THE KEG ROYALTIES INCOME FUND

FIRST QUARTER REPORT

For the three months ended March 31, 2022

TO OUR UNITHOLDERS

On behalf of the Board of Trustees, I am pleased to present the results of The Keg Royalties Income Fund (the "Fund") for the three months ended March 31, 2022.

RESULTS

Royalty Pool sales reported by the 107 Keg restaurants in the Royalty Pool were $141,705,000 for the quarter, an increase of $73,130,000 or 106.6% from the comparable quarter of the prior year. The increase in Royalty Pool sales during the first quarter of 2022 was due to significantly more trading weeks of operation in the first quarter of 2022, as KRL's restaurants were temporarily closed, by government health mandates related to the Covid-19 pandemic, for less time in the first quarter of 2022, than in the first quarter of 2021.

Royalty income increased by $2,925,000 or 106.6% from $2,743,000 in the three months ended March 31, 2021 to $5,668,000 in the three months ended March 31, 2022.

Distributable cash available to pay distributions to public unitholders increased by $1,545,000 from $969,000 (8.5 cents/Fund unit) to $2,514,000 (22.1 cents/Fund unit) for the quarter. During the first quarter of 2022, distributions of $3,221,000 (28.4 cents/Fund unit) were paid to Fund unitholders, an increase of $1,859,000 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 3.5 cents/Fund unit per month in the first quarter of 2021, to 9.46 cents/Fund unit per month in the first quarter of 2022. The payout ratio was 128.1% for the first quarter of 2022.

The Fund remains financially well positioned with cash on hand of $1,605,000 and a positive working capital balance of $2,860,000 as at March 31, 2022.

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
May 10, 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.

MESSAGE FROM KRL'S CEO (CONTINUED)

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.
- On December 21, 2021, the province of Newfoundland announced that effective December 23, 2021, restaurants would be allowed to operate, but only at 50% capacity. This new measure resulted in severe capacity restrictions at the 1 franchise restaurant located in that province.

IMPACT OF COVID-19 – 2022

At the start of KRL's current fiscal year, 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, while others imposed severe capacity restrictions 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. The 5 restaurants located in Quebec were each closed for 31 days, and subject to 50% capacity limitations for a further 46 days each during the first quarter of 2022.

IMPACT OF COVID-19 – 2022 (CONTINUED)

- 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. The restrictions mandated in the province of Ontario resulted in each of the 18 corporate restaurants, and the 42 franchise restaurants being closed for 26 days and limited to 50% capacity for an additional 26 days each during the 91 days of the current quarter.
- 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, and effective February 19, 2022, restaurants were permitted to operate at 100% capacity. The 1 corporate restaurant located in that province was therefore closed for 14 days, and only allowed to operate at 50% capacity for a further 39 days during the first quarter of 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 were each permitted to operate at 50% capacity for 49 days, and at 75% capacity for 42 days of the 91 day period ended March 27, 2022.
- On February 11, 2022, the province of Manitoba announced that effective February 15, 2022, restaurants could operate at 100% capacity. As a result of the previous restrictions, each of the 4 franchise restaurants located in the province of Manitoba were only allowed to operate at 50% capacity for 50 days during the 91 days of the current quarter.
- On February 17, 2022, the province of Newfoundland announced that effective February 21, 2022, restaurants could increase service capacity from 50% to 75%. Effective March 14, 2022, restaurants were allowed to operate without capacity limitations. The 1 franchise restaurant located in Newfoundland was therefore closed for 14 days, and only allowed to operate at 50% capacity for a further 39 days during the first quarter of 2022.

As of March 27, 2022, 51 of the 52 corporate restaurants, and 54 of the 55 franchise restaurants were open and operating at full capacity without major restrictions. As of the date of this report, the 1 corporate restaurant, and 1 franchise restaurant located in the province of Nova Scotia are still only allowed to operate at 75% capacity.

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 $35,499,000, and $35,986,000 in unused borrowing capacity, as of March 27, 2022.

TEMPORARY RESTAURANT CLOSURES

During 2021 and 2022, various levels of government in both Canada and the United States implemented health measures in response to the Covid-19 pandemic. Many of these health orders resulted in the complete closure of restaurants, while others imposed severe capacity limitations or significant operating restrictions.

During KRL's 13 weeks period ended March 27, 2022, 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 March 28, 2021, 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 first quarter of fiscal 2022 (0.9% of the available days), as compared with 3,089 during the first quarter of fiscal 2021 (32.0% of the available days).

The charts on page 28 identify the number of trading days lost, as a direct result of the Covid-19 pandemic, during the comparable 13-week periods 2022 and 2021. It includes those trading days lost due to lockdowns (mandated by federal, provincial, or state public health orders), and 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), as well as any required short-term closures caused by staff and guest exposures. 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.

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.

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

"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, 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 from 106 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. For a full description of the roll-in see "The Royalty Pool" section for further discussion.

DEFERRAL OF FINAL ADJUSTMENT DATE OF JANUARY 1, 2020 AND JANUARY 1, 2021 ROLL-INS

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 (or 28% of the sales determination period) with estimated lost sales of approximately $13,433,000. Therefore, the Final Adjustment Date has been deferred until such time as the sales of these new restaurants have normalized, and better represent the long-term prospects. KRL and the Fund have further agreed that should the impact of the Covid-19 crisis continue to negatively affect restaurant sales in 2021, that the Final Adjustment Date for the January 1, 2021 roll-in of new restaurant sales shall also be deferred until December 25, 2022, to be effective January 1, 2021.

Management of KRL and the Trustees of the Fund have currently agreed that the sales determination period to be used for the January 1, 2020 roll-in and the January 1, 2021 roll-in shall be the 52-week period ending September 25, 2022. For financial reporting purposes IFRS 2, *Share-based Payment* ("IFRS 2") obligates 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 comprehensive income or loss. Readers should note that no cash distributions will be paid to KRL on these 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. At such time, distributions will be paid on these units as if they were issued on their respective January 1, 2020 and January 1, 2021 roll-in dates.

SALES REPORTING

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

FINANCIAL HIGHLIGHTS

The table on the following page sets out selected financial information and other data of the Fund, which should be read in conjunction with the attached unaudited, condensed consolidated financial statements of the Fund for the three months ended March 31, 2022

FINANCIAL HIGHLIGHTS

($000's expect per unit amounts)	For the quarter ended March 31, 2022	March 31, 2021
Restaurants in the Royalty Pool	107	106
Royalty Pool sales [1]	**$ 141,705**	**$ 68,575**
Royalty income [2]	$ 5,668	$ 2,743
Interest income [3]	1,054	1,054
Total income	**$ 6,722**	**$ 3,797**
Administrative expenses [4]	(129)	(105)
Interest and financing expenses [5]	(100)	(97)
Operating income	**$ 6,493**	**$ 3,595**
Distributions to KRL [6]	(2,804)	(1,844)
Profit before fair value gain (loss) and income taxes	**$ 3,689**	**$ 1,751**
Fair value gain (loss) [7]	(10,870)	(7,051)
Income tax recovery (expense) [8]	(995)	(473)
Profit (loss) and comprehensive income (loss)	**$ (8,176)**	**$ (5,773)**
Distributable cash before SIFT tax [9]	**$ 3,495**	**$ 1,426**
Distributable cash [10]	**$ 2,514**	**$ 969**
Distributions to Fund unitholders [11]	**$ 3,221**	**$ 1,362**
Payout ratio [12]	**128.1%**	**140.6%**
Per Fund unit information [13]		
Profit before fair value gain (loss) and income taxes	$ 0.325	$ 0.154
Profit (loss) and comprehensive income (loss)	$ (0.720)	$ (0.508)
Distributable cash before SIFT tax [9]	**$ 0.308**	**$ 0.126**
Distributable cash [10]	**$ 0.221**	**$ 0.085**
Distributions to Fund unitholders [11]	**$ 0.284**	**$ 0.120**
SSSG [14]		
Canada	— %	— %
United States	— %	— %
Consolidated	— %	— %
Restaurants in KRL System [15]		
# Beginning of Period	107	106
Opened	—	—
Closed	—	—
# End of Period	107	106
Trading weeks [16]		
Corporate restaurants	565	315
Franchise restaurants	602	330
Total restaurants	1,167	645

Notes:

(1) Royalty Pool sales are the gross sales reported by Keg Restaurants included in the Royalty Pool in any period. As of March 31, 2022, the Royalty Pool includes 107 Keg restaurants, 52 of which are owned and operated by KRL and its subsidiaries, (42 in Canada and 10 in the United Sates), and 55 Keg restaurants which are owned and operated by Keg franchisees (all of which are in Canada).

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

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

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

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

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

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

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

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

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

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

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

(13) All per unit amounts are calculated based on the weighted average number of Fund units outstanding, which are those units held by public unitholders during the respective period. The weighted average number of Fund units outstanding for the three months ended March 31, 2022 were 11,353,500 (three months ended March 31, 2021 – 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

($000's expect per unit amounts)	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Restaurants in the Royalty Pool	**107**	**106**	**106**	**106**
Royalty Pool sales [1]	**$ 141,705**	**$ 149,192**	**$ 152,274**	**$ 59,298**
Royalty income [2]	$ 5,668	$ 5,968	$ 6,091	$ 2,372
Interest income [3]	1,054	1,078	1,078	1,066
Total income	**$ 6,722**	**$ 7,046**	**$ 7,169**	**$ 3,438**
Administrative expenses [4]	(129)	(112)	(106)	(117)
Interest and financing expenses [5]	(100)	(99)	(105)	(99)
Operating income	**$ 6,493**	**$ 6,835**	**$ 6,958**	**$ 3,222**
Distributions to KRL [6]	(2,804)	(2,899)	(2,876)	(1,731)
Profit before fair value gain (loss) and income taxes	**$ 3,689**	**$ 3,936**	**$ 4,082**	**$ 1,491**
Fair value gain (loss) [7]	(10,870)	(4,464)	4,548	(6,619)
Income tax recovery (expense) [8]	(995)	(1,068)	(1,093)	(405)
Profit (loss) and comprehensive income (loss)	**$ (8,176)**	**$ (1,596)**	**$ 7,537**	**$ (5,533)**
Distributable cash before SIFT tax [9]	**$ 3,495**	**$ 3,886**	**$ 2,861**	**$ 1,518**
Distributable cash [10]	**$ 2,514**	**$ 2,834**	**$ 1,783**	**$ 1,129**
Distributions to Fund unitholders [11]	**$ 3,221**	**$ 3,222**	**$ 2,384**	**$ 1,192**
Payout ratio [12]	**128.1%**	**113.7%**	**133.7%**	**105.6%**
Per Fund unit information [13]				
Profit before fair value gain (loss) and income taxes	$ 0.325	$ 0.347	$ 0.360	$ 0.131
Profit (loss) and comprehensive income (loss)	$ (0.720)	$ (0.141)	$ 0.664	$ (0.487)
Distributable cash before SIFT tax [9]	**$ 0.308**	**$ 0.342**	**$ 0.252**	**$ 0.134**
Distributable cash [10]	**$ 0.221**	**$ 0.250**	**$ 0.157**	**$ 0.099**
Distributions to Fund unitholders [11]	**$ 0.284**	**$ 0.284**	**$ 0.210**	**$ 0.105**
SSSG [14]				
Canada	— %	— %	— %	— %
United States	— %	— %	— %	— %
Consolidated	— %	— %	— %	— %
Restaurants in KRL System [15]				
# Beginning of Period	107	107	106	106
Opened	—	—	1	—
Closed	—	—	—	—
# End of Period	107	107	107	106
Trading weeks [16]				
Corporate restaurants	565	655	616	235
Franchise restaurants	602	712	641	162
Total restaurants	1,167	1,367	1,257	397

SUMMARY OF QUARTERLY RESULTS

($000's expect per unit amounts)	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Restaurants in the Royalty Pool	**106**	**106**	**106**	**106**
Royalty Pool sales [1]	**$ 68,575**	**$ 77,068**	**$ 106,166**	**$ 18,194**
Royalty income [2]	$ 2,743	$ 3,132	$ 4,296	$ 752
Interest income [3]	1,054	1,074	1,075	1,064
Total income	**$ 3,797**	**$ 4,206**	**$ 5,371**	**$ 1,816**
Administrative expenses [4]	(105)	(110)	(115)	(102)
Interest and financing expenses [5]	(97)	(98)	(104)	(97)
Operating income	**$ 3,595**	**$ 3,998**	**$ 5,152**	**$ 1,617**
Distributions to KRL [6]	(1,844)	(1,992)	(2,272)	(1,241)
Profit before fair value gain (loss) and income taxes	**$ 1,751**	**$ 2,006**	**$ 2,880**	**$ 376**
Fair value gain (loss) [7]	(7,051)	(24,101)	11,620	(4,524)
Income tax recovery (expense) [8]	(473)	(543)	(775)	(262)
Profit (loss) and comprehensive income (loss)	**$ (5,773)**	**$ (22,638)**	**$ 13,725**	**$ (4,410)**
Distributable cash before SIFT tax [9]	**$ 1,426**	**$ 2,983**	**$ 1,733**	**$ 1,015**
Distributable cash [10]	**$ 969**	**$ 2,456**	**$ 975**	**$ 925**
Distributions to Fund unitholders [11]	**$ 1,362**	**$ 1,703**	**$ 1,192**	**$ 1,192**
Payout ratio [12]	**140.6%**	**69.3%**	**122.3%**	**128.9%**
Per Fund unit information [13]				
Profit before fair value gain (loss) and income taxes	$ 0.154	$ 0.177	$ 0.254	$ 0.033
Profit (loss) and comprehensive income (loss)	$ (0.508)	$ (1.994)	$ 1.209	$ (0.388)
Distributable cash before SIFT tax [9]	**$ 0.126**	**$ 0.263**	**$ 0.153**	**$ 0.089**
Distributable cash [10]	**$ 0.085**	**$ 0.216**	**$ 0.086**	**$ 0.081**
Distributions to Fund unitholders [11]	**$ 0.120**	**$ 0.150**	**$ 0.105**	**$ 0.105**
SSSG [14]				
Canada	— %	— %	— %	— %
United States	— %	— %	— %	— %
Consolidated	— %	— %	— %	— %
Restaurants in KRL System [15]				
# Beginning of Period	106	106	105	107
Opened	—	—	1	—
Closed	—	—	—	(2)
# End of Period	106	106	106	105
Trading weeks [16]				
Corporate restaurants	315	392	644	113
Franchise restaurants	330	545	708	106
Total restaurants	645	937	1,352	219

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 Months Ended March 31, 2022

As of May 10, 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 net royalty revenue added to the Royalty Pool, divided by the yield of the Fund units, divided by the weighted average unit price of the Fund units. KRL receives 80% of the estimated Additional Entitlement initially, with the balance received on December 25th of each year, to be effective January 1st of each year, when the actual full year performance of the new restaurants is known with certainty.

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.

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 107 as of December 31, 2021. Seventy-eight new Keg restaurants that opened during the period from April 1, 2002 through October 2, 2020, with annual gross sales of $409,960,927 were added to the Royalty Pool. Fifty-two permanently closed Keg restaurants with annual sales of $163,614,549 were removed from the Royalty Pool. This resulted in a cumulative net increase in Royalty Pool sales of $246,346,378 and KRL receiving a cumulative Additional Entitlement equivalent to 7,397,466 Fund units as of December 31, 2021.

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.

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 31.93% as of March 31, 2022. The increase in KRL's effective ownership of the Fund is due to the cumulative Additional Entitlement received by KRL equivalent to 7,619,086 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%.

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.

DISTRIBUTIONS TO UNITHOLDERS (CONTINUED)

Year-to-date distributions paid were as follows:

		Distributions		
Period	Payment Date	$ / Unit	Total $	Year-to-Date $
December 1-31, 2021	January 31, 2022	9.46¢	$ 1,074,041	$ 1,074,041
January 1-31, 2022	February 28, 2022	9.46¢	$ 1,074,041	$ 2,148,082
February 1-28, 2022	March 31, 2022	9.46¢	$ 1,074,041	$ 3,222,123
March 1-31, 2022	April 29, 2022	9.46¢*	$ 1,074,041	$ 4,296,164

*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 $217,223,000 of distributable cash, and paid cumulative distributions of $216,852,000 which has resulted in a cumulative surplus of $371,000. 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 99.83%.

DISTRIBUTABLE CASH

Distributable cash is defined as the periodic cash flows from operating activities as reported in the condensed consolidated interim 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 page 6 of this report.

Distributable cash is calculated as follows:

	For the quarter ended	
($000's)	March 31, 2022	March 31, 2021
Cash flow from operations (1)	$ 5,266	$ 2,750
SIFT tax paid on Fund units (2)	1,126	613
Interest and financing fees paid on term loan (3)	(93)	(93)
KRL's interest (4)	(2,804)	(1,844)
Distributable cash before current year SIFT tax	$ 3,495	$ 1,426
SIFT tax expense on Fund units (5)	(981)	(457)
Distributable cash (6)	$ 2,514	$ 969

Notes:

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

(2) Includes SIFT taxes actually paid during the respective period. During the first three months of 2022, $1,126,000 of SIFT taxes were paid consisting of $647,000 paid on account of 2022, and $479,000 on account of 2021 (first three months of 2021 – $400,000 paid on account of 2021 and $213,000 paid on all 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 2022 and 2021.

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

OWNERSHIP OF THE FUND

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

	March 31, 2022 [1]		March 31, 2021	
	#	%	#	%
Fund units held by public unitholders [2]	11,353,500	68.07	11,353,500	69.20
Exchangeable Partnership units held by KRL: [3]				
Class A units [4]	905,944	5.43	905,944	5.52
Class B units [5]	176,700	1.06	176,700	1.08
Class D units [6]	4,103,289	24.60	3,881,669	23.66
Class D units [7]	139,097	0.84	88,603	0.54
Total Exchangeable Partnership units [8]	5,325,030	31.93	5,052,916	30.80
Total Fund and Exchangeable Partnership units	16,678,530	100.00	16,406,416	100.00

Notes:

(1) 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% on a fully diluted basis. As of March 31, 2022, there are 11,353,500 Fund units outstanding, 5,185,933 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.

(2) Represents the public's total effective ownership of the Fund as of March 31, 2022 and March 31, 2021. 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 68.07% during the three months ended March 31, 2022 (three months ended March 31, 2021 – 69.20%). The weighted average number of Fund units outstanding for the three month periods ended March 31, 2022 was 11,353,500 (three month periods ended March 31, 2021 – 11,353,500).

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

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

(5) Class B units were issued to KRL in return for adding net sales to the Royalty Pool on an annual basis up until January 1, 2008, (at which time the last of the 3,376,700 unentitled Class B units issued at the time of the IPO became fully entitled to distributions). As of March 31, 2022, KRL is the registered holder of 176,700 Class B units (March 31, 2021 – 176,700 Class B Units).

(6) Class D units are equivalent to Class B units in all material respects, but only began to be issued after January 1, 2008 (once all Class B units became fully entitled to distributions). As of March 31, 2022, KRL is the registered holder of 4,103,289 Class D units, all of which are entitled (March 31, 2021 – 3,881,669 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 March 31, 2022 and March 31, 2021. 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 31.93% during the three months ended March 31, 2022 (three months ended March 31, 2021 – 30.80%). The weighted average number of Exchangeable units effectively owned by KRL during the three month periods ended March 31, 2022 was 5,325,030 (three month periods ended March 31, 2021 – 5,052,916).

SYSTEM SALES

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

($000's)	For the 13 weeks ended March 31, 2022	For the 13 weeks ended March 31, 2021
Corporate Keg restaurants [(1)]	$ 71,650	$ 34,583
Franchised Keg restaurants [(2)]	70,052	33,998
Total system sales	$ 141,702	$ 68,581

Notes:

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

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

FIRST QUARTER

KRL's system sales for the 13 weeks ended March 28, 2021, were $68,581,000 compared to $141,702,000 for the 13 weeks ended March 27, 2022, an increase of $73,121,000 or 106.6%. The increase was due to the net impact of the sales increases at comparable restaurants during the comparable 13-week period ($72,255,000 increase in sales), the incremental sales from a new restaurant that operated during the comparable quarter ($857,000 increase in sales), and the positive effect of the exchange rate increase on the translation of the US restaurant sales into their Canadian dollar equivalent ($9,000 increase in sales).

No new restaurants were opened, and no restaurants were closed, in either of the first quarter of 2022, or the first quarter of 2021.

During the 13-week period of the current year, restaurants were open for a total of 1,167 trading weeks as compared with 645 trading weeks during the 13-week period of the prior year. The increase of 522 trading weeks in the comparable period consisted of increases at comparable restaurants (513 more trading weeks), and a net increase from a new restaurant (9 additional trading weeks).

Sales from comparable restaurants increased by $72,255,000 during the 13-week period of the current year primarily due to the 513 incremental trading weeks of operation. The increase of 513 trading weeks was due to significantly fewer temporary restaurant closures, related to the Covid-19 pandemic, in the first quarter of the current year, than in the first quarter of the prior year (522 more trading weeks), but that increase was partially offset by the short-term closure of some restaurants during the current quarter as a result of inclement weather, required repair or restoration, or other issues (9 less trading weeks).

The number of trading weeks of operation lost (from temporary restaurant closures related to Covid-19 pandemic) were 218 in the first quarter of 2022, as compared with 736 during the first quarter of 2021. During the first quarter of 2022, the 218 lost trading weeks were comprised of: 214 at comparable restaurants; and 4 at a new restaurant. During the first quarter of 2021 all 736 lost trading weeks were at restaurants which are now reported as comparable restaurants.

OPERATING RESULTS

FIRST QUARTER

ROYALTY POOL SALES

Royalty Pool sales increased by $73,130,000 from $68,575,000 to $141,705,000 for the comparable quarter. The increase in Royalty Pool sales was due to sales increase of comparable Royalty Pool restaurants during the comparable three-month period ($72,252,000 increase in Royalty Pool sales), the sales of new restaurants added to the Royalty Pool on January 1, 2022 ($857,000 increase in Royalty Pool sales), and net impact of the positive effect of the exchange rate increase on the translation of the US restaurant sales into their Canadian dollar equivalent ($21,000 increase in Royalty Pool sales).

ROYALTY INCOME

Total royalty income increased from $2,743,000 in the first quarter of 2021 to $5,668,000 in the first quarter of 2022. The increase of $2,925,000 solely resulted from the increase in royalty income and there were no Make-whole payment in either of the comparable quarters.

The increase in royalty fee income of $2,925,000 was due to the sales increases at comparable Royalty Pool restaurants during the comparable quarter ($2,890,000 increase in royalty income), the sales of one new restaurant added to the Royalty Pool on January 1, 2022 ($34,000 increase in royalty income), and the positive effect of the exchange rate increase on the translation of US restaurant sales into their Canadian dollar equivalent ($1,000 increase in royalty income).

No Make-whole payment were made in either the first quarter of the current or prior year quarter, as no restaurants were subject to Make-whole payments in either quarter.

INTEREST INCOME

Interest income earned by the Fund during the first quarter of the current year was $1,054,000 and was comprised entirely of interest income on the Keg Loan. Interest income remained the same as in the comparable quarter of the prior year.

ADMINISTRATIVE EXPENSES

Administrative expenses incurred by the Partnership for the quarter ended March 31, 2022 were $129,000, consisting entirely of general and administrative expenses. The increase in administration expenses of $24,000 during the comparable quarter consisted of an increase in general and administrative expenses of $23,000, and an increase in finance fees of $1,000. General and administrative expenses increased primarily due to an increase in audit fees.

INTEREST AND FINANCING EXPENSES

Interest and financing expenses incurred by the Fund were $100,000 for the three months ended March 31, 2022, and included interest on the bank debt of $96,000, and amortization of deferred financing charges of $4,000. Interest and financing expenses increased by $3,000 during the comparable quarter as the effective interest rate on the term loan increased from 2.70% to 2.78% due to a change in the prime lending rate in early March 2022. Amortization of deferred financing charges remained the same as in the comparable quarter of the prior year.

OPERATING INCOME

The Fund’s operating income increased from $3,595,000 during the first quarter of 2021, to $6,493,000 during the first quarter of 2022. The increase of $2,898,000 was due to the net impact of the increase in royalty income of $2,925,000, the increase in administrative expenses of $24,000, and the increase in interest and financing expenses of $3,000.

DISTRIBUTIONS TO KRL

Distributions attributable to KRL during the three months ended March 31, 2022 were $2,804,000, which included distributions of $1,735,000 on the Exchangeable units and $1,069,000 on the Class C units. Distributions on the Exchangeable units increased by $960,000 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 first 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 30.80% during the first quarter of the prior year to 31.93% during the first quarter of the current year, as a result of the initial 80% of the Additional Entitlement for 2022 received by KRL on January 1, 2022, 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 first 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 $1,938,000 from a profit of $1,751,000 (15.4 cents/Fund unit) in the first quarter of 2021, to a profit of $3,689,000 (32.5 cents/Fund unit) in the first quarter of 2022.

FAIR VALUE GAIN (LOSS)

The fair value of the Exchangeable unit liability increased by $10,870,000 during the three months ended March 31, 2022, as compared with a increase of $7,051,000 during the three months ended March 31, 2021.

During the three months ended March 31, 2022, 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 $14.63 to $16.65, resulting in a non-cash loss to the Fund of $10,028,000. In addition, the fair value of 221,620 Exchangeable units to granted to KRL on January 1, 2022 as the initial 80% balance of the Additional Entitlement for 2022 increased from $14.12 (the January 1, 2022 roll-in price) to $16.65, resulting in an additional non-cash loss of $561,000. Finally, the fair value of the 139,097 unentitled Exchangeable units expected to be granted to KRL, as the remaining balance of the Additional Entitlement for 2020 and 2021 (once sales true-up for January 1, 2020, and the January 1, 2021 roll-in are finalized in September 2022) increased from $14.63 to $16.65 resulting in a further non-cash loss to Fund of 281,000.

During the three months ended March 31, 2021, the fair value of the 4,762,336 Exchangeable units held by KRL during that entire quarter increased, as the closing market price of a Fund unit (the basis upon which the Exchangeable units held by KRL are valued) increased from $12.16 to $13.40, resulting in a non-cash loss to the Fund of $5,905,000. In addition, the fair value of the 201,977 Exchangeable units granted to KRL on January 1, 2021, as the initial 80% of the Additional Entitlement for 2021 increased from $8.27 (the January 1, 2021 roll-in price) to $13.40, resulting in a non-cash loss to the Fund of $1,036,000. Finally, the fair value of 88,603 unentitled Exchangeable units expected to be granted to KRL as the remaining balance of the Additional Entitlement for 2020 (once the sales true-up for the January 1, 2020 roll-in is finalized in September 2022), increased from $12.16 to $13.40, resulting in a non-cash loss to the Fund of $110,000.

INCOME TAX RECOVERY (EXPENSE)

Income taxes for the first quarter of 2022, were a tax expense of $995,000, and included SIFT tax expense of $981,000 and a non-cash deferred income tax expense of $14,000. During the first quarter of the current year, income taxes increased by $522,000 due to an increase in SIFT taxes of $524,000, offset by a decrease of $2,000 in deferred income tax expense. 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)

Loss increased by $2,403,000 from a loss of $5,773,000 (-50.8 cents/Fund unit) in the first quarter of 2021, to a loss of $8,176,000 (-72.0 cents/Fund unit) in the first quarter of 2022, 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 $2,069,000 from $1,426,000 (12.6 cents/Fund unit) to $3,495,000 (30.8 cents/Fund unit) during the comparable quarter. Cash available for distribution to Fund unitholders increased by $1,545,000 from $969,000 (8.5 cents/Fund unit) to $2,514,000 (22.1 cents/Fund unit) during the comparable quarter. The difference between the Fund's profit (loss) and distributable cash is due to non-cash items such as amortization, fair value gain (loss), and deferred income taxes included in the Fund's profit (loss), as well as changes in non-cash working capital balances.

DISTRIBUTIONS TO FUND UNITHOLDERS

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

During the first quarter of 2021, distributions to Fund unitholders included regular cash distributions paid of $1,362,000 (12.0 cents/Fund unit), whereas in the first quarter of 2022 distributions of $3,221,000 (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 3.5 cents/Fund unit per month in the first quarter of 2021, to 9.46 cents/Fund unit per month in the first quarter of 2022.

RELATED PARTY TRANSACTIONS

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

As at March 31, 2022, the Fund has a $2,784,000 royalty fee receivable, including GST, from KRL (December 31, 2021 – $2,583,000) and a $363,000 interest receivable from KRL on the Keg Loan (December 31, 2021 – $363,000).

As at March 31, 2022, the Fund has $1,340,000 in distributions payable to KRL (December 31, 2021 – $1,254,000).

The Fund received royalty income with respect to the licence and royalty agreement between KRL and the Partnership. The Fund recorded royalty income of $5,668,000 for the quarter ended March 31, 2022 (quarter ended March 31, 2021 – $2,743,000).

During the quarter ended March 31, 2022, the Fund received $1,054,000 in interest income on the Keg Loan (quarter ended March 31, 2021 – $1,054,000). 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 March 31, 2022, the Fund recorded distributions to KRL of $1,735,000 and $1,069,000, respectively (quarter ended March 31, 2021 – $775,000 and $1,069,000, respectively).

LIQUIDITY & CAPITAL RESOURCES

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

During the first quarter of 2022, the Fund generated $2,514,000 in distributable cash, and paid distributions of $3,221,000 to public unitholders, resulting in a shortfall of $707,000.

During the three months ended March 31, 2022, 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 March 31, 2022, the Fund remains financially well positioned with cash on hand of $1,605,000 and a positive working capital balance of $2,860,000 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 March 31, 2022, 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 remained 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 revised one financial covenant until December 31, 2021 and compliance of this amended covenant is tested on a quarterly basis. As at March 31, 2022, 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 March 31, 2022, the entire $1 million facility is available for use.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

The control framework used to design the internal controls over financial reporting is "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013. There have been no significant changes to the internal control over financial reporting for the quarter ended March 31, 2022 that have had or are reasonably likely to have a material effect on the Fund's internal controls over financial reporting.

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

CRITICAL ACCOUNTING ESTIMATES

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

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

CONSOLIDATION

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

KEG RIGHTS

The Fund carries the Keg Rights at historical cost comprising the amount of consideration paid for the Keg Rights in 2002 as part of the Fund's IPO, as well as the value of additional sales of net new Keg restaurants added to the Royalty Pool since inception. The value of the gross sales of new Keg restaurants added to the Royalty Pool is determined on a formula basis that is designed to estimate the present value of the cash flows due to the Fund as a result of the sales of these new Keg restaurants being added to the Royalty Pool.

As such, the calculation is dependent on a number of variables including the estimated long-term sales of the new Keg restaurants added to the Royalty Pool for the Sales Determination Period and a tax rate. The value assigned to the sales of net new Keg restaurants, and as a result, the value assigned to the Keg Rights, could differ materially from actual results.

The Fund tests the Keg Rights for impairment annually, which requires that the Fund use a valuation technique to determine if impairment exists. This valuation technique is dependant on significant assumptions, including projected sales for Keg restaurants included in the Royalty Pool and the pre-tax discount rate. This technique requires management to exercise judgement, and as a result, the estimated net cash flows the Keg Rights are expected to generate could differ materially from actual results.

EXCHANGEABLE UNIT FAIR VALUE GAIN (LOSS)

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

The Fund estimates the fair value of this financial liability using the Fund's market capitalization at the end of the applicable period and allocating KRL's entitlement based upon its percentage ownership of the Fund on a fully-diluted basis as at March 31, 2022

As at March 31, 2022, the closing market price of a Fund unit was $16.65 resulting in a market capitalization of $277.7 million. KRL's 31.93% ownership of the Fund (on a fully-diluted basis) was calculated to be $88.7 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.

OUTLOOK

The effects of Covid-19 on many businesses, especially restaurants, were sudden and unprecedented. Throughout fiscal 2020 and 2021, KRL was not immune to this impact, but was able to pivot and maintain a meaningful connection with guests, which has left a lasting and positive impression.

As the impact of the Covid-19 health pandemic appears to recede, businesses are now facing new headwinds, mostly because of the significant disruptions created by the crisis over the past two years. These include supply chain challenges driven by labour scarcity, and hyper-inflationary food and labour costs. More recently, these issues have been further compounded by global insecurity and commodity shortages because of Russia's invasion of Ukraine.

Although rising costs and shortages continue to challenge the restaurant category, KRL is encouraged by the strength of our partner and supplier relationships, the strong demand and sales momentum the business is currently experiencing, and the continued strength of our value proposition in the eyes of our guests. KRL has confidence that guests will continue to appreciate the value they receive at The Keg for the price they pay.

While off premise demand for take-out surged during 2020 and 2021, and will likely continue for the foreseeable future, management of KRL believes that there is no substitute for a full-service dining experience, that can only be provided within the four walls of a restaurant (including the patio). It is only within this environment that guests can fully appreciate the value proposition of a premium dining experience, which includes atmosphere, elevated hospitality and service, and a beautifully prepared meal, cooked and served to specification. Consistently delivering this experience to our guests remains KRL's top priority, and with the industry now fully re-opened, we are confident there will be a significant opportunity for those businesses, executing at the highest levels, to increase market share.

As Covid-19 cases continue throughout Canada (currently the BA.2 variant), it is difficult to predict how provincial governments will react and whether additional arbitrary restrictions will once again be placed on the restaurant industry. As a result, it is currently difficult to predict sales levels of KRL with any level of certainty. However, management of KRL expects that sales in the restaurant category will rebound to pre-Covid levels in Q3 2022, if there is no further government intervention, such as mandated restaurant closures or severe capacity or operating restrictions. In addition, KRL expects that inflationary pressures will begin to subside in 2023, which will provide additional relief to KRL's profitability and growth goals.

The current situation for the restaurant industry remains challenging, and management of KRL acknowledge this reality. However, over the last two years, KRL has continued to demonstrate operational excellence, and our current performance reinforces how sought after and trusted The Keg's brand experience is. KRL remains optimistic about the future of the full-service segment of the restaurant industry, and will always deliver the highest levels of food quality and best-in-class service for which The Keg 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 March 31, 2022, 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

The charts below identify the number of trading days lost, as a direct result of the Covid-19 pandemic, during the comparable 13-week periods of 2022 and 2021. It includes those trading days lost due to lockdowns (mandated by federal, provincial, or state public health orders), and 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), as well as any required short-term closures caused by staff or guest exposures. 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.

	13 Weeks Ended March 27, 2022				13 Weeks Ended March 28, 2021			
Canada	#	Corporate	Franchise	Total	#	Corporate	Franchise	Total
British Columbia	18	37	11	48	18	34	3	37
Alberta	17	29	4	33	17	338	380	718
Saskatchewan	3	—	11	11	3	—	19	19
Manitoba	4	—	7	7	4	—	197	197
Ontario	46	493	759	1,252	45	1,511	2,061	3,572
Quebec	5	155	—	155	5	455	—	455
Nova Scotia	2	3	—	3	2	12	9	21
New Brunswick	1	16	—	16	1	20	—	20
Newfoundland	1	—	—	—	1	—	44	44
Total Canada	**97**	**733**	**792**	**1,525**	**96**	**2,370**	**2,713**	**5,083**
Closed %		**19.2 %**	**15.8 %**	**17.3 %**		**63.5 %**	**54.2 %**	**58.2 %**
United States								
Washington	1	1	—	1	1	35	—	35
Colorado	1	—	—	—	1	11	—	11
Arizona	5	1	—	1	5	9	—	9
Texas	3	—	—	—	3	11	—	11
Total US	**10**	**2**	**—**	**2**	**10**	**66**	**—**	**66**
Closed %		**0.2 %**	**— %**	**0.2 %**		**7.3 %**	**—**	**7.3 %**
Total Company	**107**	**735**	**792**	**1,527**	**106**	**2,436**	**2,713**	**5,149**
Closed %		**15.5 %**	**15.8 %**	**15.7 %**		**52.5 %**	**54.2 %**	**53.4 %**

During the first quarter of 2021, KRL's restaurants were closed or effectively closed for 1,527 days (15.7% of the available trading days) due to temporary restaurant closures related to the Covid-19 pandemic. During the first quarter of 2021, KRL's restaurants were closed or effectively closed for 5,149 days (53.4% of the available trading days) due to temporary restaurant closures related to the Covid-19 pandemic.

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 13 weeks ended March 27, 2022, which are available on SEDAR at www.sedar.com.

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

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

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

ADDITIONAL INFORMATION

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

UNITHOLDER INFORMATION

CORPORATE HEAD OFFICE

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

BOARD OF TRUSTEES

C. C. Woodward

Tim Kerr

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

C. C. Woodward*
Chairman and Director

David Aisenstat
President and Director

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

Telephone: (604) 276-0242
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Website: www.kegincomefund.com

THE KEG ROYALTIES INCOME FUND

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

	Note	March 31, 2022	December 31, 2021
ASSETS			
Current assets:			
Cash		$ 1,605	$ 2,371
Prepaid expenses and deposits		91	50
Royalty fee receivable from Keg Restaurants Ltd.	9	2,784	2,583
Interest on note receivable from Keg Restaurants Ltd.	9	363	363
		4,843	5,367
Note receivable from Keg Restaurants Ltd.		57,000	57,000
Intangible assets, Keg Rights	5	195,102	191,974
		$ 256,945	$ 254,341
LIABILITIES AND UNITHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		274	233
Interest payable on term loan		35	32
Distributions payable to Fund unitholders		—	1,074
Distributions payable to Keg Restaurants Ltd.	9	1,340	1,254
Current income tax payable	8	334	479
		1,983	3,072
Term loan, net of deferred financing charges	11	13,961	13,957
Deferred income taxes	8	2,605	2,591
Class C Partnership units		57,000	57,000
Exchangeable Partnership units	7	88,662	74,663
Unitholders' equity:			
Fund units		123,275	123,275
Retained earnings (accumulated deficit)		(30,541)	(20,217)
		92,734	103,058
		$ 256,945	$ 254,341

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

Approved on behalf of the Board of Trustees

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

"Tim Kerr"
Tim Kerr, Trustee

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

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

	Note	January 1 to March 31, 2022	January 1 to March 31, 2021
Revenue:			
Royalty income	4	$ 5,668	$ 2,743
Interest income		1,054	1,054
		6,722	3,797
Expenses:			
General and administrative		(129)	(105)
Interest and financing fees		(96)	(93)
Amortization of deferred financing charges		(4)	(4)
		(229)	(202)
Profit before distributions, fair value loss and income taxes		6,493	3,595
Distributions recorded as interest:			
Class C Partnership units		(1,069)	(1,069)
Exchangeable Partnership units	7	(1,735)	(775)
		(2,804)	(1,844)
Profit before fair value loss and income taxes		3,689	1,751
Fair value loss on Exchangeable Partnership units	7	(10,870)	(7,051)
Loss before income taxes		(7,181)	(5,300)
Income tax expense:			
Current	8	(981)	(457)
Deferred	8	(14)	(16)
		(995)	(473)
Loss and comprehensive loss for the period		$ (8,176)	$ (5,773)
Weighted average Fund units outstanding	3	11,353,500	11,353,500
Weighted average diluted units outstanding	3	16,678,530	16,406,416
Basic loss per Fund unit	3	$ (0.72)	$ (0.51)
Diluted loss per Fund unit	3	$ (0.72)	$ (0.51)

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

(Expressed in thousands of dollars - unaudited)

	Note	Fund units	Retained earnings (accumulated deficit)	Unitholders' equity
Balance, January 1, 2021		$ 123,275	$ (6,183)	$ 117,092
Loss and comprehensive loss for the period		—	(5,773)	(5,773)
Distributions declared to Fund unitholders	6	—	(795)	(795)
Balance, March 31, 2021		$ 123,275	$ (12,751)	$ 110,524
Balance, January 1, 2022		$ 123,275	$ (20,217)	$ 103,058
Loss and comprehensive loss for the period		—	(8,176)	(8,176)
Distributions declared to Fund unitholders	6	—	(2,148)	(2,148)
Balance, March 31, 2022		$ 123,275	$ (30,541)	$ 92,734

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of dollars - unaudited)

	Note	January 1 to March 31, 2022	January 1 to March 31, 2021
Cash provided by (used for):			
OPERATIONS:			
Loss for the period		$ (8,176)	$ (5,773)
Items not involving cash:			
Amortization of deferred financing charges		4	4
Deferred income tax expense	8	14	16
Fair value loss on Exchangeable Partnership units	7	10,870	7,051
Distributions recorded as interest:			
Class C Partnership units		1,069	1,069
Exchangeable Partnership units	7	1,735	775
Changes in non-cash operating working capital:			
Royalty fee receivable from Keg Restaurants Ltd.		(201)	(341)
Prepaid expenses and deposits		(41)	(41)
Accounts payable and accrued liabilities		41	54
Interest and financing fees		96	93
Interest income		(1,054)	(1,054)
Current income tax expense	8	981	457
Interest received		1,054	1,053
Income taxes paid	8	(1,126)	(613)
		5,266	2,750
FINANCING:			
Distributions paid to Class C unitholder		(1,069)	(1,069)
Distributions paid to Exchangeable unitholder		(1,649)	(675)
Distributions paid to Fund unitholders	6	(3,221)	(1,362)
Deferred financing charges		—	(10)
Interest and financing fees paid		(93)	(93)
		(6,032)	(3,209)
Decrease in cash		(766)	(459)
Cash, beginning of period		2,371	3,009
Cash, end of period		$ 1,605	$ 2,550
Non-cash transactions:			
Increase in intangible assets on Royalty Pool net sales roll-in	5, 7	$ 3,129	$ 1,671

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts expressed in thousands of dollars - unaudited)

For the three months ended March 31, 2022 and 2021

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 those health orders resulted in the complete closure of restaurants, while others imposed severe capacity limitations or significant operating restrictions.

In late December of 2021, various Canadian provinces announced and implemented additional restrictions in an attempt to slow the spread of the Omicron variant. Many of those health orders resulted in the complete closure of certain restaurants for a period of time, many of which extended into the first quarter of 2022. Refer to the Fund's Management Discussion and Analysis for a detailed description of those restrictions and closures.

The Fund has cash on hand of $1,605,000, a positive working capital balance of $2,860,000 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 11).

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 condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). These statements represent a condensed set of financial statements, and accordingly, do not include all of the information required for annual financial statements. These statements follow the same accounting policies and methods of their application as the most recent annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the Fund's consolidated financial statements for the year ended December 31, 2021.

These condensed consolidated financial statements were authorized for issue by the Fund's Board of Trustees on May 10, 2022.

(b) Functional and presentation currency:

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

(Tabular amounts expressed in thousands of dollars - unaudited)

3. EARNINGS PER UNIT:

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

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

The following reconciles the basic loss to the diluted profit:

	Three months ended March 31, 2022	Three months ended March 31, 2021
Loss and comprehensive loss for the period	$ (8,176)	$ (5,773)
Distributions on Exchangeable Partnership units	1,735	775
Increase in current income tax expense	(468)	(209)
Fair value loss on Exchangeable Partnership units	10,870	7,051
Diluted profit for the period	$ 3,961	$ 1,844
Weighted average number of:		
Fund units	11,353,500	11,353,500
Exchangeable Partnership units	5,325,030	5,052,916
Weighted average number of units	16,678,530	16,406,416
Basic loss per Fund unit	$ (0.72)	$ (0.51)
Diluted loss per Fund unit	$ (0.72)	$ (0.51)

For the three months ended March 31, 2022 and March 31, 2021, the Exchangeable Partnership units are anti-dilutive. Accordingly, the fully diluted loss per Fund unit equals the basic loss per Fund unit for these periods.

4. 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 net royalty revenue added to the Royalty Pool, divided by the yield of the Fund units, divided by the weighted average unit price of the Fund units. KRL receives 80% of the estimated Additional Entitlement initially, with the balance received on December 25th of each year, to be effective January 1st of each year, when the actual full year performance of the new restaurants is known with certainty.

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.

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 107 as of December 31, 2021. Seventy-eight new Keg restaurants that opened during the period from April 1, 2002 through October 2, 2020, with annual gross sales of $409,960,927 were added to the Royalty Pool. Fifty-two permanently closed Keg restaurants with annual sales of $163,614,549 were removed from the Royalty Pool. This resulted in a cumulative net increase in Royalty Pool sales of $246,346,378 and KRL receiving a cumulative Additional Entitlement equivalent to 7,397,466 Fund units as of December 26, 2021.

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 31, 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.

There were no restaurant closures from January 1 to March 31, 2022 that required make-whole payment (January 1 to March 31, 2021 – no permanent closures)

(Tabular amounts expressed in thousands of dollars - unaudited)

4. ROYALTY POOL (CONTINUED):

Royalty income was calculated as follows:

	Three months ended March 31, 2022	Three months ended March 31, 2021
Restaurants in Royalty Pool	107	106
Royalty Pool system sales	$ 141,705	$ 68,575
Royalty income at 4% of system sales reported above	5,668	2,743
Make-whole payment, based on 4% of lost system sales	—	—
Total royalty income	$ 5,668	$ 2,743

5. INTANGIBLE ASSETS:

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

The Fund has adopted a policy of accounting for the Additional Entitlement of Class B units and Class D Partnership units ("Class D units") based on the fair value of these units at the date of determination which results in an increase in intangible assets and in the Exchangeable Partnership unit liability. The value of of the Keg Rights increased by $3,129,000 as a result of the January 1, 2022 Additional Entitlement (January 1, 2021 Additional Entitlement – $1,671,000)

6. DISTRIBUTIONS ON FUND UNITS:

	Three months ended March 31, 2022	Three months ended March 31, 2021
Distributions declared to Fund unitholders	$ 2,148	$ 795
Weighted average Fund units outstanding	11,353,500	11,353,500
Distributions declared per unit	$ 0.19	$ 0.07

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 - unaudited)

7. 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:

		March 31, 2022	
	Foot Note	Total number of Exchangeable Partnership units	Fair Value
Class A Partnership units	(i)	905,944	$ 15,084
Class B Partnership units	(ii)	176,700	2,942
Class D Partnership units	(iii)	4,242,386	70,636
		5,325,030	$ 88,662

		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

The Exchangeable Partnership units are presented in the Fund's financial statements as a financial liability and measured at fair value. Changes in fair value are recognized in profit or loss in the period in which they occur. The fair value of the Exchangeable Partnership units is determined by using Level 2 inputs being the closing market price of the Fund units on the Toronto Stock Exchange at the respective reporting date as Exchangeable Partnership units have similar distribution and voting rights as the Fund units. The closing unit price as at March 31, 2022 was $16.65 (December 31, 2021 – $14.63).

(Tabular amounts expressed in thousands of dollars - unaudited)

7. 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, 2022	5,103,410	$ 74,663
January 1 initial estimate of Class D unit entitlement (80%)	221,620	3,129
Fair value adjustment	—	10,870
Fair value of Exchangeable Partnership units, March 31, 2022	5,325,030	$ 88,662

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

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

(i) The Class A units are entitled to a preferential proportionate distribution equal to the distribution on the Class C units, multiplied by the number of Class A units divided by the number of LP Partnership units ("LP units") issued and outstanding. The Keg Holdings Trust, a wholly owned subsidiary of the Fund, holds all of the 8,153,500 LP units issued and outstanding at March 31, 2022. 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.

7. 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 on an annual basis 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. Class D units are issued subsequent to the Class B Termination Date and are identical to Class B units except that the Trustees of KHT can require KRL to surrender any or all of the issued Class D units for a price that is equal to the one originally used in the formula to calculate the number of units issued.

Included in the total 4,242,386 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, to be effective January 1, 2020 and January 1, 2021, respectively. 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.

(Tabular amounts expressed in thousands of dollars - unaudited)

8. INCOME TAXES:

The Fund is subject to tax at a rate of 27.0% for the 2021 and later taxation years.

The components of income tax expense are as follows:

	Three months ended	
	March 31, 2022	March 31, 2021
Current income tax expense	$ (981)	$ (457)
Deferred income tax expense	(14)	(16)
	$ (995)	$ (473)

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

	Three months ended	
	March 31, 2022	March 31, 2021
Total instalment payments related to the current fiscal year	$ (647)	$ (400)
Tax payment related to the balance owing from the prior fiscal year	(479)	(213)
	$ (1,126)	$ (613)

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

	March 31, 2022	December 31, 2021
Temporary difference related to the Keg Rights	$ 2,605	$ 2,591
Deferred income tax liability	$ 2,605	$ 2,591

The deferred income tax liability arises mainly as a result of the Fund recording, in the current period, its cumulative share of the temporary differences between the accounting and tax bases of the Keg Rights, owned by the Partnership, generated since inception of the Fund.

(Tabular amounts expressed in thousands of dollars - unaudited)

9. RELATED PARTY TRANSACTIONS AND BALANCES:

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

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

	March 31, 2022	December 31, 2021
Royalty fee receivable, including GST/HST	$ 2,784	$ 2,583
Interest on note receivable from KRL	363	363
Due from KRL	$ 3,147	$ 2,946

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

	March 31, 2022	December 31, 2021
Distributions payable to KRL	$ 1,340	$ 1,254

The above amounts were received from KRL when due, subsequent to the end of the periods above, except for the $178,000 distributions payable to KRL (December 31, 2021 – $146,000) on the notional Class D units that will be paid on January 31, 2023.

The Fund received royalty income with respect to the licence and royalty agreement between KRL and the Partnership. The Fund recorded royalty income of $5,668,000 for the quarter ended March 31, 2022 (quarter ended March 31, 2021 – $2,743,000).

During the quarter ended March 31, 2022, the Fund received $1,054,000 in interest income on the Keg Loan (quarter ended March 31, 2021 – $1,054,000). These amounts may differ from interest income reported in the consolidated statements of comprehensive loss due to interest received on cash balances.

The Fund also records distributions to KRL on the Exchangeable and Class C units of the Partnership that KRL owns. During the quarter ended March 31, 2022, the Fund recorded distributions to KRL of $1,735,000 and $1,069,000, respectively (quarter ended March 31, 2021 – $775,000 and $1,069,000, respectively).

(Tabular amounts expressed in thousands of dollars - unaudited)

10. FINANCIAL INSTRUMENTS:

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

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

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

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

	March 31, 2022	December 31, 2021
Financial assets:		
Amortized cost:		
Cash	$ 1,605	$ 2,371
Royalty fee receivable from Keg Restaurants Ltd.	2,784	2,583
Interest on note receivable from Keg Restaurants Ltd.	363	363
Note receivable from Keg Restaurants Ltd.	57,000	57,000
	$ 61,752	$ 62,317
Financial liabilities:		
Amortized cost:		
Accounts payable and accrued liabilities	$ 274	$ 233
Interest payable on term loan	35	32
Distributions payable to Fund unitholders	—	1,074
Distributions payable to Keg Restaurants Ltd.	1,340	1,254
Term loan, net of deferred financing charges	13,961	13,957
Class C Partnership units	57,000	57,000
Fair value through profit or loss:		
Exchangeable Partnership units	88,662	74,663
	$ 161,272	$ 148,213

11. 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 $39,000 in deferred financing charges at March 31, 2022 (December 31, 2021 – $43,000).

(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 March 31, 2022, 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.

These 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 remained 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 revised the EBITDA covenant until December 31, 2021, and compliance of this amended covenant is tested on a quarterly basis. As at March 31, 2022, the Fund is in compliance with all covenants associated with these facilities.