THE KEG ROYALTIES INCOME FUND

YEAR END REPORT

For the three and twelve months ended December 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 and twelve months ended December 31, 2021.

RESULTS

Royalty Pool sales reported by the 106 Keg restaurants in the Royalty Pool were $149,192,000 for the quarter, an increase of $72,124,000 or 93.6% from the comparable quarter of the prior year. For the year, Royalty Pool sales were $429,339,000, an increase of $85,258,000 or 24.8%. The increase in Royalty Pool sales during the fourth quarter of 2021 was due to significantly more trading weeks of operation in the fourth quarter of 2021, as KRL's restaurants were temporarily closed, by government health mandates related to the Covid-19 pandemic, for less time in the fourth quarter of 2021, than in the fourth quarter of 2020.

Royalty income increased by $2,836,000 or 90.5% from $3,132,000 in the three months ended December 31, 2020 to $5,968,000 in the three months ended December 31, 2021. For the year, royalty income increased by $3,289,000 or 23.7% from $13,885,000 for the twelve months ended December 31, 2020 to $17,174,000 for the twelve months ended December 31, 2021.

Distributable cash available to pay distributions to public unitholders increased by $378,000 from $2,456,000 (21.6 cents/Fund unit) to $2,834,000 (25.0 cents/Fund unit) for the quarter, and decreased by $1,794,000 from $8,509,000 (74.9 cents/Fund unit) to $6,715,000 (59.1 cents/Fund unit) for the year. During the fourth quarter of 2021, distributions of $3,222,000 (28.4 cents/Fund unit) were paid to Fund unitholders, an increase of $1,519,000 from the comparable quarter of the prior year. The increase in distributions to Fund unitholders was entirely due to the increase in monthly distributions from 5.0 cents/Fund unit per month in the fourth quarter of 2020, to 9.46 cents/Fund unit per month in the fourth quarter of 2021. During the twelve months of 2021, distributions of $8,161,000 (71.9 cents/Fund unit) were paid to Fund unitholders, an increase of $852,000 from the prior year. The increase in year-to-date distributions paid to Fund unitholders was due to the temporary reduction in monthly distributions in the prior year 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 unit for months of October 2020 to January 2021, 3.5 cents/Fund unit for the months of February to June 2021, 7.0 cents/Fund unit per month for the months of July to September 2021, and 9.46 cents/Fund unit for the months of October to December 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 113.7% for the fourth quarter of 2021 and 121.5% for the year.

The Fund remains financially well positioned with cash on hand of $2,371,000 and a positive working capital balance of $2,295,000 as at December 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 Keg's restaurants 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
March 8, 2022

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 of December 28, 2020, the beginning of KRL's new fiscal year, 75 of its 106 restaurants were closed, or effectively closed, by provincial health mandates.

During the first half of 2021, 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 restrictive service capacity and the effective closure of 9 corporate restaurants, and 9 franchise restaurants. On May 25, 2021, restaurants were allowed to re-open for indoor dining, and as a result all 18 restaurants in British Columbia fully re-opened for business.
- 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 17 restaurants, consisting of 8 corporate restaurants, and 9 franchise restaurants. On June 1, 2021, restaurants were allowed to re-open for outdoor patio service, and on June 10, 2021 were allowed to fully re-open for indoor dining. Therefore, effective June 10, 2021 the 17 restaurants located in Alberta were fully open for business.
- On May 7, 2021, the province of Saskatchewan announced that restaurants located in Regina would be allowed to resume indoor-dining service effective May 17, 2021. As a result, the 2 franchise restaurants in Regina resumed in-store dining, subject to table size limitations, and social distancing guidelines.
- 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. On June 26, 2021, the province loosened some of the previously imposed Covid-19 restrictions, which allowed restaurants to open at 25% capacity for indoor dining, and at 50% capacity for outdoor dining. On July 14, 2021, the province announced that effective July 17, 2021 indoor dining capacity limitations would be increased to 50%. Effective August 7, 2021, restaurants were no longer subject to capacity limitations, separation requirements or restricted hours of operation, and as a result KRL's 4 franchise restaurants were allowed to provide unrestricted service.
- Most of the 45 restaurants located in Ontario, consisting of 17 corporate restaurants, and 28 franchise restaurants, were effectively closed for over nine months in fiscal 2021 (closed on October 10, 2020, with only brief periods of operation allowed, albeit on a severely restricted basis, until July 17, 2021). On April 1, 2021, the province of Ontario announced new emergency brake measures that prohibited all in-person dining (while allowing take-out service) across the province for four weeks commencing on April 3, 2021. This measure was subsequently extended a number of times. These emergency brake measures resulted in the temporary closure of 4 additional corporate restaurants, and 26 additional franchise restaurants (who had both been open briefly for patio-only service), and as a result all 45 restaurants in Ontario were closed by provincial mandate. On June 11, 2021, the province allowed restaurants to resume outdoor dining service, where available, but patio seating only represents approximately 20% of the total available seating at an average Keg restaurant. On July 9, 2021, the province announced that effective July 16, 2021, restaurants would finally be allowed to re-open for indoor dining, and as a result all of KRL's 45 restaurants in Ontario were re-opened for indoor dining.
- On May 18, 2021, the province of Quebec announced that restaurants located in that province would be allowed to offer outdoor dining effective May 28, 2021. On June 4, 2021, the provincial government announced that restaurants would be able to offer indoor dining effective June 7, 2021, allowing KRL's 5 corporate restaurants in that province to finally re-open for indoor dining, after having been completely closed for over eight months.

IMPACT OF COVID-19 – 2021 (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 June 16, 2021, restaurants in Nova Scotia were allowed to re-open for both indoor and outdoor dining, subject to minor table size limitations.

During the third quarter of 2021, most provinces in Canada (except Saskatchewan and Newfoundland) implemented proof of vaccination programs, which require restaurants to obtain proof that every guest has been double vaccinated, before allowing them entry into the restaurant. Several of the provinces require such proof for both indoor and outdoor dining. These proof of vaccination programs not only had a negative effect on both sales and guest counts, but also increased labour costs, as higher staffing levels were required to handle the burden of effectively being required to "enforce" these new government mandates.

During the fourth quarter of 2021, many provinces implemented additional restrictions as follows:

- On October 1, 2021, the province of Saskatchewan announced its proof of vaccination program. This mandate impacted 3 franchise restaurants located in Saskatchewan.
- On October 22, 2021, the province of Newfoundland implemented its previously announced proof of vaccination program. This health order affected 1 franchise restaurant located in that province.
- On December 7, 2021, the Windsor-Essex County Health Unit announced that effective December 10, 2021, restaurants located in that health region would only be allowed to operate at 50% capacity. This mandate affected 2 franchise restaurants located in Windsor, Ontario.
- On December 16, 2021, the province of Quebec announced that restaurants would be required to cut capacity by 50% effective December 20, 2021. This restriction impacted 5 corporate restaurants located in Quebec.
- On December 17, 2021, the province of Ontario announced that restaurants would only be allowed to operate at 50% capacity effective December 19, 2021. This measure resulted in severe capacity limitations at 18 corporate restaurants, and 28 franchise restaurants located in that province.
- On December 17, 2021, the province of Manitoba announced that restaurants would be allowed to continue to operate, but only at 50% capacity, effective December 21, 2021. This new restriction negatively impacted 4 franchise restaurants located in the province of Manitoba.
- On December 21, 2021, the province of Nova Scotia announced that effective December 22, 2021, restaurants would only be allowed to operate at 50% capacity, effective December 22, 2021. This new restriction affected 1 corporate restaurant, and 1 franchise restaurant which operate in that province.

KRL and its franchisees continue to participate, to the maximum extent possible, in all the various federal and provincial financial assistance programs, available to each of them respectively. KRL remains financially well positioned with cash on hand of $30,882,000, and $35,986,000 in unused borrowing capacity, as of December 26, 2021.

In late December of 2021, many of the provinces noted above announced and implemented more severe restrictions in an attempt to slow the spread of the Omicron variant. Many of these health orders resulted in the complete closure of certain restaurants for a period of time. See "Subsequent Events – Provincial Health Measures".

TEMPORARY RESTAURANT CLOSURES

During 2020 and 2021, various levels of government in both Canada and the United States implemented health measures in an effort to slow the spread of the Covid-19 virus. Many of these health orders resulted in the complete closure of restaurants, while others imposed severe capacity limitations or significant operating restrictions.

During the 13 weeks ended December 26, 2021, corporate restaurants were closed or effectively closed due to provincial health orders related to the Covid-19 pandemic for 69 days (1.5% of the available trading days), while franchise restaurants were closed 19 days (0.4% of the available trading days). During the 13 weeks ended December 27, 2020, corporate restaurants were closed or effectively closed due to federal, provincial or state health orders related to the Covid-19 pandemic for 1,902 days (41.0% of the available days), while franchise restaurants were closed 1,187 days (23.7% of the available days). On a consolidated basis, KRL's restaurants were closed for a total of 88 days in the fourth quarter of fiscal 2021 (0.9% of the available days), as compared with 3,089 during the fourth quarter of fiscal 2020 (32.0% of the available days).

During the 52 weeks ended December 26, 2021, corporate restaurants were closed or effectively closed due to provincial health orders related to the Covid-19 pandemic for 5,833 days (31.1% of the available trading days), while franchise restaurants were closed 7,114 days (35.5% of the available trading days). During the 52 weeks ended December 27, 2020, corporate restaurants were closed or effectively closed due to federal, provincial or state health orders related to the Covid-19 pandemic for 6,288 days (34.5% of the available days), while franchise restaurants were closed 6,463 days (31.6% of the available days). On a consolidated basis, KRL's restaurants were closed for a total of 12,947 days in fiscal 2021 (33.4% of the available days), as compared with 12,751 in fiscal 2020 (33.0% of the available days).

The charts on page 32 to 33 identify the number of trading days lost, as a direct result of the Covid-19 pandemic, during the comparable 13-week periods, and 52-week periods of 2021 and 2020. It includes those trading days lost due to lockdowns (mandated by federal, provincial, or state public health orders), as well as trading days lost 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, reduced restaurant hours of operation, or proof of vaccination requirements.

Subsequent to KRL's year end of December 26, 2021, many of the provinces noted above announced and implemented more severe restrictions in an attempt to slow the spread of the Omicron variant. Many of these health orders resulted in the complete closure of certain restaurants for a period of time. See "Subsequent Events – Provincial Health Measures".

NON-GAAP AND OTHER FINANCIAL MEASURES DISCLOSURE ("NI 52-112")

NI 52-112 prescribes disclosure requirements that apply to certain non-IFRS measures known as "specified financial measures". This MD&A makes reference to certain non-IFRS measures which provides important information regarding the Fund's financial performance and ability to pay distributions to unitholders. By considering these non-IFRS measures in combination with IFRS measures, the Fund believes that readers are provided with additional and more useful information about the Fund's financial performance as opposed to considering IFRS measures alone. The terms "Royalty Pool Sales", "System Sales", "Same Store Sales Growth", "Distributable Cash Before SIFT Tax", "Distributable Cash", "Payout Ratio" and "Trading Weeks" are non-IFRS measures and non-IFRS ratios used throughout this MD&A. These non-IFRS measures reported by the Fund do not have standardized meanings as prescribed by IFRS, and the Fund's method of calculating these measures may differ and may not be comparable to similar measures reported by other issuers.

"Royalty Pool Sales" is a non-IFRS supplementary financial measure representing the total gross sales reported by Keg restaurants included in a specified Royalty Pool, for which the Fund receives a royalty of 4% on these reported gross sales in any period.

"System Sales" is a non-IFRS supplementary financial measure representing the gross sales of all corporate restaurants owned by KRL, and the gross sales reported to KRL by franchise restaurants without independent audit, in any period. The total system sales of KRL are of interest to readers as it best reflects KRL's overall sales performance.

NON-GAAP AND OTHER FINANCIAL MEASURES DISCLOSURE ("NI 52-112") (CONTINUED)

"Same Store Sales Growth" is a non-IFRS supplementary financial measure representing the overall increase or decrease in gross sales from Keg restaurants (that operated during the entire period of both the current and prior comparable period) as compared to gross sales for the same period of the prior comparable period.

"Distributable Cash Before SIFT Tax" is a non-IFRS supplementary financial measure and is defined as the periodic cash flows from operating activities as reported in the IFRS 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" is a non-IFRS supplementary financial measure and is defined as 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.

"Payout Ratio" is a non-IFRS ratio and 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).

"Trading Weeks" is a non-IFRS supplementary financial measure representing the number of weeks a restaurant is open for in-store dining, without significant capacity restrictions, during a respective period.

RECENT DEVELOPMENTS

AMENDMENT OF ADJUSTMENT DATE FOR ROLL-INS

On April 1, 2019, KRL 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. The normalized sales of the two new restaurants added to the Royalty Pool on January 1, 2021, were estimated to be $12,160,000, the same amount as originally estimated. This resulted in KRL recognizing a notional Additional Entitlement equivalent to 50,494 Fund units, thereby increasing its effective ownership to 5,103,410 Fund units, representing 31.01% of the Fund units on a fully basis. Readers should note that no cash distributions will be paid to KRL on these 50,494 notional Exchangeable units as they shall be considered unentitled, until such time as the final sales determination is made, and the actual Exchangeable units are issued to KRL on December 25, 2022. 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 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 audited, consolidated financial statements of the Fund for the year ended December 31, 2021.

FINANCIAL HIGHLIGHTS

($000's expect per unit amounts)	For the quarter ended Dec. 31, 2021	For the quarter ended Dec. 31, 2020	For the year ended Dec. 31, 2021	For the year ended Dec. 31, 2020
Restaurants in the Royalty Pool	106	106	106	106
Royalty Pool sales (1)	**$ 149,192**	**$ 77,068**	**$ 429,339**	**$ 344,081**
Royalty income (2)	$ 5,968	$ 3,132	$ 17,174	$ 13,885
Interest income (3)	1,078	1,075	4,275	4,283
Total income	**$ 7,046**	**$ 4,207**	**$ 21,449**	**$ 18,168**
Administrative expenses (4)	(112)	(110)	(440)	(425)
Interest and financing expenses (5)	(99)	(98)	(400)	(440)
Operating income	**$ 6,835**	**$ 3,999**	**$ 20,609**	**$ 17,303**
Distributions to KRL (6)	(2,899)	(1,993)	(9,349)	(8,179)
Profit before fair value gain (loss) and income taxes	**$ 3,936**	**$ 2,006**	**$ 11,260**	**$ 9,124**
Fair value gain (loss) (7)	(4,464)	(24,101)	(13,587)	15,595
Income tax recovery (expense) (8)	(1,068)	(543)	(3,039)	(2,463)
Profit (loss) and comprehensive income (loss)	**$ (1,596)**	**$ (22,638)**	**$ (5,366)**	**$ 22,256**
Distributable cash before SIFT tax (9)	**$ 3,886**	**$ 2,983**	**$ 9,691**	**$ 10,906**
Distributable cash (10)	**$ 2,834**	**$ 2,456**	**$ 6,715**	**$ 8,509**
Distributions to Fund unitholders (11)	**$ 3,222**	**$ 1,703**	**$ 8,161**	**$ 7,309**
Payout ratio (12)	**113.7%**	**69.3%**	**121.5%**	**85.9%**
Per Fund unit information (13)				
Profit before fair value gain (loss) and income taxes	$ 0.347	$ 0.177	$ 0.992	$ 0.804
Profit (loss) and comprehensive income (loss)	$ (0.141)	$ (1.994)	$ (0.473)	$ 1.960
Distributable cash before SIFT tax (9)	**$ 0.342**	**$ 0.263**	**$ 0.854**	**$ 0.961**
Distributable cash (10)	**$ 0.250**	**$ 0.216**	**$ 0.591**	**$ 0.749**
Distributions to Fund unitholders (11)	**$ 0.284**	**$ 0.150**	**$ 0.719**	**$ 0.644**
SSSG (14)				
Canada	— %	— %	— %	— %
United States	— %	— %	— %	— %
Consolidated	— %	— %	— %	— %
Restaurants in KRL System (15)				
# Beginning of Period	107	106	106	107
Opened	—	—	1	1
Closed	—	—	—	(2)
# End of Period	107	106	107	106
Trading weeks (16)				
Corporate restaurants	655	392	1,821	1,688
Franchise restaurants	712	545	1,845	1,997
Total restaurants	1,367	937	3,666	3,685

Notes:

(1) Royalty Pool sales are the gross sales reported by Keg Restaurants included in the Royalty Pool in any period. As of December 31, 2021, the Royalty Pool includes 106 Keg restaurants, 49 of which are owned and operated by KRL and its subsidiaries, (39 in Canada and 10 in the United Sates), and 57 Keg restaurants which are owned and operated by Keg franchisees (all of which are in Canada).

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

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

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

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

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

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

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

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

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

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

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

(13) All per unit amounts are calculated based on the weighted average number of Fund units outstanding, which are those units held by public unitholders during the respective period. The weighted average number of Fund units outstanding for three months ended December 31, 2021 were 11,353,500 (three months ended December 31, 2020 – 11,353,500), and for twelve months ended December 31, 2021 were 11,353,500 (twelve months ended December 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

($000's expect per unit amounts)	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Restaurants in the Royalty Pool	**106**	**106**	**106**	**106**
Royalty Pool sales [1]	**$ 149,192**	**$ 152,274**	**$ 59,298**	**$ 68,575**
Royalty income [2]	$ 5,968	$ 6,091	$ 2,372	$ 2,743
Interest income [3]	1,078	1,078	1,066	1,054
Total income	**$ 7,046**	**$ 7,169**	**$ 3,438**	**$ 3,797**
Administrative expenses [4]	(112)	(106)	(117)	(105)
Interest and financing expenses [5]	(99)	(105)	(99)	(97)
Operating income	**$ 6,835**	**$ 6,958**	**$ 3,222**	**$ 3,595**
Distributions to KRL [6]	(2,899)	(2,876)	(1,731)	(1,844)
Profit before fair value gain (loss) and income taxes	**$ 3,936**	**$ 4,082**	**$ 1,491**	**$ 1,751**
Fair value gain (loss) [7]	(4,464)	4,548	(6,619)	(7,051)
Income tax recovery (expense) [8]	(1,068)	(1,093)	(405)	(473)
Profit (loss) and comprehensive income (loss)	**$ (1,596)**	**$ 7,537**	**$ (5,533)**	**$ (5,773)**
Distributable cash before SIFT tax [9]	**$ 3,886**	**$ 2,861**	**$ 1,518**	**$ 1,426**
Distributable cash [10]	**$ 2,834**	**$ 1,783**	**$ 1,129**	**$ 969**
Distributions to Fund unitholders [11]	**$ 3,222**	**$ 2,384**	**$ 1,192**	**$ 1,362**
Payout ratio [12]	**113.7%**	**133.7%**	**105.6%**	**140.6%**
Per Fund unit information [13]				
Profit before fair value gain (loss) and income taxes	$ 0.347	$ 0.360	$ 0.131	$ 0.154
Profit (loss) and comprehensive income (loss)	$ (0.141)	$ 0.664	$ (0.487)	$ (0.508)
Distributable cash before SIFT tax [9]	**$ 0.342**	**$ 0.252**	**$ 0.134**	**$ 0.126**
Distributable cash [10]	**$ 0.250**	**$ 0.157**	**$ 0.099**	**$ 0.085**
Distributions to Fund unitholders [11]	**$ 0.284**	**$ 0.210**	**$ 0.105**	**$ 0.120**
SSSG [14]				
Canada	— %	— %	— %	— %
United States	— %	— %	— %	— %
Consolidated	— %	— %	— %	— %
Restaurants in KRL System [15]				
# Beginning of Period	107	106	106	106
Opened	—	1	—	—
Closed	—	—	—	—
# End of Period	107	107	106	106
Trading weeks [16]				
Corporate restaurants	655	616	235	315
Franchise restaurants	712	641	162	330
Total restaurants	1,367	1,257	397	645

SUMMARY OF QUARTERLY RESULTS

($000's expect per unit amounts)	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Restaurants in the Royalty Pool	**106**	**106**	**106**	**106**
Royalty Pool sales (1)	**$ 77,068**	**$ 106,166**	**$ 18,194**	**$ 142,653**
Royalty income (2)	$ 3,132	$ 4,296	$ 752	$ 5,706
Interest income (3)	1,074	1,075	1,064	1,070
Total income	**$ 4,206**	**$ 5,371**	**$ 1,816**	**$ 6,776**
Administrative expenses (4)	(110)	(115)	(102)	(98)
Interest and financing expenses (5)	(98)	(104)	(97)	(141)
Operating income	**$ 3,998**	**$ 5,152**	**$ 1,617**	**$ 6,537**
Distributions to KRL (6)	(1,992)	(2,272)	(1,241)	(2,675)
Profit before fair value gain (loss) and income taxes	**$ 2,006**	**$ 2,880**	**$ 376**	**$ 3,862**
Fair value gain (loss) (7)	(24,101)	11,620	(4,524)	32,600
Income tax recovery (expense) (8)	(543)	(775)	(262)	(883)
Profit (loss) and comprehensive income (loss)	**$ (22,638)**	**$ 13,725**	**$ (4,410)**	**$ 35,579**
Distributable cash before SIFT tax (9)	**$ 2,983**	**$ 1,733**	**$ 1,015**	**$ 5,175**
Distributable cash (10)	**$ 2,456**	**$ 975**	**$ 925**	**$ 4,153**
Distributions to Fund unitholders (11)	**$ 1,703**	**$ 1,192**	**$ 1,192**	**$ 3,222**
Payout ratio (12)	**69.3%**	**122.3%**	**128.9%**	**77.6%**
Per Fund unit information (13)				
Profit before fair value gain (loss) and income taxes	$ 0.177	$ 0.254	$ 0.033	$ 0.340
Profit (loss) and comprehensive income (loss)	$ (1.994)	$ 1.209	$ (0.388)	$ 3.134
Distributable cash before SIFT tax (9)	**$ 0.263**	**$ 0.153**	**$ 0.089**	**$ 0.456**
Distributable cash (10)	**$ 0.216**	**$ 0.086**	**$ 0.081**	**$ 0.366**
Distributions to Fund unitholders (11)	**$ 0.150**	**$ 0.105**	**$ 0.105**	**$ 0.284**
SSSG (14)				
Canada	— %	— %	— %	(0.5)%
United States	— %	— %	— %	2.5 %
Consolidated	— %	— %	— %	(0.3)%
Restaurants in KRL System (15)				
# Beginning of Period	106	105	107	107
Opened	—	1	—	—
Closed	—	—	(2)	—
# End of Period	106	106	105	107
Trading weeks (16)				
Corporate restaurants	392	644	113	539
Franchise restaurants	545	708	106	638
Total restaurants	937	1,352	219	1,177

SELECTED ANNUAL INFORMATION

($000's except per unit amounts)	For the years ended Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019
Restaurants in the Royalty Pool	**106**	**105**	**105**
Royalty Pool sales [1]	**$ 429,339**	**$ 344,081**	**$ 623,748**
Royalty income [2]	$ 17,174	$ 13,885	$ 25,388
Interest income [3]	4,275	4,283	4,306
Total income	**$ 21,449**	**$ 18,168**	**$ 29,694**
Administrative expenses [4]	(440)	(425)	(385)
Interest and financing expenses [5]	(400)	(440)	(612)
Operating income	**$ 20,609**	**$ 17,303**	**$ 28,697**
Distributions to KRL [6]	(9,349)	(8,179)	(11,099)
Profit before fair value gain (loss) and income taxes	**$ 11,260**	**$ 9,124**	**$ 17,598**
Fair value gain (loss) [7]	(13,587)	15,595	4,063
Income tax recovery (expense) [8]	(3,039)	(2,463)	(4,662)
Profit (loss) and comprehensive income (loss)	**$ (5,366)**	**$ 22,256**	**$ 16,999**
Distributable cash before SIFT tax [9]	**$ 9,691**	**$ 10,906**	**$ 17,665**
Distributable cash [10]	**$ 6,715**	**$ 8,509**	**$ 13,014**
Distributions to Fund unitholders [11]	**$ 8,161**	**$ 7,309**	**$ 12,888**
Payout ratio [12]	**121.5%**	**85.9 %**	**99.0%**
Per Fund unit information [13]			
Profit before fair value gain (loss) and income taxes	$ 0.992	$ 0.804	$ 1.550
Profit (loss) and comprehensive income (loss)	$ (0.473)	$ 1.960	$ 1.497
Distributable cash before SIFT tax [9]	**$ 0.854**	**$ 0.961**	**$ 1.556**
Distributable cash [10]	**$ 0.591**	**$ 0.749**	**$ 1.146**
Distributions to Fund unitholders [11]	**$ 0.719**	**$ 0.644**	**$ 1.135**
SSSG [14]			
Canada	— %	— %	(1.8)%
United States	— %	— %	0.9 %
Consolidated	— %	— %	(1.3)%
Restaurants in KRL System [15]			
# Beginning of Period	106	107	105
Opened	1	1	6
Closed	—	(2)	(4)
# End of Period	107	106	107
Trading weeks [16]			
Corporate restaurants	1,821	1,688	2,522
Franchise Restaurants	1,845	1,997	2,933
Total Restaurants	3,666	3,685	5,455

	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019
Total assets	$ 254,341	$ 251,255	$ 245,041
Total liabilities	151,283	134,163	143,402

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Twelve Months Ended December 31, 2021

As of March 8, 2022

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 December 31, 2020.

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.

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 normalized sales of the two new restaurants added to the Royalty Pool on January 1, 2021, were estimated to be $12,160,000, the same amount as originally estimated. This resulted in KRL recognizing a notional Additional Entitlement equivalent to 50,494 Fund units, thereby increasing its effective ownership to 5,103,410 Fund units, representing 31.01% of the Fund units on a fully basis. Readers should note that no cash distributions will be paid to KRL on these 50,494 notional Exchangeable units as they shall be considered unentitled, until such time as the final sales determination is made, and the actual Exchangeable units are issued to KRL on December 25, 2022. 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.

Prior to October 2, 2021, (the cut-off date for restaurant openings for roll-in purposes in any year), one new corporate restaurant was opened. Therefore, on January 1, 2022, the gross sales of one new restaurant was added to the Royalty Pool. See "Subsequent Events".

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 31.01% 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 7,397,466 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, 2022, KRL became entitled to the initial 80% of the Additional Entitlement for 2022, consisting of 221,620 Exchangeable units, increasing its effective ownership of the Fund to 31.93%. See "Subsequent events".

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". 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. The Fund increased the monthly distributions in July 2021 to 7.0 cents/Fund unit and to 9.46 cents/Fund unit in October 2021. The increase was a result of better than expected results.

Year-to-date distributions paid were as follows:

		Distributions		
Period	Payment Date	$ / 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 1-29, 2021	March 31, 2021	3.5¢	$ 397,373	$ 1,362,421
March 1-31, 2021	April 30, 2021	3.5¢	$ 397,373	$ 1,759,794
April 1-30, 2021	May 31, 2021	3.5¢	$ 397,373	$ 2,157,167
May 1-31, 2021	June 30, 2020	3.5¢	$ 397,373	$ 2,554,540
June 1-30, 2021	July 30, 2021	7.0¢	$ 794,745	$ 3,349,285
July 1-31, 2021	August 31, 2021	7.0¢	$ 794,745	$ 4,144,030
August 1-31, 2021	September 30, 2021	7.0¢	$ 794,745	$ 4,938,775
September 1-30, 2021	October 29, 2021	9.46¢	$ 1,074,041	$ 6,012,816
October 1-30, 2021	November 30, 2021	9.46¢	$ 1,074,041	$ 7,086,857
November 1-30, 2021	December 31, 2021	9.46¢	$ 1,074,041	$ 8,160,898
December 1-31, 2021	January 31, 2022	9.46¢*	$ 1,074,041	$ 9,234,939

*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 $214,709,000 of distributable cash, and paid cumulative distributions of $213,631,000 which has resulted in a cumulative surplus of $1,078,000. 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 99.50%.

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. Refer to "non-GAAP and other financial measures disclosure ("NI 52-112")" on pages 4 and 5 of this report.

Distributable cash is calculated as follows:

($000's)	For the quarter ended December 31, 2021	For the quarter ended December 31, 2020	For the year ended December 31, 2021	For the year ended December 31, 2020
Cash flow from operations [1]	$ 5,883	$ 4,632	$ 16,713	$ 17,439
SIFT tax paid on Fund units [2]	999	437	2,710	2,092
Interest and financing fees paid on term loan [3]	(97)	(93)	(383)	(446)
KRL's interest [4]	(2,899)	(1,993)	(9,349)	(8,179)
Distributable cash before current year SIFT tax	$ 3,886	$ 2,983	$ 9,691	$ 10,906
SIFT tax expense on Fund units [5]	(1,052)	(527)	(2,976)	(2,397)
Distributable cash [6]	$ 2,834	$ 2,456	$ 6,715	$ 8,509

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 fourth quarter of 2021, $999,000 of SIFT taxes were paid all on account of 2021, (fourth quarter of 2020 – $437,000 paid all on account of 2020). During the twelve months of 2021, $2,710,000 of SIFT taxes were paid consisting of $2,497,000 paid on account of 2021, and $213,000 on account of 2020 (twelve months of 2020 – $2,092,000 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 27.0% 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:

	December 31, 2021 [1]		December 31, 2020	
	#	%	#	%
Fund units held by public unitholders [2]	11,353,500	68.99	11,353,500	70.06
Exchangeable Partnership units held by KRL: [3]				
Class A units [4]	905,944	5.50	905,944	5.59
Class B units [5]	176,700	1.07	176,700	1.09
Class D units [6]	3,881,669	23.59	3,679,692	22.71
Class D units [7]	139,097	0.85	88,603	0.55
Total Exchangeable Partnership units [8]	5,103,410	31.01	4,850,939	29.94
Total Fund and Exchangeable Partnership units	16,456,910	100.00	16,204,439	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. On December 25, 2021, but effective January 1, 2021, KRL recognized the remaining balance of the Additional Entitlement for 2021 consisting of 50,494 Exchangeable units, increasing its effective ownership of the Fund to 31.01%. As of December 31, 2021, there are 11,353,500 Fund units outstanding, 5,103,410 Exchangeable units issued and outstanding, all of which are entitled to distributions, and 139,097 Exchangeable units which have not been issued and are currently not entitled to distributions. On January 1, 2022, KRL became entitled to the initial 80% of the Additional Entitlement for 2022, consisting of 221,620 Exchangeable units, increasing its effective ownership of the Fund to 31.93%. See "Subsequent Events".

(2) Represents the public's total effective ownership of the Fund as of December 31, 2021 and December 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 68.99% during the three and twelve months ended December 31, 2021 (three and twelve months ended December 31, 2020 – 70.06%). The weighted average number of Fund units outstanding for the three and twelve month periods ended December 31, 2021 was 11,353,500 (three and twelve month periods ended December 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 December 31, 2021, KRL is the registered holder of 176,700 Class B units (December 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 December 31, 2021, KRL is the registered holder of 3,881,669 Class D units, all of which are entitled (December 31, 2020 – 3,679,692 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 and January 1, 2021. 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 25th of each year (but effective January 1st of that same year) based on an estimate of new store sales added to the Royalty Pool on January 1st of each year, and report in the financial statements as if these notional Exchangeable units had been issued. The 139,097 unentitled Class D units include 88,603 unentitled units from the January 1, 2020 roll-in , and 50,494 unentitled Class D units from the January 1, 2021 roll-in.

(8) Represents KRL's total effective ownership of the Fund as of December 31, 2021 and December 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 31.01% during the three and twelve months ended December 31, 2021 (three and twelve months ended December 31, 2020 – 29.94%). The weighted average number of Exchangeable units effectively owned by KRL during the three and twelve month periods ended December 31, 2021 was 5,103,410 (three and twelve month periods ended December 31, 2020 – 4,850,939).

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:

	For the 13 weeks ended		For the 52 weeks ended	
($000's)	December 26, 2021	December 27, 2020	December 26, 2021	December 27, 2020
Corporate Keg restaurants (1)	$ 76,004	$ 35,173	$ 218,123	$ 167,862
Franchised Keg restaurants (2)	74,383	43,473	213,653	181,725
Total system sales	$ 150,387	$ 78,646	$ 431,776	$ 349,587

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.

FOURTH QUARTER

System sales for the 13 weeks ended December 27, 2020, were $78,646,000 compared to $150,387,000 for the 13 weeks ended December 26, 2021, an increase of $71,741,000 or 91.2%. The increase 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 ($551,000 decrease in sales), the sales increases at comparable restaurants during the comparable 13-week period ($70,029,000 increase in sales), the incremental sales from new restaurants that operated during the comparable quarter ($2,934,000 increase in sales), and the loss of sales of a restaurant temporarily closed for renovation during the comparable quarter of the current year ($671,000 decrease in sales).

No new restaurants were opened, and no restaurants were closed, in either of the fourth quarter of 2021, or the fourth quarter of 2020.

During the 13-week period of the current year, restaurants were open for a total of 1,367 trading weeks as compared with 937 trading weeks during the 13-week period of the prior year. The increase of 430 trading weeks consisted of increases at comparable restaurants during the period (416 more trading weeks), net increases from new restaurants (22 additional trading weeks) and a decrease at a restaurant temporarily closed for renovation (8 less trading weeks).

Sales from comparable restaurants increased by $70,029,000 during the 13-week period of the current year primarily due to the 416 incremental trading weeks of operation. In addition, when restaurants were fully open during the 13-week period of the current year, they were usually subject to far less onerous operating restrictions than in the comparable period of the prior year.

The number of trading weeks of operation lost (from temporary restaurant closures due to federal or provincial health orders related to the Covid-19 pandemic) were 13 in the fourth quarter of 2021, as compared with 441 during the fourth quarter of 2020. During the fourth quarter of 2021, all 13 trading weeks were lost at comparable restaurants. During the fourth quarter of 2020 the 441 lost trading weeks consisted of: 417 at comparable restaurants, and 24 at new restaurants.

YEAR TO DATE

System sales for the 52 weeks ended December 27, 2020, were $349,587,000 compared to $431,776,000 for the 52 weeks ended December 26, 2021, an increase of $82,189,000 or 23.5%. The increase 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 ($3,477,000 decrease in sales), the sales increase at comparable restaurants during the comparable 52-week period ($83,036,000 increase in sales), the incremental sales from new restaurants that operated during the period ($6,159,000 increase in sales), the loss of sales of a restaurant temporarily closed for renovation during the fourth quarter of the current year ($1,926,000 decrease in sales), and the loss of sales from permanently closed restaurants that did not operate during the comparable period ($1,603,000 decrease in sales).

During the 52 weeks ended December 26, 2021, one new corporate restaurant was opened in Canada, and no restaurants were closed. During the 52 weeks ended December 27, 2020, one new franchise restaurant was opened in Canada, two franchise restaurants were purchased by KRL, and two franchise restaurants were permanently closed. One franchise restaurant closed at the beginning of the second quarter of 2020 due to the expiry of its franchise agreement, while the other closed in early June 2020.

The other franchisee, who owned two franchise restaurants in a smaller market, elected to permanently close the older restaurant as part of an overall market rationalization.

During the 52-week period of the prior fiscal year, restaurants were open for a total of 3,666 trading weeks as compared with 3,685 trading weeks during the 52-week period of the prior fiscal year. The decrease of 19 trading weeks consisted of decreases at comparable restaurants during the period (11 less trading weeks), net increases from new restaurants (33 additional trading weeks), a decrease at a restaurant temporarily closed for renovation (19 less trading weeks) and decreases from permanently closed restaurants that did nor operate during the comparable period (22 less trading weeks).

Sales from comparable restaurants increased by $83,036,000 during 52-week period of the current year despite 11 less trading weeks of operation. When restaurants were fully open during the current fiscal year, they were usually subject to far less onerous operating restrictions than in the prior fiscal year, and many restaurants generated significant patio sales during the current fiscal year, that were either totally prohibited, or severely restricted, in the prior fiscal year.

The number of trading weeks of operation lost (from temporary restaurant closures due to federal or provincial health orders related to the Covid-19 pandemic) were 1,850 in fiscal 2021, as compared with 1,822 during fiscal 2020. During the 52-week period ended December 26, 2021, the 1,850 lost trading weeks consisted of: 1,805 at comparable restaurants, and 45 at new restaurants. During the 52-week period ended December 27, 2020, the 1,822 lost trading weeks consisted of: 1,689 at comparable restaurants, 119 at new restaurants, and 14 at two franchise restaurants which were subsequently closed permanently.

OPERATING RESULTS

FOURTH QUARTER

ROYALTY POOL SALES

Royalty Pool sales increased by $72,124,000 from $77,068,000 to $149,192,000 for the comparable quarter. The increase 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 ($466,000 decrease in Royalty Pool sales), the sales increases of comparable Royalty Pool restaurants during the comparable three-month period ($70,010,000 increase in Royalty Pool sales), and the sales of new restaurants added to the Royalty Pool on January 1, 2021 ($3,249,000 increase in Royalty Pool sales), and the loss of sales of a restaurant temporarily closed for renovation during the comparable quarter of the current year ($669,000 decrease in Royalty Pool sales).

ROYALTY INCOME

Total royalty income increased from $3,132,000 in the fourth quarter of 2020 to $5,968,000 in the fourth quarter of 2021. The increase of $2,836,000 during the comparable quarter consists of an increase in royalty fee income of $2,885,000, net of a decrease in Make-whole payments of $49,000.

The increase in royalty fee income of $2,885,000 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 ($19,000 decrease in royalty fee income), the sales increases of comparable Royalty Pool restaurants during the comparable quarter ($2,801,000 increase in royalty fee income),the sales of two new restaurants added to the Royalty Pool on January 1, 2021 ($130,000 increase in royalty fee income), and the loss of sales of a US corporate restaurant temporarily closed for renovation during much of the fourth quarter of the current year ($27,000 decrease in royalty fee income).

Make-whole payments decreased by $49,000 as fewer restaurants were closed during the comparable quarter of the current year. During the fourth quarter of the current year no restaurants were subject to Make-whole payments, whereas in the fourth quarter of the prior year two restaurants were subject to Make-whole payments (those restaurants were closed for a total of 26 weeks).

INTEREST INCOME

Interest income earned by the Fund during the fourth quarter of the current year was $1,078,000, and was comprised entirely of interest income on the Keg Loan. The increase in interest income earned by the Fund of $3,000 during the comparable quarter was due to an increase in interest income on the Keg loan. It was calculated based on 92 days of a 365-day year, rather than 92 days of a 366-day year as in the comparable quarter of the prior year, as 2020 was a leap year.

ADMINISTRATIVE EXPENSES

Administrative expenses incurred by the Partnership for the quarter ended December 31, 2021 were $112,000, consisting entirely of general and administrative expenses. The increase in administration expenses of $2,000 during the comparable quarter consisted of an increase in general and administrative expenses of $2,000, mostly due to a increase in D&O insurance costs during the comparable quarter.

INTEREST AND FINANCING EXPENSES

Interest and financing expenses incurred by the Fund were $99,000 for the three months ended December 31, 2021, and included interest on the bank debt of $95,000, and amortization of deferred financing charges of $4,000. Interest and financing expenses remained the same as in the comparable quarter of the prior year, although amortization of deferred financing charges increased by $1,000 during the comparable quarter.

OPERATING INCOME

The Fund's operating income increased from $3,999,000 during the fourth quarter of 2020, to $6,835,000 during the fourth quarter of 2021. The increase of $2,836,000 was due to the net impact of the increase in royalty income of $2,836,000, the increase in interest income of $3,000, the increase in administrative expenses of $2,000, and the increase in interest and financing expenses of $1,000.

DISTRIBUTIONS TO KRL

Distributions attributable to KRL during the three months ended December 31, 2021 were $2,899,000, which included distributions of $1,830,000 on the Exchangeable units and $1,069,000 on the Class C units. Distributions on the Exchangeable units increased by $906,000 from the comparable quarter of the prior year, while distributions on Class C units remained the same. The increase in the distributions on the Exchangeable units was due to the combined impact of an increase in the operating income of the Fund during the fourth quarter of the current year, and an increase in KRL's average effective ownership of the Fund during that period. KRL's average effective ownership of the Fund increased from 29.94% during the fourth quarter of the prior year to 31.01% during the fourth 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 were $0.0625 per Class C unit per month in both the fourth quarter of the current and the prior year.

PROFIT BEFORE FAIR VALUE GAIN (LOSS) AND INCOME TAXES

Profit before fair value gain (loss) and income taxes increased by $1,930,000 from a profit of $2,006,000 (17.7 cents/Fund unit) in the fourth quarter of 2020, to a profit of $3,936,000 (34.7 cents/Fund unit) in the fourth quarter of 2021.

FAIR VALUE GAIN (LOSS)

The fair value of the Exchangeable unit liability increased by $4,464,000 during the three months ended December 31, 2021, as compared with a increase of $24,101,000 during the three months ended December 31, 2020.

During the three months ended December 31, 2021, the fair value of the 4,964,313 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 $13.81 to $14.63, resulting in a non-cash loss to the Fund of $4,070,000. In addition, 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 $13.81 to $14.63, resulting in a non-cash loss to the Fund of $73,000. Lastly, the fair value of the 50,494 Exchangeable units expected to be granted to KRL as the remaining balance of Additional Entitlement for 2021 (once the sales true-up for January 1, 2021 roll-in finalized in September 2022), increased from $8.27 (the January 1, 2021 roll-in price) to $14.63, resulting in a non-cash loss to the Fund of $321,000.

During the three months ended December 31, 2020, 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 $7.02 to $12.16, resulting in a non-cash loss to the Fund of $24,478,000. In addition, 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), decreased from $16.42 (the January 1, 2020 roll-in price) to $12.16, resulting in a non-cash gain to the Fund of $377,000.

INCOME TAX RECOVERY (EXPENSE)

Income taxes for the fourth quarter of 2021, were a tax expense of $1,068,000, and included SIFT tax expense of $1,052,000 and a non-cash deferred income tax expense of $16,000. During the fourth quarter of the current year, income taxes increased by $525,000 due entirely to an increase in SIFT taxes of $525,000, as deferred income tax expense remained the same as in the comparable quarter of the prior year. SIFT tax expense increased due to the increase in the taxable income of the Fund during the comparable quarter.

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Profit (loss) decreased by $21,042,000 from a loss of $22,638,000 (-$1.994/Fund unit) in the fourth quarter of 2020, to a loss of $1,596,000 (-13.2 cents/Fund unit) in the fourth 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 increased by $903,000 from $2,983,000 (26.3 cents/Fund unit) to $3,886,000 (34.2 cents/Fund unit) during the comparable quarter. Cash available for distribution to Fund unitholders increased by $378,000 from $2,456,000 (21.6 cents/Fund unit) to $2,834,000 (25.0 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 fourth quarter of 2020, distributions to Fund unitholders included regular cash distributions paid of $1,703,000 (15.0 cents/Fund unit), whereas in the fourth quarter of 2021 distributions of $3,222,000 (28.4 cents per Fund/unit) were paid. The increase in distributions to Fund unitholders was entirely due to the increase in monthly distributions from 5.0 cents/Fund unit per month in the fourth quarter of 2020, to 9.46 cents/Fund unit per month in the fourth quarter of 2021.

YEAR TO DATE

ROYALTY POOL SALES

Royalty Pool sales increased by $85,258,000 from $344,081,000 to $429,339,000 for the comparable twelve-month period. The increase in Royalty Pool sales was due to the net impact of the negative effect of the exchange rate increase on the translation of the US restaurant sales into their Canadian dollar equivalent ($2,900,000 decrease in Royalty Pool sales), the sales increase at comparable Royalty Pool restaurants during the comparable twelve-month period ($82,809,000 increase in Royalty Pool sales), the sales of new restaurants added to the Royalty Pool on January 1, 2021 ($8,856,000 increase in Royalty Pool sales), the loss of sales of a restaurant temporarily closed for renovation during the comparable period ($1,904,0000 decrease in Royalty Pool Sales), and the loss of sales from permanently closed restaurants that did not operate during the period ($1,603,000 decrease in Royalty Pool sales).

ROYALTY INCOME

Total royalty income increased from $13,885,000 in the twelve months of 2020 to $17,174,000 in the twelve months of 2021. The increase of $3,289,000 during the comparable year consists of an increase in royalty fee income of $3,411,000, and a decrease in Make-whole fees of $122,000.

The increase in royalty fee income of $3,411,000 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 ($116,000 decrease in royalty fee income), the sales increases at comparable Royalty Pool restaurants during the comparable period ($3,313,000 increase in royalty fee income), the sales of two new restaurants added to the Royalty Pool on January 1, 2021 ($354,000 increase in royalty fee income), the loss of sales of a restaurant temporarily closed for renovation during the current fiscal year ($76,000 decrease in royalty fee income), and the loss of sales from permanently closed restaurants ($64,000 decrease in royalty fee income).

Make-whole payments decreased by $122,000 as fewer restaurants were closed during the current fiscal year. During the current fiscal year no restaurants were subject to Make-whole payments, whereas in the prior fiscal year two restaurants were subject to Make-whole payments (those restaurants were closed for a total of 68 weeks).

INTEREST INCOME

Interest income earned by the Fund during the current year was $4,275,000, and was comprised entirely of interest income on the Keg Loan. The decrease in interest income earned by the Fund during the current year of $8,000, was due to a decrease in other interest income of $8,000 as the interest income on the Keg Loan remained the same. Other interest income earned by the Fund decreased, due to the combination of lower cash balances on hand during the twelve-month period of the current year and lower interest rates applied to those cash balances.

ADMINISTRATIVE EXPENSES

Expenses incurred by the Partnership for the year were $440,000, comprised entirely of general and administrative expenses. The increase in administrative expenses of $15,000 during the comparable period consisted of an increase in general and administrative expenses of $13,000, and a decrease in interest income of $2,000. General and administrative expenses increased mostly due to an increase in printing and mailing costs associated with the Fund's Annual General Meeting, and an increase in D&O insurance premiums. Interest income decreased due to the combined impact of lower cash balances held by the Partnership during the current year and lower interest rates applied to those balances.

INTEREST AND FINANCING EXPENSES

Interest and financing expenses incurred by the Fund were $400,000 for the twelve months ended December 31, 2021, and included interest on the long-term debt of $383,000, and amortization of deferred financing charges of $17,000. The decrease in interest and financing expenses of $40,000, was due to a decrease in the long-term debt of $45,000, net of an increase in the amortization of deferred finance charges of $5,000. Interest expense on the long-term debt decreased, as the effective interest rate on that debt decreased from 3.12% to 2.70% as, a result of three changes to the prime lending rate in March 2020.

OPERATING INCOME

The Fund's operating income increased from $17,303,000 during the prior year, to $20,609,000 during the current year. The increase of $3,306,000 is due to the net impact of the increase in royalty income of $3,289,000, the decrease in interest income of $8,000, the increase in administrative expenses of $15,000, and the decrease in interest and financing expenses of $40,000.

DISTRIBUTIONS TO KRL

Distributions attributable to KRL during the the year ended December 31, 2021 were $9,349,000 which included distributions of $5,074,000 on the Exchangeable units and $4,275,000 on the Class C units. Distributions on the Exchangeable units increased by $1,170,000 from the prior year, while distributions on the Class C units remained the same. The increase in the distributions on the Exchangeable units was due to the combined impact of the increase in the operating income of the Fund during the twelve months of 2021, and an increase in KRL's average effective ownership of the Fund during the current year. KRL's average effective ownership of the Fund increased from 29.94% during 2020 to 31.01% during 2021, primarily as a result of the initial 80% of the Additional Entitlement 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 were $0.0625 per Class C unit per month in both the current and prior year.

PROFIT BEFORE FAIR VALUE GAIN (LOSS) AND INCOME TAXES

Profit before fair value gain (loss) and income taxes increased by $2,136,000 from $9,124,000 (80.4 cents/Fund unit) in 2020, to $11,260,000 (99.2 cents/Fund unit) in 2021.

FAIR VALUE GAIN (LOSS)

The fair value of the Exchangeable unit liability increased by $13,587,000 during the year ended December 31, 2021, as compared with a decrease of $15,595,000 during the year ended December 31, 2020.

During the year ended December 31, 2021, the fair value of the 4,762,336 Exchangeable units held by KRL during that entire period 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 $14.63, resulting in a non-cash loss to the Fund of $11,763,000. 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 $8.27 (the roll-in price) to $14.63, resulting in a further non-cash loss to the Fund of $1,284,000. Furthermore, the fair value of the 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 $14.63, resulting in a non-cash loss to the Fund of $219,000. Finally, the fair value of 50,494 Exchangeable units expected to be granted to KRL as the remaining balance of the Additional Entitlement for 2021 (once the sales true-up for the January 1, 2021 roll-in is finalized in September 2022), increased from $8.27 to $14.63, resulting in a non-cash loss to the Fund of $321,000.

During the year ended December 31, 2020, the fair value of the 4,407,924 Exchangeable units held by KRL during that entire period 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 $12.16, resulting in a non-cash gain to the Fund of $13,709,000. 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 roll-in price) to $12.16, resulting in a further non-cash gain to the Fund of $1,509,000. 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), decreased from $16.42 (the January 1, 2020 roll-in price) to $12.16, resulting in a non-cash gain to the Fund of $377,000.

INCOME TAX RECOVERY (EXPENSE)

Income taxes for 2021, were $3,039,000, and included SIFT tax expense of $2,976,000 and a non-cash deferred income tax expense of $63,000. During 2021, income taxes increased by $576,000 during the current year due to the net impact of an increase in SIFT taxes of $579,000, net of a decrease in deferred taxes of $3,000. SIFT tax expense increased primarily due to the increase in the taxable income of the Fund during the current year. The deferred income tax expense decreased during 2021, due to changes in the temporary differences between the accounting and tax basis of the Keg Rights owned by the Partnership.

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Profit (loss) decreased by $27,622,000 from a profit of $22,256,000 ($1.960/Fund unit) during the year-ended December 31, 2020 to a loss of $5,366,000 (-47.3 cents/Fund unit) during the year ended December 31, 2021, mostly due to the change in the non-cash fair value gain (loss) on the Exchangeable unit liability.

DISTRIBUTABLE CASH

Distributable cash before SIFT tax decreased by $1,215,000 from $10,906,000 (96.1 cents/Fund unit) during 2020 to $9,691,000 (85.4 cents/Fund unit) during 2021. Cash available for distribution to Fund unitholders decreased by $1,794,000 from $8,509,000 (74.9 cents/Fund unit) to $6,715,000 (59.1 cents/Fund unit) during the current year. The difference between the Fund's earnings 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 net earnings, as well as changes in non-cash working capital balances.

DISTRIBUTIONS TO FUND UNITHOLDERS

During 2021, distributions to Fund unitholders included regular cash distributions paid of $8,161,000 (71.9 cents/Fund unit), whereas in 2020, distributions of $7,309,000 (64.4 cents/Fund unit) were paid. The increase in distributions to Fund unitholders of $852,000 during the current year was due to the reduction in monthly distributions from the pre-pandemic level of 9.46 cents/Fund unit per months in the first quarter of the prior year to 5.0 cent/Fund unit for the months of October 2020 to January 2021, 3.5 cents/Fund unit for the months of February to June 2021, 7.0 cents/Fund unit per month for the months of July to September 2021, and 9.46 cents/Fund unit per month for the months of October to December 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 December 31, 2021, the Fund has a $2,583,000 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 December 31, 2021, the Fund has $1,254,000 in distributions payable to KRL (December 31, 2020 – $622,000) and $nil 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 $5,968,000 for the quarter ended December 31, 2021 (quarter ended December 31, 2020 – $3,133,000) and received royalty income of $17,174,000 for the twelve months ended December 31, 2021 (twelve months ended December 31, 2020 – $13,885,000).

During the quarter ended December 31, 2021, the Fund received $1,078,000 in interest income on the Keg Loan (quarter ended December 31, 2020 – $1,075,000) and received $4,275,000 during the twelve months ended December 31, 2021 (twelve months ended December 31, 2020 – $4,283,000). These amounts may differ from interest income reported in the 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 held by KRL. During the quarter ended December 31, 2021, the Fund recorded distributions to KRL of $1,830,000 and $1,069,000, respectively (quarter ended December 31, 2020 – $924,000 and $1,069,000, respectively) and during the twelve months ended December 31, 2021, the Fund recorded distributions to KRL of $5,074,000 and $4,275,000, respectively (twelve months ended December 31, 2020 – $3,904,000 and $4,275,000, 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.

During the fourth quarter of 2021, the Fund generated $2,834,000 in distributable cash, and paid distributions of $3,222,000 to public unitholders, resulting in a shortfall of $388,000. During the twelve months of 2021, the Fund generated $6,715,000 in distributable cash, and paid distributions of $8,161,000 to public unitholders, resulting in a shortfall of $1,446,000.

During the twelve months ended December 31, 2021, KRL was significantly impacted by the global crisis resulting from the spread of Covid-19 and the corresponding government mandated restaurant closures. 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 December 31, 2021, the Fund remains financially well positioned with cash on hand of $2,371,000 and a positive working capital balance of $2,295,000 and also has a $1,000,000 operating facility which remains fully available for use. The Fund's term loan is not due until June 30, 2024.

As at December 31, 2021, the Fund is in compliance with all banking covenants, and based on financial projections for the next twelve months, the Fund expects to remain in compliance with all covenants associated with its banking facilities.

The spread of new variants of Covid-19 could result in additional mandated restrictions, which could adversely impact operations at KRL's restaurants and 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, on November 29, 2019 extended the maturity date to July 4, 2022 and on June 25, 2021 further extended the maturity date to June 30, 2024. 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, March 26, 2021, and again on June 25, 2021 the Fund amended its re-stated credit agreement with its Canadian banking syndicate. The amendment revises one financial covenant until December 31, 2021 and compliance of this amended covenant is tested on a quarterly basis. As at December 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, on November 29, 2019, further extended the maturity date to July 4, 2022, and on June 25, 2021 further extended the maturity date to June 30, 2024. As at December 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.

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 December 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 June 30, 2021.

As at December 31, 2021, the closing market price of a Fund unit was $14.63 resulting in a market capitalization of $240.8 million. KRL's 31.01% ownership of the Fund (on a fully-diluted basis) was calculated to be $74.7 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

JANUARY 1, 2022 ROLL-IN

On January 1, 2022, an estimated $6,000,000 in annual net sales were added to the Royalty Pool. One new restaurant that opened during the period from October 3, 2020 through October 2, 2021, with estimated gross sales of $6,000,000 annually, was added to the Royalty Pool. The total number of restaurants in the Royalty Pool increased to 107. The pre-tax yield of the Fund units was determined to be 5.68% calculated using a weighted average unit price of $14.12.

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 277,025 Fund units, being 1.66% of the Fund units on a fully diluted basis.

On January 1, 2022, KRL received 80% of this entitlement, representing the equivalent of 221,620 Fund units, being 1.33% 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 5,325,030 Fund units, representing 31.93% 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, 2022, once the actual performance of the new restaurants has been confirmed. If KRL were to receive 100% of the estimated Additional Entitlement for 2022, KRL will effectively own the equivalent of 5,380,435 Fund units, representing 32.15% of the Fund units on a fully diluted basis.

PROVINCIAL HEALTH MEASURES

In late December of 2021, many of the provinces announced and implemented more severe restrictions in an attempt to slow the spread of the Omicron variant. Many of these health orders resulted in the complete closure of certain restaurants for a period of time as follows:

On December 30, 2021, the province of Quebec announced the temporary closure of all restaurants, effective December 31, 2021. On January 31, 2022, restaurants were allowed to re-open at 50% capacity. On February 8, 2022, the province of Quebec announced that effective March 4, 2022, restaurants would be allowed to operate at 100% capacity. As of the date of this report however, the 5 corporate restaurants located in Quebec are operating at 50% capacity.

On January 3, 2022, the province of Ontario announced the temporary closure of all restaurants, effective January 5, 2022. On January 31, 2022, restaurants located in that province were allowed to operate at 50% capacity, and on February 17, 2022, restaurants were allowed to finally operate at 100% capacity. As of the date of this report the 18 corporate restaurants, and 28 franchise restaurants located in the province of Ontario are operating at full capacity.

SUBSEQUENT EVENTS (CONTINUED)

PROVINCIAL HEALTH MEASURES (CONTINUED)

On January 15, 2022, the province of New Brunswick announced that effective January 15, 2022, all restaurants would be required to close temporarily. Effective January 29, 2022, restaurants were allowed to re-open at 50% capacity. As of the date of this report the 1 corporate restaurant in New Brunswick is open subject to a 50% capacity restriction.

On February 9, 2022, the province of Nova Scotia announced that effective February 14, 2022, capacity limitations at restaurants would be increased from their current level of 50% to 75%. The 1 corporate restaurant, and 1 franchise restaurant located in Nova Scotia are operating at 75% capacity, as of the date of this report.

On February 11, 2022, the province of Manitoba announced that the previous capacity limitation at restaurants of 50% would be dropped, and that restaurants could operate at full capacity, effective February 15, 2022. The 4 franchise restaurants located in Manitoba are operating at full capacity, as of the date of this report.

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. During the third and fourth quarters of 2021, most provinces in Canada implemented proof of vaccination programs, which requires restaurants and entertainment venues to obtain proof that every guest has been vaccinated; before allowing them entry into the restaurant. While the objective of trying to safely reopen businesses that were most negatively impacted by the Covid-19 pandemic is laudable, placing the burden of enforcement of such programs on an industry already dealing with pandemic-induced labour and supply chain issues is ill-conceived. Unfortunately, senior management of KRL do not anticipate that future government intervention, with little or no consultation with the restaurant industry, will change in the short to medium term. 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 possible closings and related 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 challenging, and management of KRL acknowledge 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.

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 December 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.

TEMPORARY RESTAURANT CLOSURES

Canada	# of Rest	13 Weeks - December 26, 2021			13 Weeks -December 27, 2020		
		Corporate	Franchise	Total	Corporate	Franchise	Total
British Columbia	18	5	2	7	22	16	38
Alberta	17	7	5	12	124	140	264
Saskatchewan	3	—	2	2	—	4	4
Manitoba	4	—	—	—	—	210	210
Ontario	45	34	10	44	1,186	775	1,961
Quebec	5	20	—	20	435	—	435
Nova Scotia	2	—	—	—	31	42	73
New Brunswick	1	—	—	—	—	—	—
Newfoundland	1	—	—	—	—	—	—
Total Canada	**96**	**66**	**19**	**85**	**1,798**	**1,187**	**2,985**
Closed %		**1.7 %**	**0.4 %**	**1.0 %**	**48.2 %**	**23.7 %**	**34.2 %**
United States							
Washington	1	3	—	3	44	—	44
Colorado	1	—	—	—	41	—	41
Arizona	5	—	—	—	13	—	13
Texas	3	—	—	—	6	—	6
Total US	**10**	**3**	**—**	**3**	**104**	**—**	**104**
Closed %		**0.3 %**	**— %**	**0.3 %**	**11.4 %**	**—**	**69.5 %**
Total Company	**106**	**69**	**19**	**88**	**1,902**	**1,187**	**3,089**
Closed %		**1.5 %**	**0.4 %**	**0.9 %**	**41.0 %**	**23.7 %**	**32.0 %**

During the fourth quarter of 2021, KRL’s restaurants were closed or effectively closed for 88 days (0.9% of the available trading days) due to provincially mandated health orders related to the Covid-19 pandemic. During the fourth quarter of 2020, KRL’s restaurants were closed by federally or provincially mandated health orders for a total of 3,089 days (32.0% of the available trading days).

TEMPORARY RESTAURANT CLOSURES (CONTINUED)

Canada	# of Rest	52 Weeks - December 26, 2021			52 Weeks - December 27, 2020		
		Corporate	Franchise	Total	Corporate	Franchise	Total
British Columbia	18	582	520	1,102	672	640	1,312
Alberta	17	848	958	1,806	724	864	1,588
Saskatchewan	3	—	119	119	—	333	333
Manitoba	4	—	391	391	—	512	512
Ontario	45	3,400	5,019	8,419	3,005	3,681	6,686
Quebec	5	839	—	839	967	—	967
Nova Scotia	2	66	63	129	38	248	286
New Brunswick	1	20	—	20	7	103	110
Newfoundland	1	—	44	44	—	82	82
Total Canada	**96**	**5,755**	**7,114**	**12,869**	**5,413**	**6,463**	**11,876**
Closed %		**50.4 %**	**47.3 %**	**48.6 %**	**33.4 %**	**34.2 %**	**33.9 %**
United States							
Washington	1	41	—	41	142	—	142
Colorado	1	12	—	12	158	—	158
Arizona	5	12	—	12	364	—	364
Texas	3	13	—	13	211	—	211
Total US	**10**	**78**	**—**	**78**	**875**	**—**	**875**
Closed %		**2.1 %**	**—**	**4.1 %**	**34.5 %**	**—**	**69.5 %**
Total Company	**106**	**5,833**	**7,114**	**12,947**	**6,288**	**6,463**	**12,751**
Closed %		**31.1 %**	**35.5 %**	**33.4 %**	**34.5 %**	**31.6 %**	**33.0 %**

During fiscal 2021, KRL's restaurants were closed or effectively closed for 12,947 days (33.4% of the available trading days) due to provincially mandated health orders related to the Covid-19 pandemic. During fiscal 2020, KRL's restaurants were closed by federally or provincially mandated health orders for a total of 12,751 days (33.0% of the available trading days).

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 26, 2021, 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

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The Keg Royalties Income Fund

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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

C. C. Woodward*
Chairman and Director

David Aisenstat
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Neil Maclean
Secretary, Treasurer and Director

Tim Kerr*
Director

* Audit Committee and Governance Committee Member

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

STOCK EXCHANGE LISTING

Toronto Stock Exchange: KEG.UN

INVESTOR ENQUIRIES

Investor Relations

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THE KEG ROYALTIES INCOME FUND

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2021 and 2020

MANAGEMENT’S STATEMENT OF RESPONSIBILITIES

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Directors of The Keg GP Ltd. and the Trustees of The Keg Royalties Income Fund (the “Fund”). The consolidated financial statements have been prepared by management, in accordance with International Financial Reporting Standards and, where appropriate, reflect management’s best estimates and judgements. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements.

The Fund maintains appropriate systems of internal control, policies and procedures, which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors and the Trustees ensure that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. The committee reviews the consolidated financial statements and reports to the Trustees. The Fund’s external auditors have full and direct access to the Audit Committee.

The consolidated financial statements have been independently audited by KPMG LLP, in accordance with Canadian generally accepted auditing standards. Their report following this statement expresses their opinion on the consolidated financial statements of the Fund.

(signed) C.C. Woodward

Chairman, The Keg Royalties Income Fund
on behalf of the Board of Trustees

March 8, 2022

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of The Keg Royalties Income Fund

Opinion

We have audited the consolidated financial statements of The Keg Royalties Income Fund (the Fund), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- the consolidated statements of comprehensive income (loss) for the years then ended
- the consolidated statements of changes in unitholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Fund as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Assessment of the recoverable amount of Intangible assets – Keg Rights

Description of the matter

We draw attention to Note 2(c), Note 3(k) and Note 6 to the financial statements. The Intangible assets – Keg Rights are measured at historical cost and have a carrying value of $191,974 thousand. The Fund performs an impairment test over the Intangible assets – Keg Rights annually or when events or changes in circumstances indicate that the carrying value exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. In determining recoverable amount of the Intangible assets - Keg Rights, the Fund's significant assumptions include projected system sales by restaurants that are in the Royalty Pool and the pre-tax discount rate.

Why the matter is a Key Audit Matter

We identified the assessment of the recoverable amount of Intangible assets – Keg Rights as a key audit matter. This matter represented an area of significant risk of misstatement given the high degree of estimation uncertainty in determining the recoverable amount. Minor changes in projected system sales by restaurants that are in the Royalty Pool and pre-tax discount rate had a significant effect on the recoverable amount. These factors indicated a significant risk of material misstatement. As a result, specialized skills and knowledge and significant auditor judgement were required in evaluating the results of our audit procedures.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We evaluated the appropriateness of the Fund's projected system sales by restaurants that are in the Royalty Pool by comparing the projected sales to historical sales and external industry reports. When performing this assessment, we considered specific conditions and events affecting the system sales.

We compared the Fund's historical projections of system sales to actual results to assess the Fund's ability to accurately project system sales.

We involved valuation professionals with specialized skills and knowledge, who assisted in the evaluation of the pre-tax discount rate used in the determination of the recoverable amount. The valuation professionals evaluated the pre-tax discount rate by comparing it against a pre-tax discount rate range that was independently developed using publicly available market data for comparable entities. The valuation professionals considered features and risks specific to the Intangible assets – Keg Rights.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors' report is Michael J. Kennedy.

KPMG LLP

Chartered Professional Accountants

March 8, 2022
Vancouver, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of dollars)

	Note	December 31, 2021	December 31, 2020
ASSETS			
Current assets:			
Cash		$ 2,371	$ 3,009
Prepaid expenses and deposits		50	29
Royalty fee receivable from Keg Restaurants Ltd.	12	2,583	970
Interest on note receivable from Keg Restaurants Ltd.	12	363	362
		5,367	4,370
Note receivable from Keg Restaurants Ltd.	5	$ 57,000	$ 57,000
Intangible assets, Keg Rights	6	191,974	189,885
		$ 254,341	$ 251,255
LIABILITIES AND UNITHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		$ 233	$ 182
Interest payable on term loan		32	32
Distributions payable to Fund unitholders	8	1,074	568
Distributions payable to Keg Restaurants Ltd.	12	1,254	622
Current income tax payable	11	479	213
		3,072	1,617
Distributions payable to Keg Restaurants Ltd.	12	—	50
Term loan, net of deferred financing charges	10(a)	13,957	13,981
Deferred income taxes	11	2,591	2,528
Class C Partnership units	9(a)	57,000	57,000
Exchangeable Partnership units	9(b)	74,663	58,987
Unitholders' equity:			
Fund units	7	123,275	123,275
Retained earnings (accumulated deficit)		(20,217)	(6,183)
		103,058	117,092
		$ 254,341	$ 251,255

Subsequent events (note 17)

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

Approved on behalf of the Board of Trustees

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

"Tim Kerr"
Tim Kerr, Trustee

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

	Note	January 1 to December 31, 2021	January 1 to December 31, 2020
Revenue:			
Royalty income	4	$ 17,174	$ 13,885
Interest income		4,275	4,283
		21,449	18,168
Expenses:			
General and administrative		(440)	(425)
Interest and financing fees		(383)	(428)
Amortization of deferred financing charges		(17)	(12)
		(840)	(865)
Profit before distributions, fair value gain (loss) and income taxes		20,609	17,303
Distributions recorded as interest:			
Class C Partnership units	9(a)	(4,275)	(4,275)
Exchangeable Partnership units	9(b)	(5,074)	(3,904)
		(9,349)	(8,179)
Profit before fair value gain (loss) and income taxes		11,260	9,124
Fair value gain (loss) on Exchangeable Partnership units	9(b)	(13,587)	15,595
Profit (loss) before income taxes		(2,327)	24,719
Income tax expense:			
Current	11	(2,976)	(2,397)
Deferred	11	(63)	(66)
		(3,039)	(2,463)
Profit (loss) and comprehensive income (loss) for the year		$ (5,366)	$ 22,256
Weighted average Fund units outstanding	3(1)	11,353,500	11,353,500
Weighted average diluted units outstanding	3(1)	16,456,910	16,204,439
Basic earnings (loss) per Fund unit	3(1)	$ (0.47)	$ 1.96
Diluted earnings (loss) per Fund unit	3(1)	$ (0.47)	$ 0.59

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

CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

(Expressed in thousands of dollars)

	Note	Fund units	Retained earnings (accumulated deficit)	Unitholders' equity
Balance, January 1, 2020		$ 123,275	$ (21,636)	$ 101,639
Profit and comprehensive income for the year		—	22,256	22,256
Distributions declared to Fund unitholders	8	—	(6,803)	(6,803)
Balance, December 31, 2020		$ 123,275	$ (6,183)	$ 117,092
Balance, January 1, 2021		$ 123,275	$ (6,183)	$ 117,092
Loss and comprehensive loss for the year		—	(5,366)	(5,366)
Distributions declared to Fund unitholders	8	—	(8,668)	(8,668)
Balance, December 31, 2021		$ 123,275	$ (20,217)	$ 103,058

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of dollars)

	Note	January 1 to December 31, 2021	January 1 to December 31, 2020
Cash provided by (used for):			
OPERATIONS:			
Profit (loss) for the year		$ (5,366)	$ 22,256
Items not involving cash:			
Amortization of deferred financing charges		17	12
Deferred income tax expense	11	63	66
Fair value loss (gain) of Exchangeable Partnership units	9(b)	13,587	(15,595)
Distributions recorded as interest:			
Class C Partnership units	9(a)	4,275	4,275
Exchangeable Partnership units	9(b)	5,074	3,904
Changes in non-cash operating working capital:			
Royalty fee receivable from Keg Restaurants Ltd.		(1,613)	1,931
Prepaid expenses and deposits		(21)	(20)
Accounts payable and accrued liabilities		49	(125)
Interest and financing fees		383	428
Interest income		(4,275)	(4,283)
Current income tax expense	11	2,976	2,397
Interest received		4,274	4,285
Income taxes paid		(2,710)	(2,092)
		16,713	17,439
FINANCING:			
Distributions paid to Class C unitholder		(4,275)	(4,275)
Distributions paid to Exchangeable unitholder		(4,491)	(4,464)
Distributions paid to Fund unitholders		(8,161)	(7,309)
Deferred financing charges		(41)	—
Interest and financing fees paid		(383)	(446)
		(17,351)	(16,494)
Increase (decrease) in cash		(638)	945
Cash, beginning of year		3,009	2,064
Cash, end of year		$ 2,371	$ 3,009
Non-cash transactions:			
Increase in intangible assets on Royalty Pool net sales roll-in	6, 9	$ 2,089	$ 7,274

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts expressed in thousands of dollars)

For the years ended December 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:

On March 11, 2020, the World Health Organization declared the new coronavirus disease ("Covid-19") outbreak a pandemic. Covid-19 had significant adverse effects on the business of the Fund and KRL. During 2020 and 2021, various levels of government in both Canada and the United States implemented health measures in an effort to slow the spread of the Covid-19 virus. Many of these health orders resulted in the complete closure of restaurants, while others imposed severe capacity limitations or significant operating restrictions. Refer to the Fund's Management Discussion and Analysis for a detailed description of these restrictions and closures.

In late December of 2021, various Canadian provinces noted above announced and implemented more severe restrictions in an attempt to slow the spread of the Omicron variant. Many of these health orders resulted in the complete closure of certain restaurants for a period of time (note 17(b)).

The Fund has cash on hand of $2,371,000, a positive working capital balance of $2,295,000 and also has a $1,000,000 operating facility which remains fully available for use. The Fund’s term loan is not due until June 30, 2024 (note 10).

The spread of new variants of Covid-19 could result in additional mandated restrictions, which could adversely impact sales at KRL's restaurants and while the Covid-19 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 consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Fund's Board of Trustees on March 8, 2022.

(b) Functional and presentation currency:

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

(c) Use of estimates and judgements:

The preparation of the Fund's consolidated financial statements, in conformity with IFRS, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant estimates and judgements made by management in the application of IFRS that have a significant effect on the amounts recognized in these consolidated financial statements are as follows:

(i) 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. ("KGP").

2. BASIS OF PREPARATION (CONTINUED):

(c) Use of estimates and judgements (continued):

(ii) Intangible assets (note 6):

The Fund carries the Keg Rights at historical cost comprising the amount of consideration paid for the Keg Rights as well as the value of additional sales of net new Keg restaurants and bars rolled into the Royalty Pool (“Additional Entitlement”). The fair value of the Additional Entitlement 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 net new Keg restaurants and bars being added to the existing Keg restaurants and bars on which KRL pays a royalty to the Partnership (the “Royalty Pool”). As such, the calculation is dependent on a number of different variables including the estimated sales of the new restaurants for the year in which they are added to the Royalty Pool and a tax rate, 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 dependent on significant assumptions, including projected system sales by restaurants that are 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.

(iii) Fair value adjustment of Class A, B and D Partnership units (“Exchangeable Partnership units” or “Exchangeable units”) (note 9(b)):

The Fund measures the Exchangeable Partnership units as a financial liability at fair value through profit and loss. The Fund estimates the fair value of the Exchangeable Partnership units using the closing market price of the publicly traded units of the Fund (the “Fund units”) on the Toronto Stock Exchange (“TSX”). The Exchangeable Partnership units have similar distribution and voting rights as the Fund units and are exchangeable into Fund units on a one-for-one basis. Therefore, it is estimated that the fair value of an Exchangeable Partnership unit approximates the market value of a Fund unit. This valuation technique may not represent the actual liability should the distributions paid to the holders of the Exchangeable units differ significantly from that paid to Fund unitholders.

(iv) Deferred income taxes (note 11):

The determination of deferred income taxes requires the use of judgement and estimates in determining the timing when taxable differences will reverse and the appropriate tax rates to be applied. If certain judgements or estimates prove to be inaccurate, including when temporary differences reverse, or if certain tax rates or laws change, the Fund’s financial position and comprehensive income could be materially impacted.

3. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Fund, its wholly-owned subsidiary The Keg Holdings Trust (“KHT”), its 90% owned subsidiary KGP and the Partnership (collectively, the “Companies”). KGP is the managing general partner of the Partnership. All residual ownership of the Companies is either directly or indirectly held by KRL (note 9). All significant intercompany transactions and balances have been eliminated on consolidation.

(b) Basis of measurement:

These consolidated financial statements have been prepared on the historical cost basis, except for the Exchangeable Partnership unit liability which is measured at fair value through profit or loss.

(c) Cash:

Cash consists of cash on hand and balances on deposit with a Canadian chartered bank.

(d) Revenue recognition:

Royalty income is recognized on the accrual basis and is accrued for when earned. Royalty payments from KRL to the Partnership is four percent of system sales for such period reported by Keg restaurants in 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 (note 4).

Interest income is recognized and accrued for when earned.

(e) Intangible assets (note 6):

Intangible assets consisting of the Keg Rights are recorded at their historical cost. The intangible assets are adjusted to record the value of the annual net new store roll-ins. This value is based on the Class B and D units of the Partnership at their fair value at the date of determination of their respective annual entitlement. The Keg Rights are not amortized as they have an indefinite life.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(f) Distributions on Fund units (note 8):

The amount of cash available to be distributed to Fund unitholders is determined with reference to the Fund's comprehensive income adjusted for non-cash items such as deferred income taxes, fair value adjustments on the Exchangeable Partnership units liability (note 9(b)), and gains or losses arising from the retirement or extinguishment of Fund unit financial liabilities. Adjustments are also made for changes in non-cash working capital, distributions and/or interest paid to Fund and Partnership unitholders, current income tax liabilities, and KRL's share of the Fund's available cash by virtue of KRL's investment in the Partnership (note 9).

Distributions to Fund unitholders are made monthly based upon available cash less cash redemptions of Fund units, if any. Distributions are recorded when declared and are subject to the Fund retaining such reasonable working capital reserves as may be considered appropriate by the Trustees of the Fund.

(g) Income taxes (note 11):

Income tax comprises current and deferred income tax expense and is recognized in comprehensive income.

Current income tax expense is the expected tax payable on the Fund's taxable income for the year, using enacted or substantively enacted tax rates at the reporting date, adjusted for amendments to income tax payable in respect of previous years.

Deferred income taxes are recognized in respect of temporary differences between the financial statements 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 a change in tax rates is recognized in comprehensive income in the period that includes the enactment date. The carrying amount of deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Fund intends to settle its tax assets and liabilities on a net basis or when tax assets and liabilities will be realized simultaneously.

Deferred income tax primarily arises because of temporary differences on the Keg Rights.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(h) Borrowings (note 10):

Borrowings are initially recognized at fair value net of any financing fees, and subsequently at amortized cost with any difference between the proceeds (net of financing fees) and the redemption value recognized in the comprehensive income over the period of the borrowing using the effective interest rate method. Borrowings are classified as current liabilities unless the Fund has an unconditional right to defer settlement of the liability for more than twelve months.

(i) Financial instruments:

(i) Recognition, classification and measurement:

All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, fair value through other comprehensive income (“FVOCI”), or fair value through profit and loss (“FVTPL").

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold the asset to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI only it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(i) Financial instruments (continued):

(i) Recognition, classification and measurement (continued):

On initial recognition of an equity instrument that is not held for trading, the Fund may irrevocably elect to present subsequent changes in fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

All financial liabilities are initially recorded at fair value and subsequently classified as measured at amortized cost or FVTPL. On initial recognition, the Fund may irrevocably designate a financial liability at FVTPL when doing so results in more relevant information, because either:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed with its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

For financial assets classified as measured at FVTPL or designated at FVTPL, changes in fair value are recognized in the consolidated statement of comprehensive income. For financial assets classified as measured at FVOCI or an irrevocable election has been made, changes in fair value are recognized in the consolidated statement of comprehensive loss. For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense is calculated using the effective interest method and is recognized in the consolidated statement of income.

(ii) Business model assessment:

The Fund makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the asset is managed, and information is provided to management. The information considered includes:

- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated;
- whether the assets are held for trading purposes;
- the risks that affect the performance of the financial assets held within the business model and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sale activity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(i) Financial instruments (continued):

(iii) Contractual cash flow characteristics assessment:

In assessing whether the contractual cash flows are solely payments of principal and interest, “principal” is defined as the fair value of the financial asset on initial recognition and “interest” is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

The Fund considers the contractual terms of the financial asset and whether the asset contains contractual terms that could change the timing or amount of cash flows such that it would not meet the condition of principal and interest. Contractual terms considered in this assessment include contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the claim to cash flows from specified assets, and features that modify the consideration from time value of money.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(j) Impairment of financial assets:

Credit-impaired financial assets

At each reporting date, the Fund assesses whether financial assets carried at amortized cost are credit impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred, or in the case of the term loan, because the interest rate is variable and is similar to current market interest rates.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Fund on terms that the Fund would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets.

Financial instruments and contract assets

The Fund recognizes loss allowances for Expected Credit Losses ("ECLs") on:

- financial assets measured at amortized cost;
- debt investments measured at fair value through other comprehensive income; and
- contracted assets.

The Fund measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which the credit risk has not increased significantly since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(j) Impairment of financial assets (continued):

Loss allowances for trade receivables are measured at an amount equal to lifetime ECLs. Lifetime ECLs are the ECL that result from all possible default events over the expected life of a financial instrument. ECLs are probability-weighted estimate of credit losses, and credit losses are measured as the present value of cash shortfalls from a financial asset.

The Fund determines whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating lifetime ECLs, by considering reasonably available quantitative and qualitative information based on the Fund's credit risk experience, forward-looking information, and other reasonable estimates.

The Fund has reviewed its royalty fee receivable and interest on note receivable from KRL and has determined that no indicators of impairment exist.

(k) Impairment of non-financial assets:

Intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized, such as the Keg Rights, are subject to an annual impairment test.

For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGU"s). The Fund defines a CGU as the Keg Rights (note 6). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the intangible asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized.

(Tabular amounts expressed in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(l) 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 (loss) to the diluted profit:

	December 31, 2021	December 31, 2020
Profit (loss) and comprehensive income (loss) for the year	$ (5,366)	$ 22,256
Distributions on Exchangeable Partnership units	5,074	3,904
Increase in current income tax expense	(1,370)	(1,054)
Fair value loss (gain) on Exchangeable Partnership units	13,587	(15,595)
Diluted profit for the year	$ 11,925	$ 9,511
Weighted average number of:		
Fund units	11,353,500	11,353,500
Exchangeable Partnership units	5,103,410	4,850,939
Weighted average number of units	16,456,910	16,204,439
Basic earnings (loss) per Fund unit	$ (0.47)	$ 1.96
Diluted earnings (loss) per Fund unit	$ (0.47)	$ 0.59

For the year ended December 31, 2021, the Exchangeable Partnership units are anti-dilutive. Accordingly, the fully diluted earning (loss) per Fund unit equals the basic earnings (loss) per Fund unit for this year.

(m) Economic dependence:

The Fund is entirely dependent upon the operations and assets of KRL to pay the royalty and make-whole payments to the Partnership and the interest payments to the Fund. Accordingly, it is subject to the risks encountered by KRL in the operation of its business (note 1).

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 December 31, 2020.

(Tabular amounts expressed in thousands of dollars)

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. On December 25, 2021, but effective January 1, 2021, KRL recognized the remaining balance of the 2021 Additional Entitlement. The normalized sales of the two new restaurants added to the Royalty Pool on January 1, 2021, were estimated to be $12,160,000, the same amount as originally estimated. This resulted in KRL recognizing a notional Additional Entitlement equivalent to 50,494 Fund units, thereby increasing its effective ownership to 5,103,410 Fund units, representing 31.01% of the Fund units on a fully diluted basis. No cash distributions will be paid to KRL on these 50,494 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, 2021.

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 December 31, 2021 that required a make-whole payments (January 1 to December 31, 2020 – two permanent closures).

One new corporate restaurant was opened subsequent to October 2, 2020 and was added to the Royalty Pool on January 1, 2022 (note 17(a)).

Royalty income was calculated as follows:

	December 31, 2021	December 31, 2020
Restaurants in Royalty Pool	106	106
Royalty Pool system sales	$ 429,350	$ 344,075
Royalty income at 4% of system sales reported above	17,174	13,763
Make-whole payment, based on 4% of lost system sales	—	122
Total royalty income	$ 17,174	$ 13,885

(Tabular amounts expressed in thousands of dollars)

For the years ended December 31, 2021 and 2020

5. NOTE RECEIVABLE FROM KEG RESTAURANTS LTD:

	December 31, 2021	December 31, 2020
Note receivable with interest payable monthly at 7.5% per annum and principal amount due May 31, 2024	$ 57,000	$ 57,000

The note is secured by a general security agreement and may not be assigned without the prior consent of KRL.

KRL, the holder of the Class C units, has the right to transfer Class C units to KHT, in consideration for the assumption by KHT of an amount of the note receivable from KRL equal to $10.00 per Class C unit transferred. If all 5,700,000 Class C units were transferred, then the entire $57,000,000 note receivable from KRL would be retired. The Class C units are entitled to a preferential monthly distribution equal to $0.0625 per Class C unit issued and outstanding.

6. 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).

As described in note 3(e) the Fund has adopted a policy of accounting for the Additional Entitlement of Class B units and Class D Partnership units (“Class D units”) (note 4) 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.

Balance, December 31, 2020	$ 189,885
January 1, 2021 initial estimate of Additional Entitlement (80%)	1,671
2021 final remaining Additional Entitlement (note 4)	418
Balance, December 31, 2021	$ 191,974

Each year on December 31, the Fund tests the carrying value of the Keg Rights for impairment. Impairment exists if the carrying value of the Keg Rights exceeds the fair value less costs to sell (the “recoverable amount”).

6. INTANGIBLE ASSETS (CONTINUED):

The Fund tests the Keg Rights for impairment annually on December 31 of each year, and the Fund determined that impairment indicators existed at December 31, 2021 in light of the Covid-19 crisis (note 1). Management used a value-in-use model to determine the recoverable amount of the Keg Rights, which had a carrying value of $191,974,000 as at December 31, 2021. The value-in-use calculations were based on the Fund's and KRL's internal forecasts and represent management's best estimates at a specific point in time, and as a result are subject to estimation uncertainty. In arriving at its estimated future cash flows, the Fund and KRL considered past experience, economic trends and forecasted industry trends. Significant assumptions used in the value-in-use model were projected system sales by restaurants that are in the Royalty Pool, including an estimate of when Keg restaurants will be permitted to re-open and at what capacity, and the pre-tax discount rate. The Fund projected systems sales and cash flows for a period two years and extrapolated the cash flows beyond that using an estimated growth rate of 2%, and a pre-tax discount rate of 11% was used to calculate the present value of its projected cash flows. As a result of this test, it was concluded that no impairment was required.

The Fund also performed a sensitivity analysis on the estimated growth rate of 2% and the discount rate of 11%. A 1% increase in the discount rate would have decreased the amount by which the recoverable amount exceeded the carrying value by approximately $38,746,000 and would not have resulted in an impairment. A 1% decrease in the estimated growth rate would have decreased the amount by which the recoverable amount exceeded the carrying value by approximately $36,218,000 and would not have resulted in an impairment.

7. FUND UNITS:

The Declaration of Trust of the Fund provides that an unlimited number of Fund units may be issued. Each Fund unit is transferable and represents an equal, undivided beneficial interest in any distributions of the Fund and in the net assets of the Fund. All units have equal rights and privileges. Each Fund unit entitles the holder thereof to participate equally in the allocations and distributions and to one vote at all meetings of Fund unitholders for each whole Fund unit held. The Fund units issued are not subject to future calls or assessments.

Fund units are redeemable at any time at the option of the holder at a price based on market value as defined in the trust agreement, subject to a maximum of $50,000 in cash redemptions by the Fund in any one month. The limitation may be waived at the discretion of the Trustees of the Fund. Redemption in excess of these amounts, assuming no waiving of the limitation, shall be paid by way of a pro-rata distribution of Partnership securities held by the Fund. As at December 31, 2021, 11,353,500 Fund units are issued and outstanding (December 31, 2020 – 11,353,500).

(Tabular amounts expressed in thousands of dollars)

8. DISTRIBUTIONS ON FUND UNITS:

	January 1 to December 31, 2021	January 1 to December 31, 2020
Distributions declared to Fund unitholders	$ 8,668	$ 6,803
Weighted average Fund units outstanding	11,353,500	11,353,500
Distributions declared per unit	$ 0.76	$ 0.60

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)

9. EXCHANGEABLE PARTNERSHIP UNITS:

(a) Class C Partnership unit liability:

Class C Partnership units are those units which have been issued to and are held by KRL. These units have an obligation to pay the Class C distribution of $0.0625 per unit on a monthly basis as long as the note receivable from KRL is outstanding (note 5). Accordingly, the Class C units are classified as a financial liability and are measured at amortized cost under IFRS.

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

(b) Exchangeable Partnership unit liability:

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

		December 31, 2021	
	Foot Note	Total number of Exchangeable Partnership units	Fair Value
Class A Partnership units	(i)	905,944	$ 13,254
Class B Partnership units	(ii)	176,700	2,585
Class D Partnership units	(iii)	4,020,766	58,824
		5,103,410	$ 74,663

		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 December 31, 2021 was $14.63 (December 31, 2020 – $12.16).

(Tabular amounts expressed in thousands of dollars)

9. EXCHANGEABLE PARTNERSHIP UNITS (CONTINUED):

The components of the change in balances in the Exchangeable Partnership unit liability for the year 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 (note 4)	201,977	1,671
December 25, 2021 estimated class D unit entitlement (note 4)	50,494	418
Fair value adjustment	—	13,587
Fair value of Exchangeable Partnership units, December 31, 2021	5,103,410	$ 74,663

	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 (note 4)	354,412	5,819
December 25, 2021 estimated class D unit entitlement (note 4)	88,603	1,454
Fair value adjustment	—	(15,595)
Fair value of Exchangeable Partnership units, December 31, 2020	4,850,939	$ 58,987

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 December 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.

9. EXCHANGEABLE PARTNERSHIP UNITS (CONTINUED):

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

Included in the total 4,020,766 Class D units, are 139,097 notional Class D units that the Fund recognized during the 2020 and 2021 fiscal years in exchange for KRL adding net sales to the Royalty Pool on January 1, 2020 and January 1, 2021. Interest expense 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, as they shall not be considered entitled until such time as the final sales determination is made, and the actual Class D units are issued to KRL on December 25, 2022. The 139,097 unentitled Class D units include 88,603 unentitled Class D units from the January 1, 2020 roll-in and 50,494 Class D units from the January 1, 2021 roll-in.

10. BORROWINGS:

(a) Term loan:

The Fund has a $14,000,000 term loan with a syndicate of Canadian Chartered banks. This facility bears interest at prime plus 0.25%, requires monthly interest only payments and is secured by a general security agreement over the assets of the Fund.

The term loan is presented net of $43,000 in deferred financing charges at December 31, 2021 (December 31, 2020 – $19,000).

(b) Operating line of credit:

The Partnership also has a $1,000,000 demand operating facility with KRIF’s banking syndicate. This facility bears interest at prime plus 0.25% and is secured by a general security agreement over the assets of the Partnership, an assignment of the royalty earned under the Licence and Royalty Agreement and a guarantee from KRL. As at December 31, 2021, the entire $1,000,000 remains available for use.

On September 26, 2019, the Fund amended the terms of these loans with its existing banking syndicate and extended the maturity dates to October 1, 2020, on November 29, 2019 extended the maturity dates to July 4, 2022 and on June 25, 2021 further extended the maturity dates to June 30, 2024.

Thees amendments were-not considered substantial modifications of debt.

The term loan is held by KHT and is subject to certain financial covenants, including minimum equity amounts in both KHT and the Partnership and a minimum cash flow level, defined as profit (loss) before interest, change in fair value adjustment, 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, March 26, 2021, and again on June 25, 2021 the Fund amended its re-stated credit agreement with its Canadian banking syndicate (note 1). The amendment revises the EBITDA covenant until December 31, 2021, and compliance of this amended covenant is tested on a quarterly basis. As at December 31, 2021, the Fund is in compliance with all covenants associated with these facilities.

(Tabular amounts expressed in thousands of dollars)

11. 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 December 31, 2021	January 1 to December 31, 2020
Current income tax expense	$ (2,976)	$ (2,397)
Deferred income tax expense	(63)	(66)
	$ (3,039)	$ (2,463)

Income tax expense was reported differs from the amount that would be computed by applying the combined Federal and Provincial statutory income tax rates to the profit before income taxes. The reason for the difference is as follows:

	January 1 to December 31, 2021	January 1 to December 31, 2020
Profit (loss) before income taxes	$ (2,327)	$ 24,719
Combined Canadian federal and provincial rates	27 %	27 %
Computed "expected" income tax expense	(628)	$ 6,674
Reduced by:		
Permanent and other differences	3,639	(4,209)
Change in tax base of Keg Rights	—	—
Differences between current and future income tax rates and other items	1	(2)
Total income tax expense per the statement of comprehensive income (loss)	$ 3,012	$ 2,463

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

	December 31, 2021	December 31, 2020
Temporary difference related to the Keg Rights	$ 2,591	$ 2,528
Deferred income tax liability	$ 2,591	$ 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)

12. 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:

	December 31, 2021	December 31, 2020
Royalty fee receivable, including GST/HST	$ 2,583	$ 970
Interest on note receivable from KRL	363	362
Due from KRL	$ 2,946	$ 1,332

The above amounts were received from KRL when due, subsequent to the end of the period above, except for the $147,000 distributions payable to KRL on the notional Class D units that will be paid on January 31, 2023.

	December 31, 2021	December 31, 2020
Distributions payable to KRL	$ 1,254	$ 622

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

	December 31, 2021	December 31, 2020
Long-term distributions payable to KRL	$ —	$ 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 9(b)).

The Fund received royalty income with respect to the licence and royalty agreement between KRL and the Partnership. The Fund recorded royalty income of $17,174,000 for the year ended December 31, 2021 (year ended December 31, 2020 – $13,885,000).

During the year ended December 31, 2021, the Fund received $4,275,000 in interest income on the Keg Loan (year ended December 31, 2020 – $4,283,000). These amounts may differ from interest income reported in the 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 year ended December 31, 2021, the Fund recorded distributions to KRL of $5,074,000 and $4,275,000, respectively (year ended December 31, 2020 – $3,904,000 and $4,275,000, respectively).

(Tabular amounts expressed in thousands of dollars)

For the years ended December 31, 2021 and 2020

13. COMPENSATION OF KEY MANAGEMENT:

Key management personnel are the Trustees of the Fund. Aggregate details of their remuneration are set out in the table below with further information about individual trustee remuneration provided in the Fund's Annual Information Form.

	January 1 to December 31, 2021	January 1 to December 31, 2020
Remuneration of the Fund's Trustees, including in general and administrative expenses	$ 95	$ 97

14. CAPITAL DISCLOSURES:

The Fund's objectives in managing its capital, which it defines as unitholders' equity and the term loan, are:

- To safeguard the Fund's ability to continue as a going concern;
- To provide financial capacity and flexibility to meet its strategic objectives;
- To provide adequate return to unitholders commensurate with the level of risk; and
- To distribute excess cash through distributions.

The Fund maintains financial policies and manages its liquidity and capital structure and makes adjustments to it in light of changes to economic conditions, the underlying risks inherent in its operations and capital requirement to maintain and grow its operations.

The following summarizes the Fund's managed capital:

	Note	December 31, 2021	December 31, 2020
Term Loan	10(a)	$ 14,000	$ 14,000
Fund units	7	$ 123,275	123,275
Accumulated deficit		(20,217)	(6,183)
Unitholder's equity		$ 103,058	$ 117,092

The Fund is not subject to any statutory capital requirements and has no commitments to sell or otherwise issue units, other than the commitment to exchange Class A, Class B and Class D units held by KRL for Fund units (note 9(b)).

(Tabular amounts expressed in thousands of dollars)

15. 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:

	December 31, 2021	December 31, 2020
Financial assets:		
Amortized cost:		
Cash	$ 2,371	$ 3,009
Royalty fee receivable from Keg Restaurants Ltd.	2,583	970
Interest on note receivable from Keg Restaurants Ltd.	363	362
Note receivable from Keg Restaurants Ltd.	57,000	57,000
	$ 62,317	$ 61,341
Financial liabilities:		
Amortized cost:		
Accounts payable and accrued liabilities	$ 233	$ 182
Interest payable on term loan	32	32
Distributions payable to Fund unitholders	1,074	568
Distributions payable to Keg Restaurants Ltd.	1,254	622
Long-term distributions payable to Keg Restaurants Ltd.	—	50
Term loan, net of deferred financing charges	13,957	13,981
Class C Partnership units	57,000	57,000
Fair value through profit or loss:		
Exchangeable Partnership units	74,663	58,987
	$ 148,213	$ 131,422

(Tabular amounts expressed in thousands of dollars)

For the years ended December 31, 2021 and 2020

16. FINANCIAL RISK MANAGEMENT:

The Fund is primarily exposed to the following financial risk as they relate to the Fund's identified financial instruments:

(a) Credit risk:

Credit risk is defined as the risk of financial loss to the Fund if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Fund’s amounts due from KRL and the note receivable from KRL. The Fund monitors this risk through its regular review of the operating and financing activities of KRL. The Fund’s maximum exposure to credit risk is the combined value of its royalty fee receivable from KRL, interest on note receivable from KRL and note receivable from KRL of $59,946,000 at December 31, 2021 (December 31, 2020 – $58,332,000). Since its inception, the Fund has never failed to collect its receivables on a timely basis and as at December 31, 2021 there are no past-due accounts.

The performance of the Fund is directly dependent upon the royalty and interest payments received from KRL. The amount of the royalty received from KRL is dependent on various factors that may affect the casual dining sector of the restaurant industry. The restaurant industry generally, and in particular the casual dining sector, is intensely competitive with respect to price, service, location and food quality. If KRL and the Keg franchisees are unable to successfully compete in the casual dining sector, sales may be adversely affected, the amount of royalty reduced and the ability of KRL to pay the royalty or interest on the note receivable may be impacted.

Credit risk also arises from cash balances on deposit with financial institutions of $2,371,000 at December 31, 2021 (December 31, 2020 – $3,009,000). The Fund has placed its cash balances on deposit with a Canadian chartered bank of high creditworthiness.

(b) Liquidity Risk:

Liquidity risk results from the Fund’s potential inability to meet its financial liabilities. Beyond effective net working capital and cash management, the Fund constantly monitors the operations and cash flows of the Partnership to ensure that current and future distributions to unitholders will be met.

The Fund’s capital resources are comprised of cash and cash flow from operating activities. The maturities of the Fund’s financial liabilities are as follows:

	Value	Maturity
Account payable and accrued liabilities	$ 233	< 1 year
Interest payable on term loan	32	< 1 year
Distributions payable to Fund unitholders	1,074	< 1 year
Distributions payable to Keg Restaurants Ltd.	1,254	< 1 year
Term loan	14,000	2024
Class C Partnership unit liability	57,000	2042

The Fund is subject to certain covenants and reporting requirements arising from the Partnership’s undrawn $1,000,000 operating line of credit and KHT’s $14,000,000 term loan. As at December 31, 2021, the Fund is in compliance with all covenants associated with these facilities (note 10).

16. FINANCIAL RISK MANAGEMENT (CONTINUED):

(c) Interest rate risk:

The Fund's interest rate risk exposure is mainly related to an interest-bearing note receivable from KRL and the $14,000,000 term loan. As the note receivable from KRL has a fixed interest rate of 7.5%, is from a related party and is due on May 31, 2042, the Fund does not perform interest rate risk management to minimize the overall financial interest rate risk on this financial instrument. The term loan requires interest payments at bank prime plus 0.25% and profit or loss would change by approximately $140,000 annually if the prime rate changed by 1.0%.

(d) Foreign currency exchange rate risk:

The Fund is exposed to foreign currency exchange rate risk as a result of the translation of KRL's US dollar restaurant sales into Canadian dollars for the purposes of calculating the monthly royalty. Based on the US dollar sales of Keg restaurants included in the Royalty Pool for the year ended December 31, 2021, a 100 basis point change in the US dollar exchange rate would result in an approximate $396,00 and $16,000 change in Royalty Pool sales and royalty revenue, respectively.

17. SUBSEQUENT EVENTS:

(a) January 1, 2022 Roll-in:

On January 1, 2022, an estimated $6,000,000 in annual net sales were added to the Royalty Pool. One new restaurant that opened during the period from October 3, 2020 through October 2, 2021, with estimated gross sales of $6,000,000 annually, was added to the Royalty Pool. The total number of restaurants in the Royalty Pool increased to 107. The pre-tax yield of the Fund units was determined to be 5.68% calculated using a weighted average unit price of $14.12.

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 277,025 Fund units, being 1.66% of the Fund units on a fully diluted basis.

On January 1, 2022, KRL received 80% of this entitlement, representing the equivalent of 221,620 Fund units, being 1.33% 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 5,325,030 Fund units, representing 31.93% 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, 2022, once the actual performance of the new restaurants has been confirmed. If KRL were to receive 100% of the estimated Additional Entitlement for 2022, KRL will effectively own the equivalent of 5,380,435 Fund units, representing 32.15% of the Fund units on a fully diluted basis.

17. SUBSEQUENT EVENTS (CONTINUED):

(b) Provincial Health Measures:

In late December of 2021, many of the provinces announced and implemented more severe restrictions in an attempt to slow the spread of the Omicron variant. Many of these health orders resulted in the complete closure of certain restaurants for a period of time as follows:

On December 30, 2021, the province of Quebec announced the temporary closure of all restaurants, effective December 31, 2021. On January 31, 2022, restaurants were allowed to re-open at 50% capacity. On February 8, 2022, the province of Quebec announced that effective March 4, 2022, restaurants would be allowed to operate at 100% capacity. As of March 8, 2022, however, the 5 corporate restaurants located in Quebec are operating at 50% capacity.

On January 3, 2022, the province of Ontario announced the temporary closure of all restaurants, effective January 5, 2022. On January 31, 2022, restaurants located in that province were allowed to operate at 50% capacity, and on February 17, 2022, restaurants were allowed to finally operate at 100% capacity. As of the date March 8, 2022, the 18 corporate restaurants, and 28 franchise restaurants located in the province of Ontario are operating at full capacity.

On January 15, 2022, the province of New Brunswick announced that effective January 15, 2022, all restaurants would be required to close temporarily. Effective January 29, 2022, restaurants were allowed to re-open at 50% capacity. As of March 8, 2022 the 1 corporate restaurant in New Brunswick is open subject to a 50% capacity restriction, , as of March 8, 2022.

On February 9, 2022, the province of Nova Scotia announced that effective February 14, 2022, capacity limitations at restaurants would be increased from their current level of 50% to 75%. The 1 corporate restaurant, and 1 franchise restaurant located in Nova Scotia are operating at 75% capacity, as of March 8, 2022.

On February 11, 2022, the province of Manitoba announced that the previous capacity limitation at restaurants of 50% would be dropped, and that restaurants could operate at full capacity, effective February 15, 2022. The 4 franchise restaurants located in Manitoba are operating at full capacity, as of March 8, 2022.