worst of the Covid-19 pandemic was behind us, and that life would soon return to some level of normalcy. Although vaccination programs have started to provide some level of relief, the spread of Covid-19 variants has resulted in new waves of the transmission of the infection. As the number of new Covid-19 cases began to rise again in Canada, some provinces declared states of emergency, while others responded by closing schools, and non-essential businesses.

As a result of containment measures implemented by certain provinces, KRL's restaurants were effectively closed for 5,149 trading days, or 53.4% of the quarter ended March 28, 2021. As at KRL's quarter end of March 28, 2021, 84 of the 106 restaurants were open or partially open for in-store dining.

KRL and its franchisees continue to participate, to the maximum extent possible, in all of the various federal and provincial financial assistance programs available to each of them respectively.

As at March 28, 2021, KRL remains financially well positioned with cash on hand of $25,664,000 and $37,986,000 in unused borrowing capacity.

Subsequent to KRL's quarter end various provincial governments implemented additional measures and restrictions as follows:

- On March 29, 2021, the province of British Columbia announced that restaurants would be closed for indoor dining (while allowing outdoor patio seating and take-out service) for a three-week period from March 30, 2021 until April 19, 2021, which was later extended by the province until May 24, 2021. This mandate resulted in the temporary closure of 9 corporate restaurants, and 9 franchise restaurants. As of the date of this report these restaurants remain closed for indoor dining.
- On April 1, 2021, the province of Ontario announced new emergency brake measures that prohibit all indoor and outdoor dining (while allowing take-out service) across the province for four weeks commencing on April 3, 2021. On April 16, 2021, this measure was extended by the province until May 20, 2021. These emergency brake measures resulted in the temporary closure of 7 additional corporate restaurants, and 23 additional franchise restaurants. As a result of this measure all 17 corporate restaurants, and all 28 franchise restaurants in Ontario were effectively closed on April 3, 2021 and remain closed as of the date of this report.
- On April 6, 2021, the province of Alberta announced that effective April 9, 2021 until further notice, restaurants would be closed for indoor dining (while allowing outdoor patio seating and take-out service). This health measure resulted in the temporary closure of 8 corporate restaurants, and 9 franchise restaurants. On May 4, 2021, the province of Alberta announced that effective May 10, 2021, outdoor patio seating would not be allowed for three weeks.
- On April 22, 2021, the province of Nova Scotia announced that effective April 23, 2021, restaurants would be closed for seated service (while allowing take-out service). This health measure resulted in the temporary closure of 1 corporate restaurant, and 1 franchise restaurant.
- On May 7, 2021, the province of Manitoba announced that restaurants across the province would be closed for seated service (while allowing take-out service) for three weeks starting May 9, 2021. This health measure resulted in the temporary closure of 4 franchise restaurants.

TEMPORARY RESTAURANT CLOSURES

The chart below identifies the number of trading days lost during the first quarter of 2021 and 2020, as a direct result of the Covid-19 pandemic. It includes those trading days lost due to lockdowns (mandated by federal, provincial, or state public health orders), as well as lost trading days from severe, provincially ordered operating restrictions (such as a 10-person maximum in-store dining limitation, which effectively results in the closure of a restaurant). It does not reflect the impact of other constraints imposed by government authorities on restaurant operations such as mandated capacity limitations, social distancing measures, or reduced restaurant hours of operation.

	# of	First Quarter – 2021			First Quarter – 2020		
Canada	Rest	Corporate	Franchise	Total	Corporate	Franchise	Total
British Columbia	18	34	3	37	108	120	228
Alberta	17	338	380	718	96	108	204
Saskatchewan	3		19	19		48	48
Manitoba	4		197	197		48	48
Ontario	45	1,511	2,061	3,572	204	324	528
Quebec	5	455		455	60		60
Nova Scotia	2	12	9	21		24	24
New Brunswick	1	20		20		12	12
Newfoundland	1		44	44		12	12
Total Canada	**96**	**2,370**	**2,713**	**5,083**	**468**	**696**	**1,164**
Closed %		**63.5%**	**54.2%**	**58.2%**	**13.2%**	**13.2%**	**13.2%**
United States							
Washington	1	35		35	12		12
Colorado	1	11		11	12		12
Arizona	5	9		9	60		60
Texas	3	11		11	36		36
Total US	**10**	**66**	**-**	**66**	**120**	**-**	**120**
Closed %		**7.3%**		**7.3%**	**13.2%**		**13.2%**
Total Company	**106**	**2,436**	**2,713**	**5,149**	**588**	**696**	**1,284**
Closed %		**52.5%**	**54.2%**	**53.4%**	**13.2%**	**13.2%**	**13.2%**

During fiscal 2019, prior to any material impact on restaurant sales from the Covid-19 pandemic, average sales for a Keg restaurant were $119,000 per week or $17,000 per day. Management of KRL have estimated that lost sales due to government intervention as discussed above were $87,533,000 during the first quarter of 2021, and $21,829,000 during the first quarter of 2020. These estimates do not include the negative impact on restaurant sales from additional government measures imposed, such as mandated capacity restrictions (such as a 50-person maximum in-store dining limitation), social distancing measures, reduced hours of operation, or restricted liquor service.

RECENT DEVELOPMENTS

AMENDMENT OF ADJUSTMENT DATE FOR ROLL-INS

On April 1, 2019, KRL and The Keg Royalties Income Fund (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.

ADDITIONS TO THE ROYALTY POOL

On January 1, 2021, an estimated $7,268,000 in annual net sales were added to the Royalty Pool. Two new restaurants that opened during the period from October 3, 2019 through October 2, 2020, with estimated gross sales of $12,160,000 annually, were added to the Royalty Pool. Two permanently closed Keg restaurants with annual sales of $4,892,000 were removed from the Royalty Pool. The total number of restaurants in the Royalty Pool increased to 106. As a result of the contribution of additional net sales to the Royalty Pool, effective January 1, 2021, KRL received 80% of the annual entitlement, representing the equivalent of 201,977 Fund units, (being 1.23% of the Fund units on a fully diluted basis), increasing its effective ownership of the Fund to 30.80%, at that date. See "The Royalty Pool" section for further discussion.

DEFERRAL OF FINAL ADJUSTMENT DATE OF JANUARY 1, 2020 ROLL-IN

On December 21, 2020, KRL and the Fund agreed to defer the Final Adjustment Date for the January 1, 2020 roll-in of new restaurant sales, and the related issuance of any additional Exchangeable units to KRL, from December 25, 2020 until December 25, 2022. The actual sales of the new restaurants added to the Royalty Pool on January 1, 2020, were materially below long-term estimates due to the Covid-19 pandemic, and the government mandated closure of restaurants in March 2020. The five new restaurants added to the Royalty Pool on January 1, 2020, were closed for a total of 73 weeks during the 52-week period ending September 27, 2020 (the "Sales Determination Period") (or 28% of the Sales Determination Period) with estimated lost sales of approximately $13,433,000. The Final Adjustment Date has therefore been deferred until such time as the sales of these new restaurants have normalized, and better represent the long-term prospects. KRL and the Fund have further agreed, that should the impact of the Covid-19 crisis continue to negatively affect restaurant sales in 2021, that the Final Adjustment Date for the January 1, 2021 roll-in of new restaurant sales shall also be deferred until December 25, 2022, to be effective January 1, 2021.

Management of KRL and the Trustees of the Fund have currently agreed that the Sales Determination Period to be used for the January 1, 2020 roll-in (and the January 1, 2021 roll-in) shall be the 52-week period ending September 25, 2022. For financial reporting purposes IFRS 2, *Share-based Payment* ("IFRS 2") obligates the Fund to estimate the number of Exchangeable units it would have to issue on December 25, 2020 (but effective January 1, 2020) based on an estimate of new store sales added to the Royalty Pool on January 1, 2020, and report in the financial statements as if these notional Exchangeable units had been issued. IFRS 2 requires the Fund to report the fair value of these notional Exchangeable units in the statements of financial position, and the distributions to KRL attributable to these units, and any non-cash gain or loss on the fair value adjustment of these units, at each period end date, in the statements of comprehensive income or loss. No cash distributions will be paid to KRL on these notional Exchangeable units, as they shall not be considered entitled until such time as the final sales determination is made, and the Exchangeable units are issued to KRL on December 25, 2022, to be effective January 1, 2020.

SALES REPORTING

Management of KRL have elected not to report Same Store Sales growth until such time as all restaurants have fully re-opened for business. Management of KRL are of the opinion that the Same Store Sales growth metric does not currently provide useful information regarding the decrease in gross sales for comparable restaurants, as most restaurants did not fully operate during the entire periods of the current year. The sales declines experienced in the latter part of the first quarter of 2020, the entire second quarter of 2020 and most of the fourth quarter of 2020 were primarily due to the loss of sales from restaurants temporarily closed due to the Covid-19 crisis. Management of KRL have instead presented a new metric of trading weeks, which is the number of weeks restaurants were fully open for business during the respective period.

FINANCIAL HIGHLIGHTS

The table on the following page sets out selected financial information and other data of the Fund, which should be read in conjunction with the attached unaudited, condensed consolidated financial statements of the Fund for the three months ended March 31, 2021. Readers should note that all interim financial results presented herein have not been audited.

FINANCIAL HIGHLIGHTS

($000's except per unit amounts)	Jan. 1 to Mar. 31, 2021	Jan. 1 to Mar. 31, 2020
Restaurants in the Royalty Pool	**106**	**106**
Royalty Pool sales [1]	**$ 68,575**	**$ 142,653**
Royalty income [2]	$ 2,743	$ 5,706
Interest income [3]	1,054	1,070
Total income	**$ 3,797**	**$ 6,776**
Administrative expenses [4]	(105)	(98)
Interest and financing expenses [5]	(97)	(141)
Operating income	**$ 3,595**	**$ 6,537**
Distributions to KRL [6]	(1,844)	(2,675)
Profit before fair value gain (loss) and income taxes	**$ 1,751**	**$ 3,862**
Fair value gain (loss) [7]	(7,051)	32,600
Income tax recovery (expense) [8]	(473)	(883)
Profit (loss) and comprehensive income (loss)	**$ (5,773)**	**$ 35,579**
Distributable cash before SIFT tax [9]	**$ 1,426**	**$ 5,175**
Distributable cash [10]	**$ 969**	**$ 4,153**
Distributions to Fund unitholders [11]	**$ 1,362**	**$ 3,222**
Payout ratio [12]	**140.6%**	**77.6%**
Per Fund unit information [13]		
Profit before fair value gain (loss) and income taxes	$ .154	$ .340
Profit (loss) and comprehensive income (loss)	$ (.508)	$ 3.134
Distributable cash before SIFT tax [9]	**$ .126**	**$ .456**
Distributable cash [10]	**$ .085**	**$ .366**
Distributions to Fund unitholders [11]	**$ .120**	**$ .284**
SSSG [14]		
Canada	%	(0.5) %
United States	%	2.5 %
Consolidated	%	(0.3) %
Restaurants in KRL System [15]		
# Beginning of Period	106	107
Opened	--	--
Closed	--	--
# End of Period	106	107
Trading weeks [16]		
Corporate restaurants	315	539
Franchise restaurants	330	638
Total restaurants	645	1,177

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, 2021, the Royalty Pool includes 106 Keg restaurants, 51 of which are owned and operated by KRL and its subsidiaries, (41 in Canada and 10 in the United Sates), and 55 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, 2021 were 11,353,500 (three months ended March 31, 2020 – 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 to 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 only for periods that were not materially affected by the Covid-19 crisis, which for 2020 was the 8-week period ended February 23, 2020, and for 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)] Trading weeks is the number of weeks a restaurant is open for business during the respective period.

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

SUMMARY OF QUARTERLY RESULTS

($000's except per unit amounts)	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Restaurants in the Royalty Pool	**106**	**106**	**106**	**106**
Royalty Pool sales [1]	**$ 68,575**	**$ 77,068**	**$ 106,166**	**$ 18,194**
Royalty income [2]	$ 2,743	$ 3,132	$ 4,296	$ 752
Interest income [3]	1,054	1,074	1,075	1,064
Total income	**$ 3,797**	**$ 4,206**	**$ 5,371**	**$ 1,816**
Administrative expenses [4]	(105)	(110)	(115)	(102)
Interest and financing expenses [5]	(97)	(98)	(104)	(97)
Operating income	**$ 3,595**	**$ 3,998**	**$ 5,152**	**$ (199)**
Distributions to KRL [6]	(1,844)	(1,992)	(2,272)	(1,241)
Profit before fair value gain (loss) and income taxes	**$ 1,751**	**$ 2,006**	**$ 2,880**	**$ 376**
Fair value gain (loss) [7]	(7,051)	(24,101)	11,620	(4,524)
Income tax recovery (expense) [8]	(473)	(543)	(775)	(262)
Profit (loss) and comprehensive income (loss)	**$ (5,773)**	**$ (22,638)**	**$ 13,725**	**$ (4,410)**
Distributable cash before SIFT tax [9]	**$ 1,426**	**$ 2,983**	**$ 1,733**	**$ 1,015**
Distributable cash [10]	**$ 969**	**$ 2,456**	**$ 975**	**$ 925**
Distributions to Fund unitholders [11]	**$ 1,362**	**$ 1,703**	**$ 1,192**	**$ 1,192**
Payout ratio [12]	**140.6%**	**69.3%**	**122.3%**	**128.9%**
Per Fund unit information [13]				
Profit before fair value gain (loss) and income taxes	$ .154	$ .177	$ .254	$ .033
Profit (loss) and comprehensive income (loss)	$ (.508)	$ (1.994)	$ 1.209	$ (.388)
Distributable cash before SIFT tax [9]	**$ .126**	**$ .263**	**$ .153**	**$ .089**
Distributable cash [10]	**$ .085**	**$ .216**	**$ .086**	**$ .081**
Distributions to Fund unitholders [11]	**$ .120**	**$ .150**	**$ .105**	**$ .105**
SSSG [14]				
Canada	%	%	%	%
United States	%	%	%	%
Consolidated	%	%	%	%
Restaurants in KRL System [15]				
# Beginning of Period	106	106	105	107
Opened	--	--	1	--
Closed	--	--	--	(2)
# End of Period	106	106	106	105
Trading weeks [16]				
Corporate restaurants	315	392	644	113
Franchise restaurants	330	545	708	106
Total restaurants	645	937	1,352	219

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 tax recovery (expense) (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
Trading weeks (16)				
Corporate restaurants	539	628	631	628
Franchise restaurants	638	745	740	724
Total restaurants	1,177	1,373	1,371	1,352

SELECTED ANNUAL INFORMATION

($000's except per unit amounts)	Jan. 1 to Dec. 31, 2020	Jan. 1 to Dec. 31, 2019	Jan. 1 to Dec. 31, 2018
Restaurants in the Royalty Pool	**106**	**105**	**103**
Royalty Pool sales [(1)]	**$ 344,081**	**$ 623,748**	**$ 632,157**
Royalty income [(2)]	$ 13,885	$ 25,388	$ 25,359
Interest income [(3)]	4,283	4,306	4,299
Total income	**$ 18,168**	**$ 29,694**	**$ 29,658**
Administrative expenses [(4)]	(425)	(385)	(411)
Interest and financing expenses [(5)]	(440)	(612)	(564)
Operating income	**$ 17,303**	**$ 28,697**	**$ 28,683**
Distributions to KRL [(6)]	(8,179)	(11,099)	(10,729)
Profit before fair value gain (loss) and income taxes	**$ 9,124**	**$ 17,598**	**$ 17,954**
Fair value gain (loss) [(7)]	15,595	4,063	16,054
Income tax recovery (expense) [(8)]	(2,463)	(4,662)	(4,791)
Profit (loss) and comprehensive income (loss)	**$ 22,256**	**$ 16,999**	**$ 29,217**
Distributable cash before SIFT tax [(9)]	**$ 10,906**	**$ 17,665**	**$ 17,894**
Distributable cash [(10)]	**$ 8,509**	**$ 13,014**	**$ 13,130**
Distributions to Fund unitholders [(11)]	**$ 7,309**	**$ 12,888**	**$ 13,229**
Payout ratio [(12)]	**85.9%**	**99.0%**	**100.8%**
Per Fund unit information [(13)]			
Profit before fair value gain (loss) and income taxes	$ .804	$ 1.550	$ 1.581
Profit (loss) and comprehensive income (loss)	$ 1.960	$ 1.497	$ 2.573
Distributable cash before SIFT tax [(9)]	**$ .961**	**$ 1.556**	**$ 1.576**
Distributable cash [(10)]	**$ .749**	**$ 1.146**	**$ 1.156**
Distributions to Fund unitholders [(11)]	**$ .644**	**$ 1.135**	**$ 1.165**
SSSG [(14)]			
Canada	%	(1.8) %	1.2 %
United States	%	0.9 %	4.5 %
Consolidated	%	(1.3) %	1.5 %
Restaurants in KRL System [(15)]			
# Beginning of Period	107	105	106
Opened	1	6	--
Closed	(2)	(4)	(1)
# End of Period	106	107	105
Trading weeks [(16)]			
Corporate restaurants	1,688	2,522	2,540
Franchise restaurants	1,997	2,933	2,898
Total restaurants	3,685	5,455	5,438

	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Total assets	$ 251,255	$ 245,041	$ 239,837
Total liabilities	134,163	143,402	142,309

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three Months Ended March 31, 2021
As of May 11, 2021

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-three 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 the Final Adjustment Date of 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 106 as of December 31, 2020. Seventy-six new Keg restaurants that opened during the period from April 1, 2002 through October 2, 2019, with annual gross sales of $397,800,927 were added to the Royalty Pool. Fifty-six permanently closed Keg restaurants with annual sales of $158,723,020 were removed from the Royalty Pool. This resulted in a net increase in Royalty Pool sales of $239,077,907 annually and KRL receiving a cumulative Additional Entitlement equivalent to 7,144,995 Fund units as of March 31, 2021.

On January 1, 2021, an estimated $7,268,000 in annual net sales were added to the Royalty Pool. Two new restaurants that opened during the period from October 3, 2019 through October 2, 2020, with estimated gross sales of $12,160,000 annually, were added to the Royalty Pool. Two permanently closed Keg restaurants with annual sales of $4,892,000 were removed from the Royalty Pool. The total number of restaurants in the Royalty Pool remained at 106. The pre-tax yield of the Fund units was determined to be 12.88% calculated using a weighted average unit price of $8.27.

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 252,471 Fund units, being 1.53% of the Fund units on a fully diluted basis. On January 1, 2021, KRL received 80% of this entitlement, representing the equivalent of 201,977 Fund units, being 1.23% 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 effectively own the equivalent of 5,052,916 Fund units, representing 30.80% of the Fund units on a fully diluted basis. The balance of the Additional Entitlement will be adjusted on December 25, 2022 to be effective January 1, 2021, once the actual performance of the new restaurants has been confirmed. If KRL were to receive 100% of the estimated Additional Entitlement for 2021, KRL will effectively own the equivalent of 5,103,410 Fund units, representing 31.01% of the Fund units on a fully diluted basis.

The Fund and KRL have agreed, that the Sales Determination Period and the Final Adjustment Date for the January 1, 2021 roll-in of new restaurant sales shall be deferred until the 52 weeks ended September 25, 2022 and December 25, 2022, respectively, to be effective January 1, 2021.

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 29.94% as of December 31, 2021. The increase in KRL's effective ownership of the Fund is due to the cumulative Additional Entitlement received by KRL equivalent to 7,144,995 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, 2021, KRL became entitled to the initial 80% of the Additional Entitlement for 2021, consisting of 201,977 Exchangeable units, increasing its effective ownership of the Fund to 30.80%. See "The Royalty Pool".

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. On October 13, 2020, the Fund announced an increase in monthly distributions from 3.5 cents/Fund unit to 5.0 cents/Fund unit beginning with the October 30, 2020 distribution. On February 16, 2021, the Fund announced a temporary reduction in monthly distributions to unitholders from 5.0 cents/Fund unit to 3.5 cents/Fund unit beginning with the February 26, 2021 distribution. This reduction in distributions was in direct response to additional government mandated restaurant closures announced in the fourth quarter of 2020.

DISTRIBUTIONS TO UNITHOLDERS (CONTINUED)

Year-to-date distributions paid were as follows:

Period	Payment Date	Distributions $ / Unit	Total $	Year-to-Date $
December 1-31, 2020	January 29, 2021	5.0¢	$ 567,675	$ 567,675
January 1-31, 2021	February 26, 2021	3.5¢	$ 397,373	$ 965,048
February 1-28, 2021	March 31, 2021	3.5¢	$ 397,373	$ 1,362,421
March 1-31, 2021	April 30, 2021	3.5¢*	$ 397,373*	$ 7,759,794*

*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.

Since inception, the Fund has generated $208,964,000 of distributable cash, and paid cumulative distributions of $206,832,000 which has resulted in a cumulative surplus of $2,132,000. 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 98.98%.

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, 2021	Jan. 1 to Mar. 31, 2020
Cash flow from operations (1)	$ 2,750	$ 7,310
SIFT tax paid on Fund units (2)	613	685
Interest and financing fees paid on term loan (3)	(93)	(145)
KRL's interest (4)	(1,844)	(2,675)
Distributable cash before current year SIFT tax	$ 1,426	$ 5,175
SIFT tax expense on Fund units (5)	(457)	(1,022)
Distributable cash (6)	$ 969	$ 4,153

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 2021, $613,000 of SIFT taxes were paid consisting of $400,000 paid on account of 2021, and $213,000 on account of 2020 (first quarter of 2020 – $685,000 paid all on account of 2020).

(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 27.00% of estimated taxable income for 2021 and 2020.

(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:

	Mar. 31, 2021 (1)		Mar. 31, 2020	
	#	%	#	%
Fund units held by public unitholders (2)	11,353,500	69.20	11,353,500	70.45
Exchangeable Partnership units held by KRL: (3)				
Class A units (4)	905,944	5.52	905,944	5.62
Class B units (5)	176,700	1.08	176,700	1.10
Class D units (6)	3,881,669	23.66	3,679,692	22.83
Class D units (7)	88,603	0.54	-	-
Total Exchangeable Partnership units (8)	5,052,916	30.80	4,762,336	29.55
Total Fund and Exchangeable Partnership units	16,406,416	100.00	16,115,836	100.00

Notes:

(1) On January 1, 2021, KRL became entitled to the initial 80% of the Additional Entitlement for 2021, consisting of 201,977 Exchangeable units, increasing its effective ownership of the Fund to 30.80% on a fully diluted basis. As of March 31, 2021, there are 11,353,500 Fund units outstanding, 4,964,313 Exchangeable units issued and outstanding, all of which are entitled to distributions, and 88,603 Exchangeable units which have not been issued and are currently not entitled to distributions.

(2) Represents the public's total effective ownership of the Fund as of March 31, 2021 and March 31, 2020. Based on the weighted average number of Fund units held by public unitholders during the respective period, the public's average effective ownership of the Fund was 69.20% during the 3 months ended March 31, 2021 (3 months ended March 31, 2020 – 70.45%). The weighted average number of Fund units outstanding for the 3-month period ended March 31, 2021 was 11,353,500 (3-month period ended March 31, 2020 – 11,353,500).

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

(4) Class A units were issued to KRL during the IPO, and represented an initial 10% effective ownership of the Fund at that time.

(5) Class B units were issued to KRL in return for adding net sales to the Royalty Pool on an annual basis up until January 1, 2008, (at which time the last of the 3,376,700 unentitled Class B units issued at the time of the IPO became fully entitled to distributions). As of March 31, 2021, KRL is the registered holder of 176,700 Class B units (March 31, 2020 – 176,700 Class B Units).

(6) Class D units are equivalent to Class B units in all material respects, but only began to be issued after January 1, 2008 (once all Class B units became fully entitled to distributions). As of March 31, 2021, KRL is the registered holder of 3,881,669 Class D units, all of which are entitled (March 31, 2020 – 3,679,642 Class D units, all of which were entitled).

(7) These Class D units are expected to be issued to KRL on December 25, 2022, in return for adding net sales to the Royalty Pool on January 1, 2020. These units are not entitled to distributions and may not be exchanged into Fund units until such time as they become entitled. For financial reporting purposes IFRS 2, obligates KRL to estimate the number of Exchangeable units it would have received on December 25, 2020 (but effective January 1, 2020) based on an estimate of new store sales added to the Royalty Pool on January 1, 2020, and report in the financial statements as if these notional Exchangeable units had been issued.

(8) Represents KRL's total effective ownership of the Fund as of March 31, 2021 and March 31, 2020. Based on the weighted average number of Exchangeable units effectively owned by KRL during the respective period, KRL's average effective ownership of the Fund was 30.80% during the 3-months ended March 31, 2021 (3-months ended March 31, 2020 – 29.55%). The weighted average number of Exchangeable units effectively owned by KRL during the 3-month period ended March 31, 2021 was 5,052,916 (3-month period ended March 31, 2020 – 4,762,336).

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, 2021	13 weeks ended Mar. 31, 2020
Corporate Keg restaurants [(1)]	$ 34,583	$ 73,340
Franchised Keg restaurants [(2)]	33,998	70,773
Total system sales	$ 68,581	$ 144,113

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

KRL's system sales for the 13 weeks ended March 28, 2021 were $68,581,000 compared to $144,113,000 for the 13 weeks ended March 29, 2020 a decrease of $75,532,000 or 52.4%. The decrease was due to the net impact of the negative effect of the exchange rate decrease on the translation of the US restaurant sales into their Canadian dollar equivalent ($686,000 decrease in sales), the loss of sales from comparable restaurants negatively affected by the Covid-19 crisis ($73,144,000 decrease in sales), the net sales from new restaurants that operated during the comparable quarter ($98,000 net decrease in sales), and the loss of sales from permanently closed restaurants that did not operate during the comparable quarter ($1,604,000 decrease in sales).

The net decrease in sales from new restaurants of $98,000 include the sales of one new restaurant ($493,000 increase in sales due to 4 incremental trading weeks of operation during the first quarter of the current year), net of the loss of sales of one new restaurant closed or partially closed due to the Covid-19 crisis during the first quarter of the current year ($591,000 decrease in sales due to the loss of 4 additional trading weeks, and other government mandated capacity restrictions during the quarter).

During the 13 weeks ended March 28, 2021, no new restaurants were opened, and no restaurants were closed. During the 13 weeks ended March 29, 2020, no new restaurants were opened, and no restaurants were closed. There were a total of 106 restaurants as of March 28, 2021 as compared with 107 Keg restaurants of March 29, 2020.

During the first quarter of the current year, restaurants were open for a total of 645 trading weeks as compared with 1,177 trading weeks during the first quarter of the prior year. The decrease of 532 trading weeks during the comparable quarter was due to the combination of the negative impact of the Covid-19 crisis on comparable restaurants (510 less trading weeks), and closed restaurants that did not operate during the comparable quarter (22 less trading weeks). As a result of the Covid-19 crisis, the total number of trading weeks lost during the first quarter of the current year were 515; 510 trading weeks at comparable restaurants, and 5 at the purchased franchise restaurants.

OPERATING RESULTS

FIRST QUARTER

ROYALTY POOL SALES

Royalty Pool sales decreased by $74,078,000 from $142,653,000 to $68,575,000 for the comparable quarter. The decrease in Royalty Pool sales was due to the net impact of the negative effect of the exchange rate decrease on the translation of the US restaurant sales into their Canadian dollar equivalent ($617,000 decrease in Royalty Pool sales), the loss of sales from restaurants negatively affected by the Covid-19 crisis as previously discussed ($73,139,000 decrease in Royalty Pool sales), the sales of new restaurants added to the Royalty Pool on January 1, 2021 ($1,281,000 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 year ($1,603,000 decrease in Royalty Pool sales).

ROYALTY INCOME

Total royalty income decreased from $5,706,000 in the first quarter of 2020 to $2,743,000 in the first quarter of 2021. The decrease of $2,963,000 during the comparable quarter consists entirely of a decrease in royalty fee income, as no closed restaurants were subject to Make-whole payments in the first quarter of either the current year or the prior year.

The decrease in royalty fee income was due to the net impact of the negative effect of the exchange rate decrease on the translation of US restaurant sales into their Canadian dollar equivalent ($25,000 decrease in royalty fee income), the loss of sales from restaurants negatively affected by the Covid-19 crisis ($2,925,000 decrease in royalty fee income), the sales of new restaurants added to the Royalty Pool on January 1, 2021 ($51,000 increase in royalty fee income), the loss of sales from permanently closed restaurants that did not operate during the comparable quarter of the current year ($64,000 decrease in royalty fee income).

INTEREST INCOME

Interest income earned by the Fund during the first quarter of the current year was $1,054,000, and was comprised entirely of interest income on the Keg Loan. The decrease in interest income earned by the Fund of $16,000 during the comparable quarter was comprised of a decrease in interest income on the Keg loan of $9,000, and of a decrease in other interest income of $7,000. Interest income on the Keg Loan decreased as it was calculated based on 90 days of a 365-day year, rather than on 91 days of a 366-day year as in the comparable quarter of the prior year, as 2020 was a leap year. Other interest income earned by the Fund decreased, due to the net impact of lower cash balances on hand during the first quarter of the current year, and significantly lower interest rates applied to those cash balances.

ADMINISTRATIVE EXPENSES

Administrative expenses incurred by the Partnership for the quarter ended March 31, 2021 were $105,000, comprised entirely of general and administrative expenses. The increase in administration expenses of $7,000 during the comparable quarter consisted of an increase in general and administrative expenses of $5,000, and a decrease in interest income of $2,000. General and administrative expenses increased due to the combinations of an increase in insurance costs as well as legal compliance costs during the comparable quarter. Interest income decreased due to the combined impact of lower cash balances held by the Partnership during the first quarter of the current year, and significantly lower interest rates applied to those balances.

INTEREST AND FINANCING EXPENSES

Interest and financing expenses incurred by the Fund were $97,000 for the three months ended March 31, 2021, and included interest on the bank debt of $93,000, and amortization of deferred financing charges of $4,000. The decrease in interest and financing expenses of $44,000 was due to a decrease in interest expense on the bank debt of $45,000, net of an increase in the amortization of deferred finance charges of $1,000. Interest expense on the bank debt decreased, as the effective interest rate on that debt decreased from 3.96% to 2.70%, as a result of three decreases to the prime lending rate in March 2020.

OPERATING INCOME

The Fund's operating income decreased from $6,537,000 during the first quarter of 2020, to $3,595,000 during the first quarter of 2021. The decrease of $2,942,000 was due to the net impact of the decrease in royalty income of $2,963,000, the decrease in interest income of $16,000, the increase in administrative expenses of $7,000, and the decrease in interest and financing expenses of $44,000.

DISTRIBUTIONS TO KRL

Distributions attributable to KRL during the three months ended March 31, 2021 were $1,844,000, which included distributions of $775,000 on the Exchangeable units and $1,069,000 on the Class C units. Distributions on the Exchangeable units decreased by $831,000 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 29.55% during the first quarter of the prior year to 30.80% during the first quarter of the current year, as a result of the Additional Entitlement for 2021 received by KRL on January 1, 2021, 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 $2,111,000 from a profit of $3,862,000 (34.0 cents/Fund unit) in the first quarter of 2020, to a profit of $1,751,000 (15.4 cents/Fund unit) in the first quarter of 2021.

FAIR VALUE GAIN (LOSS)

The fair value of the Exchangeable unit liability increased by $7,051,000 during the three months ended March 31, 2021, as compared with a decrease of $32,600,000 during the three months ended March 31, 2020.

During the three months ended March 31, 2021, the fair value of the 4,762,336 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 $12.16 to $13.40, resulting in a non-cash loss to the Fund of $5,905,000. In addition, the fair value of the 201,977 Exchangeable units granted to KRL on January 1, 2021, as the initial 80% of the Additional Entitlement for 2021 increased from $8.28 (the January 1, 2021 roll-in price) to $13.40, resulting in a non-cash loss to the Fund of $1,036,000. Finally, the fair value of 88,603 Exchangeable units expected to be granted to KRL as the remaining balance of the Additional Entitlement for 2020 (once the sales true-up for the January 1, 2020 roll-in is finalized in September 2022), increased from $12.16 to $13.40, resulting in a non-cash loss to the Fund of $110,000.

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 2020, decreased from $16.42 (the January 1, 2020 roll-in price) to $8.51 resulting in a non-cash gain to the Fund of $2,803,000.

INCOME TAX RECOVERY (EXPENSE)

Income taxes for the three-month period ended March 31, 2021, were a tax expense of $473,000, and included SIFT tax expense of $457,000 and a non-cash deferred income tax expense of $16,000. Income taxes decreased by $410,000 due to the net impact of a decrease in SIFT taxes of $565,000, and an increase in deferred income tax expense of $155,000. SIFT tax expense decreased due to the decrease in the taxable income of the Fund during the comparable quarter.

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Profit (loss) decreased by $41,352,000 from a profit of $35,579,000 ($3.134/Fund unit) in the first quarter of 2020, to a loss of $5,773,000 (-50.8 cents/Fund unit) in the first quarter of 2021, mostly due to the change in the non-cash fair value adjustment of the Exchangeable unit liability.

DISTRIBUTABLE CASH

Distributable cash before SIFT tax decreased by $3,749,000 from $5,175,000 (45.6 cents/Fund unit) to $1,426,000 (12.6 cents/Fund unit) during the comparable quarter. Cash available for distribution to Fund unitholders decreased by $3,184,000 from $4,153,000 (36.6 cents/Fund unit) to $969,000 (8.5 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 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.

During the first quarter of 2020, distributions to Fund unitholders included regular cash distributions paid of $3,222,000 (28.4 cents/Fund unit), whereas in the first quarter of 2021 distributions of $1,362,000 (12.0 cents/Fund unit) were paid. The decrease in distributions to Fund unitholders of $1,860,000 during the comparable quarter was due to the reduction in monthly distributions from the pre-pandemic level of 9.46 cents/Fund unit per month in the first quarter of the prior year to 5.0 cents/Fund in the month of January 2021, and 3.5 cents/Fund unit for the months of February and March 2021. The reduction in monthly distributions was made in response to the loss of sales from the temporary closure of many of the Keg restaurants in the Royalty Pool for much of the first quarter of 2021.

RELATED PARTY TRANSACTIONS

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.

As at March 31, 2021, the Fund has a $1,311,000 royalty fee receivable, including GST, from KRL (December 31, 2020 – $970,000) and a $363,000 interest receivable from KRL on the Keg Loan (December 31, 2020 – $362,000).

As at March 31, 2021, the Fund has $712,000 in distributions payable to KRL (December 31, 2020 – $622,000) and $60,000 in long-term distributions payable to KRL (December 31, 2020 – $50,000).

The Fund received royalty income with respect to the licence and royalty agreement between KRL and the Partnership. The Fund recorded royalty income of $2,743,000 for quarter ended March 31, 2021 (quarter ended March 31, 2020 – $5,706,000).

During the quarter ended March 31, 2021, the Fund received $1,054,000 in interest income on the Keg Loan (quarter ended March 31, 2020 – $1,063,000). These amounts may differ from interest income reported in the condensed consolidated statements of comprehensive income (loss) due to interest received on cash balances.

The Fund also records distributions to KRL on the Exchangeable and Class C units of the Partnership that KRL owns. During the quarter ended March 31, 2021, the Fund recorded distributions to KRL of $775,000 and $1,069,000, respectively (quarter ended March 31, 2020 – $1,606,000 and $1,069,000, respectively).

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.

LIQUIDITY & CAPITAL RESOURCES (CONTINUED)

During the first quarter of 2021, the Fund generated $969,000 in distributable cash, and paid distributions of $1,362,000 to public unitholders, resulting in a shortfall of $393,000.

During the three months ended March 31, 2021, 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. As of March 31, 2021, 66 of the Keg restaurants included in the Royalty Pool were open or partially open for in-store dining.

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, 2021, the Fund remains financially well positioned with cash on hand of $2,549,000 and a positive working capital balance of $3,256,000 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.

As at March 31, 2021, the Fund is in compliance with all banking covenants.

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.

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"). In order to ensure the Fund remains in compliance with its debt covenants during the Covid-19 disruption period, on December 22, 2020 and again on March 26, 2021, the Fund amended its re-stated credit agreement with tis Canadian banking syndicate. The amendment revises one financial covenant until September 30, 2021 and compliance of this amended covenant is tested on a quarterly basis. As at March 31, 2021, 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, 2021, 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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING (CONTINUED)

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, 2021 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 added to the Royalty Pool for the Sales Determination Period and a tax 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 materially 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 is dependant on significant assumptions, including projected sales for Keg restaurants included in the Royalty Pool and the pre-tax discount rate. This technique requires management to exercise judgement, and as a result, the estimated net cash flows the Keg Rights are expected to generate could differ materially from actual results.

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, 2021.

EXCHANGEABLE UNIT FAIR VALUE GAIN (LOSS) (CONTINUED)

As at March 31, 2021, the closing market price of a Fund unit was $13.40 resulting in a market capitalization of $219.9 million. KRL's 30.80% ownership of the Fund (on a fully-diluted basis) was calculated to be $67.7 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 deferred income taxes. Under the asset and liability method, deferred income 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 income 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 income 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.

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

PROVINCIAL HEALTH MEASURES

On April 1, 2021, the province of Ontario announced new emergency brake measures that prohibit all indoor and outdoor dining (while allowing take-out service) across the province for four weeks commencing on April 3, 2021. On April 16, 2021, this measure was extended by the province until May 20, 2021. These emergency brake measures resulted in the temporary closure of 7 additional corporate restaurants, and 23 additional franchise restaurants. As a result of this measure all 17 corporate restaurants, and all 28 franchise restaurants in Ontario were effectively closed on April 3, 2021 and remain closed as of the date of this report.

On April 6, 2021, the province of Alberta announced that effective April 9, 2021 until further notice, restaurants would be closed for indoor dining (while allowing outdoor patio seating and take-out service). This health measure resulted in the temporary closure of 8 corporate restaurants, and 9 franchise restaurants. On May 4, 2021, the province of Alberta announced that effective May 10, 2021, outdoor patio seating would not be allowed for three weeks.

SUBSEQUENT EVENTS (CONTINUED)

PROVINCIAL HEALTH MEASURES (CONTINUED)

On April 22, 2021, the province of Nova Scotia announced that effective April 23, 2021, restaurants would be closed for seated service (while allowing take-out service). This health measure resulted in the temporary closure of 1 corporate restaurant, and 1 franchise restaurant.

On May 7, 2021, the province of Manitoba announced that restaurants across the province would be closed for seated service (while allowing take-out service) for three weeks starting May 9, 2021. This health measure resulted in the temporary closure of 4 franchise restaurants.

OUTLOOK

The effects of Covid-19 on many businesses, especially restaurants, have been unexpected, sudden, and unprecedented. Throughout 2020, KRL was able to pivot and develop new opportunities to maintain a meaningful connection with guests. While KRL leadership is unable to predict the duration of the closures and how long it will take to fully recover, they expect that the restaurant category will rebound quickly much like it has in the U.S. While off premise demand for take-out will continue, KRL anticipates that guests still crave the experience that can only be provided in a full-service restaurant. As this industry reopens, we are confident there will be a significant opportunity for those businesses executing at the highest level to increase market share. KRL is incredibly well positioned to take advantage of this opportunity through increased on-premise demand and incremental off-premise sales.

As Covid-19 cases continue throughout Canada, some provincial governments are maintaining arbitrary restrictions on much of our daily lives, the restaurant industry near the top of the list. Unfortunately, senior management of KRL do not anticipate this to change in the short to medium term, until there is a substantial uptake of first and second dose vaccinations across the country. As a result, it is currently difficult to predict sales levels of KRL with any level of certainty. Furthermore, those sales levels will be affected not only by the timing of re-opening dates, but also on the types of restrictions imposed regarding re-opening efforts, such as patio-only sales.

The current situation for the restaurant industry appears bleak, and KRL acknowledges this reality. However, KRL leadership remains optimistic about the future of the full-service segment of the restaurant industry, as there are some truly game-changing points of hope on the horizon. The current vaccine roll-out and improved pace at which it is now being executed will almost certainly render Covid-19 a much less significant factor in our lives, and our business, as we are already seeing across much of the U.S. What can be said with a high degree of certainty is that upon re-opening, there will be a high level of pent-up demand from guests seeking a night of accessible luxury and The Keg will once again deliver the highest levels of food quality and best-in-class service that it is renowned.

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.

RISKS AND UNCERTAINTIES (CONTINUED)

THE RESTAURANT INDUSTRY (CONTINUED)

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.

FLUCTUATIONS IN FOREIGN EXCHANGE RATES

As at March 31, 2021, 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 27, 2020, 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

Tim Kerr

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

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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, 2021 and 2020

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of dollars)

	Note	March 31, 2021 (unaudited)	December 31, 2020
ASSETS			
Current assets:			
Cash		$ 2,549	$ 3,009
Prepaid expenses and deposits		70	29
Royalty fee receivable from Keg Restaurants Ltd.	9	1,311	970
Interest on note receivable from Keg Restaurants Ltd.	9	363	362
		4,293	4,370
Note receivable from Keg Restaurants Ltd.		57,000	57,000
Intangible assets, Keg Rights	5	191,556	189,885
		$ 252,849	$ 251,255
LIABILITIES AND UNITHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		$ 236	$ 182
Interest payable on term loan		32	32
Distributions payable to Fund unitholders		-	568
Distributions payable to Keg Restaurants Ltd.	9	712	622
Current income tax payable	8	57	213
		1,037	1,617
Distributions payable to Keg Restaurants Ltd.	9	60	50
Term loan, net of deferred financing charges		13,975	13,981
Deferred income taxes	8	2,544	2,528
Class C Partnership units		57,000	57,000
Exchangeable Partnership units	7	67,709	58,987
Unitholders' equity:			
Fund units		123,275	123,275
Retained earnings (accumulated deficit)		(12,751)	(6,183)
		110,524	117,092
		$ 252,849	$ 251,255

Subsequent event (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, 2021	January 1 to March 31, 2020
Revenue:			
Royalty income	4	$ 2,743	$ 5,706
Interest income		1,054	1,070
		3,797	6,776
Expenses:			
General and administrative		(105)	(98)
Interest and financing fees		(93)	(138)
Amortization of deferred financing charges		(4)	(3)
		(202)	(239)
Profit before distributions, fair value gain and income taxes		3,595	6,537
Distributions recorded as interest:			
Class C Partnership units		(1,069)	(1,069)
Exchangeable Partnership units	7	(775)	(1,606)
		(1,844)	(2,675)
Profit before fair value gain (loss) and income taxes		1,751	3,862
Fair value gain (loss) on Exchangeable Partnership units	7	(7,051)	32,600
Profit (loss) before income taxes		(5,300)	36,462
Income tax recovery (expense):			
Current	8	(457)	(1,022)
Deferred	8	(16)	139
		(473)	(883)
Profit (loss) and comprehensive income (loss) for the period		$ (5,773)	$ 35,579
Weighted average Fund units outstanding	3	11,353,500	11,353,500
Weighted average diluted units outstanding	3	16,406,416	16,115,836
Basic earnings (loss) per Fund unit	3	$ (0.51)	$ 3.13
Diluted earnings (loss) per Fund unit	3	$ (0.51)	$ 0.26

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)	Unitholders' equity
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
Balance, January 1, 2021		$ 123,275	$ (6,183)	$ 117,092
Loss and comprehensive loss for the period		-	(5,773)	(5,773)
Distributions declared to Fund unitholders	6	-	(795)	(795)
Balance, March 31, 2021		$ 123,275	$ (12,751)	$ 110,524

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, 2021	January 1 to March 31, 2020
Cash provided by (used for):			
OPERATIONS:			
Profit (loss) for the period		$ (5,773)	$ 35,579
Items not involving cash:			
Amortization of deferred financing charges		4	3
Deferred income tax expense (recovery)	8	16	(139)
Fair value loss (gain) on Exchangeable Partnership units	7	7,051	(32,600)
Distributions recorded as interest:			
Class C Partnership units		1,069	1,069
Exchangeable Partnership units	7	775	1,606
Changes in non-cash operating working capital:			
Royalty fee receivable from Keg Restaurants Ltd.		(341)	1,469
Prepaid expenses and deposits		(41)	(57)
Accounts payable and accrued liabilities		54	(95)
Interest income		(1,054)	(1,070)
Interest and financing fees		93	138
Current income tax expense	8	457	1,022
Interest received		1,053	1,070
Income taxes paid	8	(613)	(685)
		2,750	7,310
FINANCING:			
Distributions paid to Class C unitholder		(1,069)	(1,069)
Distributions paid to Exchangeable unitholder		(675)	(2,103)
Distributions paid to Fund unitholders		(1,362)	(3,222)
Deferred financings charges		(10)	-
Interest and financing fees paid		(94)	(145)
		(3,210)	(6,539)
Increase (decrease) in cash		(460)	771
Cash, beginning of period		3,009	2,064
Cash, end of period		$ 2,549	$ 2,835
Non-cash transactions:			
Increase in intangible assets on Royalty Pool net sales roll-in	5, 7	$ 1,671	$ 5,818

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts expressed in thousands of dollars - unaudited)

For the three months ended March 31, 2021 and 2020

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.

Impact of Covid-19:

The Trustees of the Fund and Management of KRL began 2021 optimistic that the worst of the Covid-19 pandemic was behind us, and that life would soon return to some level of normalcy. The spread Covid-19 variants have resulted in new waves of the transmission of the infection in the various markets in which KRL operates, causing provincial and state governments to mandate restaurants to close or partially close dine-in operations during the quarter ended March 31, 2021.

As a result of these government-imposed restrictions, 66 of the 106 Keg restaurants in the Royalty Pool were open or partially open for in-house or outdoor patio dining as at March 31, 2021. The Fund has cash on hand of $2,549,000, a positive working capital balance of $3,256,000 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.

On December 22, 2020 and again on March 26, 2021, the Fund amended its re-stated credit agreement with its Canadian banking syndicate. The amendment revises one financial covenant until September 30, 2021 and compliance of this amended covenant is tested on a quarterly basis. The Fund was compliance with all its debt covenants at March 31, 2021.

While this disruption is expected to be temporary in nature, there is significant uncertainty concerning the duration and potential adverse effects 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.

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, 2020.

These condensed consolidated interim financial statements were authorized for issue by the Fund's Board of Trustees on May 7, 2021.

(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, 2021	January 1 to March 31, 2020
Basic profit (loss) for the period	$ (5,773)	$ 35,579
Distributions on Exchangeable Partnership units	775	1,606
Increase in current income tax expense	(209)	(434)
Fair value loss (gain) on Exchangeable Partnership units	7,051	(32,600)
Diluted profit for the period	$ 1,844	$ 4,151
Weighted average number of Fund units	11,353,500	11,353,500
Weighted average number of Exchangeable Partnership units	5,052,916	4,762,336
Weighted average number of units	16,406,416	16,115,836
Basic earnings (loss) per Fund unit	$ (0.51)	$ 3.13
Diluted earnings (loss) per Fund unit	$ (0.51)	$ 0.26

For the three months ended March 31, 2021, 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.

4. ROYALTY POOL:

Annually, on January 1, the Royalty Pool is adjusted to include the gross sales from new Keg restaurants that have opened on or before October 2 of the prior year, less gross sales from any Keg restaurants that have permanently closed during the prior 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 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 31 each year when the actual full year performance of the new restaurants is known with certainty.

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 December 21, 2020, KRL and the Fund agreed to defer the December 25, 2020 Additional Entitlement (the "Final Adjustment Date") for the January 1, 2020 roll-in of new restaurant sales, and the related issuance of any additional Exchangeable units to KRL, from December 25, 2020 until December 25, 2022. The actual sales of the new restaurants added to the Royalty Pool on January 1, 2020, were materially below long term estimates due to the Covid-19 pandemic (note 1). The five new restaurants added to the Royalty Pool on January 1, 2020, were closed for a total of 73 weeks (or 28% of the sales determination period) with estimated lost sales of approximately $13,433,000. The Final Adjustment Date has therefore been deferred until such time as the sales of these new restaurants have normalized, and better represent the long-term prospects. KRL and the Fund have further agreed, that should the impact of the Covid-19 crisis continue to negatively affect restaurant sales in 2021, that the Final Adjustment Date for the January 1, 2021 roll-in of new restaurant sales shall also be deferred until December 25, 2022.

Management of KRL and the Trustees of the Fund have currently agreed that the sales determination period to be used for the January 1, 2020 roll-in (and the January 1, 2021 roll-in if necessary) shall be the 52-week period ending September 25, 2022. For financial reporting purposes IFRS 2, *Share-based Payment* ("IFRS 2") obligates KRL to estimate the number of Exchangeable units it would have received on December 25, 2020 (but effective January 1, 2020) based on an estimate of new store sales added to the Royalty Pool on January 1, 2020, and report in the financial statements as if these notional Exchangeable units had been issued. IFRS 2 requires KRL to report the fair value of these notional Exchangeable units in the statements of financial position, and the investment income attributable to these units, and any non-cash gain or loss on the fair value adjustment of these units, at each period end date, in the statements of income or loss. No cash distributions will be paid to KRL on these notional Exchangeable units such time as the final sales determination is made, and the Exchangeable units are issued to KRL on December 25, 2022. At such time, distributions will be paid on these units as if they were issued on January 1, 2020.

The total number of Keg restaurants included in the Royalty Pool increased from the 80 Keg restaurants in existence on March 31, 2002, to 106 as of December 31, 2020. Seventy-six new Keg restaurants that opened during the period from April 1, 2002 through October 2, 2019, with annual gross sales of $397,800,927 were added to the Royalty Pool. Fifty-six permanently closed Keg restaurants with annual sales of $158,723,020 were removed from the Royalty Pool. This resulted in a net increase in Royalty Pool sales of $239,077,907 annually and KRL receiving a cumulative Additional Entitlement equivalent to 7,144,995 Fund units as of March 31, 2021.

(Tabular amounts expressed in thousands of dollars – unaudited)

4. ROYALTY POOL (CONTINUED):

On January 1, 2021, an estimated $7,268,000 in annual net sales were added to the Royalty Pool. Two new restaurants that opened during the period from October 3, 2019 through October 2, 2020, with estimated gross sales of $12,160,000 annually, were added to the Royalty Pool. Two permanently closed Keg restaurants with annual sales of $4,892,000 were removed from the Royalty Pool. The total number of restaurants in the Royalty Pool remained at 106. The pre-tax yield of the Fund units was determined to be 12.88% calculated using a weighted average unit price of $8.27.

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 252,471 Fund units, being 1.53% of the Fund units on a fully diluted basis. On January 1, 2021, KRL received 80% of this entitlement, representing the equivalent of 201,977 Fund units, being 1.23% 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 effectively own the equivalent of 5,052,916 Fund units, representing 30.80% of the Fund units on a fully diluted basis. The balance of the Additional Entitlement will be adjusted on December 25, 2022 to be effective January 1, 2021, once the actual performance of the new restaurants has been confirmed. If KRL were to receive 100% of the estimated Additional Entitlement for 2021, KRL will effectively own the equivalent of 5,103,410 Fund units, representing 31.01% of the Fund units on a fully diluted basis.

KRL and the Fund have agreed, that the sales determination period and the Final Adjustment Date for the January 1, 2021 roll-in of new restaurant sales shall be deferred until the 52 weeks ended September 25, 2022 and December 25, 2022, respectively, to be effective January 1, 2021

There were no restaurant closures from January 1 to March 31, 2021 or March 31, 2020 that required a make-whole payments.

Royalty income was calculated as follows:

	January 1 to March 31, 2021	January 1 to March 31, 2020
Restaurants in Royalty Pool	106	106
Royalty Pool system sales	$ 68,581	$ 142,653
Royalty income at 4% of system sales reported above	2,743	5,706
Make-whole payment, based on 4% of lost system sales	-	-
Total royalty income	$ 2,743	$ 5,706

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

For the three months ended March 31, 2021 and 2020

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 $1,671,000 as a result of the January 1, 2021 Additional Entitlement (January 1, 2020 Additional Entitlement – $5,819,000).

6. DISTRIBUTIONS ON FUND UNITS:

	January 1 to March 31, 2021	January 1 to March 31, 2020
Distributions declared to Fund unitholders	$ 795	$ 2,148
Weighted average Fund units outstanding	11,353,500	11,353,500
Distributions declared per unit	$ 0.07	$ 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.

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

7. EXCHANGEABLE PARTNERSHIP UNITS:

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

		March 31, 2021	
	Foot note	Total number of Exchangeable Partnership units	Fair Value
Class A Partnership units	(i)	905,944	$ 12,140
Class B Partnership units	(ii)	176,700	2,368
Class D Partnership units	(iii)	3,970,272	53,201
		5,052,916	$ 67,709

		December 31, 2020	
	Foot note	Total number of Exchangeable Partnership units	Fair Value
Class A Partnership units	(i)	905,944	$ 11,016
Class B Partnership units	(ii)	176,700	2,149
Class D Partnership units	(iii)	3,768,295	45,822
		4,850,939	$ 58,987

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, 2021 was $13.40 (December 31, 2020 – $12.16).

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, 2021	4,850,939	$ 58,987
January 1 initial estimate of Class D unit entitlement (80%)	201,977	1,671
Fair value adjustment	-	7,051
Fair value of Exchangeable Partnership units, March 31, 2021	5,052,916	$ 67,709

	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

7. EXCHANGEABLE PARTNERSHIP UNITS (CONTINUED):

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, 2021. 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 1st. 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.

Included in the total 3,970,272 Class D units, are 88,603 notional Class D units that KRL recognized during the 2020 fiscal year in exchange for adding net sales to the Royalty Pool on January 1, 2020. Interest income on these notional Class D units have been accrued in the statement of comprehensive income (loss), but no cash distributions will be paid to KRL on these Class D units until such time as the final sales determination is made, and the Class D units are issued to KRL on December 25, 2022, to be effective January 1, 2020.

Distributions on Exchangeable Partnership units are recorded as interest income in the condensed consolidated statement of comprehensive income (loss).

(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 2020 and later taxation years.

The components of income tax expense are as follows:

	January 1 to March 31, 2021	January 1 to March 31, 2020
Current income tax expense	$ (457)	$ (1,022)
Deferred income tax recovery (expense)	(16)	139
	$ (473)	$ (883)

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

	January 1 to March 31, 2021	January 1 to March 31, 2020
Tax instalment payments related to the current fiscal year	$ (400)	$ (685)
Tax payment related to balance owing from the prior fiscal year	(213)	-
	$ (613)	$ (685)

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

	March 31, 2021	December 31, 2020
Deferred income tax liability:		
Temporary difference related to the Keg Rights	$ 2,544	$ 2,528
Deferred income tax liability	$ 2,544	$ 2,528

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.

(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, 2021	December 31, 2020
Royalty fee receivable, including GST/HST	$ 1,311	$ 970
Interest on note receivable from KRL	363	362
Due from KRL	$ 1,674	$ 1,332

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, 2021	December 31, 2020
Distributions payable to KRL	$ 712	$ 622

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

	March 31, 2021	December 31, 2020
Long-term distributions payable to KRL.	$ 60	$ 50

These distributions will be paid to KRL once the final sales determination is made, and the actual Class D units are issued to KRL on December 25, 2022, to be effective January 1, 2020 (note 7(iii)).

The Fund received royalty income with respect to the licence and royalty agreement between KRL and the Partnership. The Fund recorded royalty income of $2,743,000 for quarter ended March 31, 2021 (quarter ended March 31, 2020 – $5,706,000).

During the quarter ended March 31, 2021, the Fund received $1,054,000 in interest income on the Keg Loan (quarter ended March 31, 2020 – $1,063,000). These amounts may differ from interest income reported in the condensed consolidated statements of comprehensive income (loss) due to interest received on cash balances.

The Fund also records distributions to KRL on the Exchangeable and Class C units of the Partnership that KRL owns. During the quarter ended March 31, 2021, the Fund recorded distributions to KRL of $775,000 and $1,069,000, respectively (quarter ended March 31, 2020 – $1,606,000 and $1,069,000, respectively).

(Tabular amounts expressed in thousands of dollars - unaudited)

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.

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

	March 31, 2021	December 31, 2020
Financial assets:		
Amortized cost:		
Cash	$ 2,549	$ 3,009
Royalty fee receivable from Keg Restaurants Ltd.	1,311	970
Interest on note receivable from Keg Restaurants Ltd.	363	362
Note receivable from Keg Restaurants Ltd.	57,000	57,000
	$ 61,223	$ 61,341
Financial liabilities:		
Amortized cost:		
Accounts payable and accrued liabilities	$ 236	$ 182
Interest payable on term loan	32	32
Distributions payable to Fund unitholders	-	568
Distributions payable to Keg Restaurants Ltd.	712	622
Long-term distributions payable to Keg Restaurants Ltd.	60	50
Term loan, net of deferred financing charges	13,975	13,981
Class C Partnership units	57,000	57,000
Fair value through profit or loss:		
Exchangeable Partnership units	67,709	58,987
	$ 139,724	$ 131,422

11. SUBSEQUENT EVENT:

Provincial health measures:

On April 1, 2021, the province of Ontario announced new emergency brake measures that prohibit all indoor and outdoor dining (while allowing take-out service) across the province for four weeks commencing on April 3, 2021. On April 16, 2021, this measure was extended by the province until May 20, 2021. These emergency brake measures resulted in the temporary closure of 7 additional corporate restaurants, and 23 additional franchise restaurants. As a result of this measure all 17 corporate restaurants, and all 28 franchise restaurants in Ontario were effectively closed on April 3, 2021.

On April 6, 2021, the province of Alberta announced that effective April 9, 2021 until further notice, restaurants would be closed for indoor dining (while allowing outdoor patio seating and take-out service). This health measure resulted in the temporary closure of 8 corporate restaurants, and 9 franchise restaurants. On May 4, 2021, the province of Alberta announced that effective May 10, 2021, outdoor patio seating would not be allowed for three weeks.

On April 22, 2021, the province of Nova Scotia announced that effective April 23, 2021, restaurants would be closed for seated service (while allowing take-out service). This health measure resulted in the temporary closure of 1 corporate restaurant, and 1 franchise restaurant.

On May 7, 2021, the province of Manitoba announced that restaurants across the province would be closed for seated service (while allowing take-out service) for three weeks starting May 9, 2021. This health measure resulted in the temporary closure of 4 franchise restaurants.