THE KEG ROYALTIES INCOME FUND

FIRST QUARTER REPORT

For the three months ended March 31, 2015

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, 2015.

RESULTS

The gross sales reported by the 102 Keg restaurants in the Royalty Pool were $146,383,000 for the quarter, an increase of $11,623,000 or 8.6% from the comparable quarter of the prior year. These gross sales reflect the sales of the net new Keg restaurants opened during the period from October 3, 2013 to October 2, 2014, which were added to the Royalty Pool on January 1, 2015 and same store sales increases of 8.2% for the quarter.

Royalty income increased by $468,000 or 8.7% from $5,391,000 in the three months ended March 31, 2014 to $5,859,000 in the three months ended March 31, 2015.

Distributable cash before SIFT tax increased by $292,000 from $4,099,000 (36.1 cents/Fund unit) to $4,391,000 (38.7 cents/Fund unit) for the quarter. Distributable cash available to pay distributions to public unitholders increased by $169,000 from $3,094,000 (27.3 cents/Fund unit) to $3,263,000 (28.7 cents/Fund unit) for the quarter. Distributions of $2,747,000 (24.2 cents/Fund unit) were paid to Fund unitholders during the first quarter of the current year, compared to $2,725,000 (24.0 cents/Fund unit) in the first quarter of the prior year. The payout ratio was 84.2% for the first quarter of the current year.

The Fund remains financially well positioned with surplus cash on hand of $1,924,000, and a positive working capital balance of $3,215,000 as at March 31, 2015.

OUTLOOK

In Canada, Restaurants Canada has estimated that sales in the full-service restaurant category, the category in which The Keg operates, increased by 4.8% in 2014 and has projected sales to increase by 3.6% in 2015. In the United States, the National Restaurant Association has estimated that sales in the full-service category increased by 2.8% in 2014, and has projected sales to increase by 2.9% in 2015. As such, we are optimistic that with strengthening consumer confidence, the industry has begun to see a change in momentum. Management of Keg Restaurants Ltd. ("KRL") believes that as economic conditions and consumer sentiment continue to improve in North America, sales for The Keg will also improve, leading it to once again outperform the full service category with respect to same store sales growth.

COMPETITIVE STRENGTH AND GROWTH

The Keg remains an industry leader in the full-service restaurant category in Canada; a fact confirmed by an independent research report from Vision Critical in December 2011 that identified The Keg as the first choice of over 67% of Canadian diners when choosing a steak dinner. KRL's management 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, knowledgeable service and marketing innovation. KRL has consistently demonstrated its ability to deliver growth in both system sales and same store sales growth over the long term, which has provided not only stability but also 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
April 27, 2015

FINANCIAL HIGHLIGHTS

($000's except per unit amounts)	Jan. 1 to Mar. 31, 2015	Jan. 1 to Mar. 31, 2014
Restaurants in the Royalty Pool	**102**	**103**
Gross sales reported by restaurants in the Royalty Pool	**$ 146,383**	**$ 134,760**
Royalty income [1]	$ 5,859	$ 5,391
Interest income [2]	1,056	1,055
Total income	**$ 6,915**	**$ 6,446**
Administrative expenses [3]	(96)	(92)
Interest and financing expenses [4]	(149)	(153)
Operating income	**$ 6,670**	**$ 6,201**
Distributions to KRL [5]	(2,361)	(2,216)
Profit (loss) before fair value adjustment and taxes	**$ 4,309**	**$ 3,985**
Fair value adjustment [6]	(8,511)	266
Taxes [7]	(1,213)	(1,053)
Profit (loss) and comprehensive income (loss)	**$ (5,415)**	**$ 3,198**
Distributable cash before SIFT tax [8]	**$ 4,391**	**$ 4,099**
Distributable cash [9]	**$ 3,263**	**$ 3,094**
Distributions paid to Fund unitholders	**$ 2,747**	**$ 2,725**
Payout Ratio [10]	**84.2%**	**88.1%**
Per Fund unit information [11]		
Profit (loss) before fair value adjustment and taxes	$ .380	$ .351
Profit (loss) and comprehensive income (loss)	$ (.477)	$ .282
Distributable cash before SIFT tax [8]	**$ .387**	**$ .361**
Distributable cash [9]	**$ .287**	**$ .273**
Distributions paid to Fund unitholders	**$ .242**	**$ .240**
SSSG [12]		
Canada	6.9%	3.3%
United States	7.9%	2.7%
Consolidated	8.2%	4.2%
KRL Restaurant Openings/Closings [13]		
Opened	--	--
Closed	(2)	(1)
Relocated	--	--
Net Opened (Closed)	(2)	(1)

Notes:

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

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

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

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

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

(6) Fair value adjustment is the non-cash increase or decrease 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.

(7) Taxes for the three months ended March 31, 2015, include SIFT tax expense of $1,128,000 (three months ended March 31, 2014 – $1,005,000) and non-cash deferred taxes of $85,000 (three months ended March 31, 2014 – $48,000).

(8) Distributable cash before SIFT tax 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 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.

(9) 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.

(10) Payout ratio is computed as the ratio of aggregate cash distributions paid during the period (numerator) to the aggregate distributable cash of the period (denominator).

(11) 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, 2015 were 11,353,500 (three months ended March 31, 2014 – 11,353,500)

(12) 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. 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 Fund believes that SSSG provides useful information regarding the increase or decrease in gross sales for comparable restaurants.

(13) 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.

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

SUMMARY OF QUARTERLY RESULTS

($000's except per unit amounts)	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Restaurants in the Royalty Pool	**102**	**103**	**103**	**103**
Gross sales reported by Keg restaurants in the Royalty Pool	**$ 146,383**	**130,887**	**$ 129,660**	**$ 125,394**
Royalty income [1]	$ 5,859	$ 5,258	$ 5,209	$ 5,038
Interest income [2]	1,056	1,080	1,079	1,067
Total income	**$ 6,915**	**$ 6,338**	**$ 6,288**	**$ 6,105**
Administrative expenses [3]	(96)	(110)	(103)	(101)
Interest and financing expenses [4]	(149)	(157)	(161)	(154)
Operating income	**$ 6,670**	**$ 6,071**	**$ 6,024**	**$ 5,850**
Distributions to KRL [5]	(2,361)	(2,186)	(2,175)	(2,137)
Profit before fair value adjustment and taxes	**$ 4,309**	**$ 3,885**	**$ 3,849**	**$ 3,713**
Fair value adjustment [6]	(8,511)	(2,686)	(1,473)	(33)
Taxes [7]	(1,213)	(1,005)	(993)	(932)
Profit (loss) and comprehensive income (loss)	**$ (5,415)**	**$ 194**	**$ 1,383**	**$ 2,748**
Distributable cash before SIFT taxes [8]	**$ 4,391**	**$ 3,735**	**$ 3,783**	**$ 3,686**
Distributable cash [9]	**$ 3,263**	**$ 2,757**	**$ 2,815**	**$ 2,754**
Distributions paid to Fund unitholders	**$ 2,747**	**$ 2,725**	**$ 2,725**	**$ 2,725**
Payout Ratio [10]	**84.2%**	**98.8%**	**96.8%**	**98.9%**
Per Fund unit information [11]				
Profit before fair value adjustment and taxes	$ .380	$ .342	$ .339	$ .327
Profit (loss) and comprehensive income (loss)	$ (.477)	$ .017	$ .122	$ .242
Distributable cash before SIFT tax [8]	**$ .387**	**$ .329**	**$ .333**	**$ .325**
Distributable cash [9]	**$ .287**	**$ .243**	**$ .248**	**$ .243**
Distributions paid to Fund unitholders	**$ .242**	**$ .240**	**$ .240**	**$ .240**
SSSG [12]				
Canada	6.9%	4.5%	7.0%	4.9%
United States	7.9%	8.5%	7.6%	7.5%
Consolidated	8.2%	5.7%	7.4%	5.8%
KRL Restaurants Openings/Closings [13]				
Opened	--	2	1	--
Closed	(2)	(2)	--	--
Relocated	--	--	--	--
Net Opened (Closed)	(2)	--	1	--

SUMMARY OF QUARTERLY RESULTS

($000's except per unit amounts)	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Restaurants in the Royalty Pool	**103**	**102**	**102**	**102**
Gross sales reported by Keg restaurants in the Royalty Pool	**$ 134,760**	**$ 120,093**	**$ 116,016**	**$ 114,426**
Royalty income [1]	$ 5,391	$ 4,961	$ 4,776	$ 4,693
Interest income [2]	1,055	1,078	1,079	1,067
Total income	**$ 6,446**	**$ 6,039**	**$ 5,855**	**$ 5,760**
Administrative expenses [3]	(92)	(114)	(117)	(91)
Interest and financing expenses [4]	(153)	(161)	(175)	(174)
Operating income	**$ 6,201**	**$ 5,764**	**$ 5,563**	**$ 5,495**
Distributions to KRL [5]	(2,216)	(2,039)	(1,997)	(1,980)
Profit before fair value adjustment and taxes	**$ 3,985**	**$ 3,725**	**$ 3,566**	**$ 3,515**
Fair value adjustment [6]	266	(4,231)	(2,278)	3,107
Taxes [7]	(1,053)	(973)	(904)	(950)
Profit (loss) and comprehensive income (loss)	**$ 3,198**	**$ (1,479)**	**$ 384**	**$ 5,672**
Distributable cash before SIFT tax [8]	**$ 4,099**	**$ 3,458**	**$ 3,648**	**$ 3,439**
Distributable cash [9]	**$ 3,094**	**$ 2,534**	**$ 2,765**	**$ 2,543**
Distributions paid to Fund unitholders	**$ 2,725**	**$ 2,725**	**$ 2,725**	**$ 2,725**
Payout Ratio [10]	**88.1%**	**107.5%**	**98.6%**	**107.2%**
Per Fund unit information [11]				
Profit before fair value adjustment and taxes	$ .351	$ .328	$ .314	$ .310
Profit (loss) and comprehensive income (loss)	$ .282	$ (.130)	$ .034	$ .500
Distributable cash before SIFT tax [8]	**$ .361**	**$ .305**	**$ .321**	**$ .303**
Distributable cash [9]	**$ .273**	**$ .223**	**$ .244**	**$ .224**
Distributions paid to Fund unitholders	**$ .240**	**$ .240**	**$ .240**	**$ .240**
SSSG [12]				
Canada	3.3%	(0.6)%	(1.5)%	(2.0)%
United States	2.7%	0.3%	0.8%	1.4%
Consolidated	4.2%	0.0%	(0.9)%	(1.6)%
KRL Restaurant Openings/Closings [13]				
Opened	--	2	--	1
Closed	(1)	--	(1)	--
Relocated	--	--	--	--
Net Opened (Closed)	(1)	2	(1)	1

SELECTED ANNUAL INFORMATION

($000's except per unit amounts)	Jan. 1 to Dec. 31, 2014	Jan. 1 to Dec. 31, 2013	Jan. 1 to Dec. 31, 2012
Restaurants in the Royalty Pool	**103**	**102**	**102**
Gross sales reported by Keg restaurants in the Royalty Pool	**$ 520,701**	**$ 474,864**	**$ 484,568**
Royalty income [1]	$ 20,896	$ 19,496	$ 19,401
Interest income [2]	4,281	4,279	4,282
Total income	**$ 25,177**	**$ 23,775**	**$ 23,683**
Administrative expenses [3]	(408)	(422)	(398)
Interest and financing expenses [4]	(624)	(681)	(705)
Operating income	**$ 24,145**	**$ 22,672**	**$ 22,580**
Distributions to KRL [5]	(8,713)	(8,072)	(8,057)
Profit before fair value adjustment and taxes	**$ 15,432**	**$ 14,600**	**$ 14,523**
Fair value adjustment [6]	(3,926)	(5,740)	(5,338)
Taxes [7]	(3,983)	(3,800)	(3,599)
Profit (loss) and comprehensive income (loss)	**$ 7,523**	**$ 5,060**	**$ 5,586**
Distributable cash before SIFT tax [8]	**$ 15,304**	**$ 14,641**	**$ 14,650**
Distributable cash [9]	**$ 11,421**	**$ 11,024**	**$ 11,168**
Distributions paid to Fund unitholders	**$ 10,899**	**$ 10,899**	**$ 10,899**
Payout Ratio [10]	**95.4%**	**98.9%**	**97.6%**
Per Fund unit information [11]			
Profit before fair value adjustment and taxes	$ 1.359	$ 1.286	$ 1.279
Profit (loss) and comprehensive income (loss)	$ .663	$ .446	$ .492
Distributable cash before SIFT tax [8]	**$ 1.348**	**$ 1.290**	**$ 1.290**
Distributable cash [9]	**$ 1.006**	**$ .971**	**$ .984**
Distributions paid to Fund unitholders	**$ .960**	**$ .960**	**$ .960**
SSSG [12]			
Canada	4.9%	(0.8)%	0.1%
United States	6.4%	1.5%	0.7%
Consolidated	5.8%	(0.3)%	0.2%
KRL Restaurant Openings/Closings [13]			
Opened	3	3	4
Closed	(3)	(4)	--
Relocated	--	--	--
Net Opened (Closed)	--	(1)	4

	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012
Total assets	$ 222,510	$ 216,851	$ 216,800
Total liabilities	132,703	123,668	117,778

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three Months Ended March 31, 2015
As of April 27, 2015

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 sixteen years, the period for which current management has been in control of KRL, SSSG has averaged 3.0% annually, a figure that compares very favourably against the restaurant industry as a whole.

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.

THE ROYALTY POOL

Annually, on January 1st, the Royalty Pool is adjusted to include the gross sales from new Keg restaurants that have opened on or before October 2nd of the prior year, less gross sales from any Keg restaurants that have permanently closed during the preceding calendar year. In return for adding these net sales to the Royalty Pool, KRL receives the right to indirectly acquire additional Fund units (the "Additional Entitlement"). The Additional Entitlement is determined based on 92.5% of the estimated net royalty revenue added to the Royalty Pool, divided by the yield of the Fund units, divided by the weighted average unit price of the Fund units. KRL receives 80% of the estimated Additional Entitlement initially, with the balance received on December 31st of each year when the actual full-year performance of the new restaurants is known with certainty.

THE ROYALTY POOL (CONTINUED)

The total number of Keg restaurants included in the Royalty Pool has increased from the 80 Keg restaurants in existence on March 31, 2002, to 103 as of December 31, 2014. Fifty-five new Keg restaurants that opened during the period from April 1, 2002, through October 2, 2013, with annual gross sales of $268.0 million, have been added to the Royalty Pool. Thirty-two permanently closed Keg restaurants with annual sales of $94.2 million have been removed from the Royalty Pool. This has resulted in a net increase in Royalty Pool sales of $173.8 million annually, and KRL receiving a cumulative Additional Entitlement equivalent to 5,569,281 Fund units as of December 31, 2014.

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 separately by KRL on an annual basis, as the periods for which they are reported differ slightly.

In early January of 2015, two corporate restaurants located in Seattle, Washington were closed due to lease expiries. Given the close proximity of the closing dates of these two restaurants to December 31, 2014, KRL requested, and the Trustees of the Fund agreed, to allow KRL to treat these restaurants as permanently closed on December 31, 2014 for roll-in purposes. As part of this agreement, however, KRL agreed to make royalty payments based on the actual sales of these two restaurants for the 19 days of operation. This agreement has no adverse financial impact on the Fund.

On January 1, 2015, an estimated $5.6 million in annual net sales were added to the Royalty Pool. Four new restaurants that opened during the period from October 3, 2013 through October 2, 2014, with estimated gross sales of $23.0 million annually, were added to the Royalty Pool. Five permanently closed Keg restaurants with annual sales of $17.4 million were removed from the Royalty Pool. The total number of restaurants in the Royalty Pool decreased to 102. The pre-tax yield of the Fund units was determined to be 7.78% calculated using a weighted average unit price of $16.66.

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 160,941 Fund units, being 1.09% of the Fund units on a fully diluted basis.

On January 1, 2015, KRL received 80% of this entitlement representing the equivalent of 128,754 Fund units, being 0.87% of the Fund units on a fully diluted basis. KRL will also receive a proportionate increase in monthly distributions from the Partnership. Including the initial portion of the Additional Entitlement described above, KRL will have the right to exchange its units in the capital of the Partnership for 3,403,979 Fund units representing 23.07% of the Fund units on a fully diluted basis.

The balance of the additional entitlement will be adjusted on December 31, 2015 to be effective January 1, 2015 once the actual performance of the new restaurants has been confirmed. If KRL were to receive 100% of the estimated Additional Entitlement for 2015, it would have the right to exchange its Partnership units for 3,436,167 Fund units representing 23.23% 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 22.39% as of December 31, 2014. The increase in KRL's effective ownership of the Fund is due to the cumulative Additional Entitlement received by KRL equivalent to 5,569,281 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, 2015, KRL became entitled to the initial 80% of the Additional Entitlement for 2015, consisting of 128,754 Exchangeable units, increasing its effective ownership of the Fund to 23.07%.

FEDERAL GOVERNMENT TAX ON INCOME FUNDS

On January 1, 2011, legislative changes to the tax treatment of certain income trusts, as a result of the Specified Investment Flow-through Trust tax (the "SIFT tax"), came into effect. Due to these changes, income trusts will not be entitled to deduct distributions of certain types of income for tax purposes, and will therefore be subject to taxation similar to corporations. As a result of this taxation imposed by the Federal Government, the Fund's Trustees had to adopt a new distribution policy which reflects the Fund's obligation to make the SIFT tax payments. See "Distributions to Unitholders". The Fund is subject to tax at a rate of 25.0% for 2012, 25.75% for 2013 and 26.0% for 2014 and 2015. The blended rate of 25.75% for 2013 was due to the increase in the general corporate taxation rate from 10.0% to 11.0% enacted by the British Columbia government effective April 1, 2013, which increased the SIFT tax rate from 25.0% to 26.0%, effective that date.

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, monthly distributions to unitholders have been increased eight times from the original level of $0.09 per unit at the time of the IPO, to $0.1108 per unit, on a pre-tax basis ($0.082 on an after-tax basis), starting in the month of March 2015, an increase of 23.1%.

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. Beginning with the distribution for the month of January 2011 (payable to unitholders on February 28, 2011), distributions were set at $0.08 per unit per month. This amounts to a distribution of $0.96 per unit annually. At this level, 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.

Year-to-date distributions paid were as follows:

		Distributions		
Period	**Payment Date**	**$ / Unit**	**Total $**	**Year-to-Date $**
December 1-31, 2014	January 30, 2015	8.00¢	$ 908,280	$ 908,280
January 1-31, 2015	February 27, 2015	8.00¢	$ 908,280	$ 1,816,560
February 1-28, 2015	March 31, 2015	8.20¢	$ 930,987	$ 2,747,547
March 1-31, 2015	April 30, 2015	8.20¢*	$ 930,987*	$ 3,678,534

*Scheduled to be 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 $138,372,000 of distributable cash and has paid cumulative distributions of $137,128,000, which resulted in a cumulative surplus of $1,244,000. The cumulative payout ratio (the ratio of cumulative cash distributions paid since inception to the cumulative distributable cash generated since inception) is 99.1%.

DISTRIBUTABLE CASH

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

Distributable cash is calculated as follows:

($000's)

	Jan. 1 to Mar. 31, 2015	Jan. 1 to Mar. 31, 2014
Cash flow from operations [(1)]	$ 5,523	$ 5,577
SIFT tax paid on Fund units [(2)]	1,374	885
Interest and financing fees paid on term loan [(3)]	(145)	(147)
KRL's interest [(4)]	(2,361)	(2,216)
Distributable cash before current year SIFT tax	$ 4,391	$ 4,099
SIFT tax expense on Fund units [(5)]	(1,128)	(1,005)
Distributable cash [(6)]	$ 3,263	$ 3,094

Notes:

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

(2) Includes SIFT taxes actually paid during the respective period. During the first quarter of 2015, $1,374,000 was paid consisting of $938,000 on account for 2015 and $436,000 for 2014 (first quarter of 2014 – $885,000).

(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 26.00% of taxable income for 2014 and 2015.

(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 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, 2015[1]		March 31, 2014	
	#	%	#	%
Fund units held by public unitholders [2]	11,353,500	76.93	11,353,500	77.61
Exchangeable Partnership units held by KRL: [3]				
Class A units [4]	905,944	6.14	905,944	6.19
Class B units [5]	176,700	1.20	176,700	1.21
Class D units [5]	2,321,355	15.73	2,192,944	14.99
Total Exchangeable Partnership units [6]	3,403,979	23.07	3,275,588	22.39
Total Fund and Exchangeable Partnership units	14,757,479	100.00	14,629,088	100.00

Notes:

(1) Information is current as of March 31, 2015. On January 1, 2015, KRL became entitled to the initial 80% of the Additional Entitlement for 2015 consisting of 128,754 Exchangeable units. As of the date of this report, there are 11,353,500 Fund units and 3,403,979 Exchangeable Partnership units issued and outstanding.

(2) Represents the public's total effective ownership of the Fund as of March 31, 2015 and 2014. The public's average effective ownership of the Fund (based on the weighted average number of Fund units held by public unitholders during the respective period) was 76.93% during the three months ended March 31, 2015 (three months ended March 31, 2014 – 77.61%). The weighted average number of Fund units outstanding for the three-month period ended March 31, 2015 were 11,353,500 (three-month period ended March 31, 2014 – 11,353,500).

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

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

(5) These exchangeable Partnership units are issued to KRL in return for adding net sales to the Royalty Pool on an annual basis. Class D units are equivalent to Class B units in all material respects but began to be issued once all Class B units became fully entitled to distributions on January 1, 2008. As of March 31, 2015, KRL is the registered holder of 176,700 Class B units and 2,321,355 Class D units (March 31, 2014 – 176,700 Class B units and 2,192,944 Class D units). Also included in these figures is 80% of the Additional Entitlement estimated at the beginning of each year, pursuant to which KRL receives a proportionate increase in monthly distributions from the Partnership. The remaining 20% of KRL's Additional Entitlement to Class B and Class D units is adjusted retroactively to January 1st of each year once the actual sales performance of the new restaurants has been confirmed. KRL is not entitled to proportionate monthly distributions from the Partnership on the remaining 20% of KRL's Additional Entitlement until such time as the Additional Entitlement is adjusted retroactively at the end of each year.

(6) Represents KRL's total effective ownership of the Fund as of March 31, 2015 and 2014. KRL's average effective ownership of the Fund (based on the weighted average number of Fund and Exchangeable units held by KRL during the respective period) was 23.07% during the three months ended March 31, 2015 (three months ended March 31, 2014 – 22.39%). The weighted average number of Exchangeable units held by KRL during the three-month period ended March 31, 2015 were 3,403,979 (three-month period ended March 31, 2014 – 3,275,588).

SYSTEM SALES

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

($000's)	13 weeks ended Mar. 29, 2015	13 weeks ended Mar. 30, 2014
Corporate Keg restaurants [(1)]	$ 71,995	$ 66,942
Franchised Keg restaurants [(2)]	75,838	70,675
Total system sales	$ 147,833	$ 137,617

Notes:

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

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

FIRST QUARTER

System sales for the 13 weeks ended March 29, 2015 were $147,833,000 compared to $137,617,000 for the 13 weeks ended March 30, 2014, an increase of $10,216,000 or 7.4%. The increase was due to the net impact of the same store sales increases at comparable restaurants during the quarter ($9,202,000 increase in sales), the positive effect of the exchange rate increase on the translation of the US restaurant sales into their Canadian dollar equivalent ($1,737,000 increase in sales), sales of the new restaurants that operated during the quarter ($4,436,000 increase in sales), the loss sales from restaurants temporarily closed for renovation during the comparable quarter of the current year ($460,000 decrease in sales), and the loss of sales from permanently closed restaurants that did not operate during the entire quarter ($4,699,000 decrease in sales).

During the 13 weeks ended March 29, 2015, no new restaurants were opened while three corporate and one franchised restaurant were closed. The three corporate restaurants closed due to lease expiries, and the franchised restaurant, due to the expiry of its franchise agreement. During the 13 weeks ended March 30, 2014, no new restaurants were opened and one corporate restaurant was closed. As of March 29, 2015, there were a total of 103 Keg restaurants as compared with 104 Keg restaurants at March 30, 2014.

Same store sales (sales of restaurants that operated during the entire 13-week period of the current year and the 13-week period of the prior year) increased by 6.9% in Canada and by 7.9% in the United States ("US"). After translating the sales of the US restaurants into their Canadian dollar equivalent, consolidated same store sales for the comparable 13-week periods increased by 8.3%. The average exchange rate moved from 1.099 in KRL's 13-week period ended March 30, 2014 to 1.238 in KRL's 13-week period ended March 29, 2015, significantly increasing the Canadian dollar equivalent of the US restaurant sales.

OPERATING RESULTS

FIRST QUARTER

GROSS SALES

Gross sales reported by the Keg restaurants in the Royalty Pool increased by $11,623,000 from $134,760,000 to $146,383,000 for the comparable quarter. The increase in gross sales was due to the net impact of the same store sales increases at comparable royalty pool restaurants during the quarter ($9,202,000 increase in sales), the positive effect of the exchange rate increase on the translation of the US restaurant sales into their Canadian dollar equivalent ($1,685,000 increase in sales), the sales of new restaurants added to the Royalty Pool on January 1, 2015 ($5,893,000 increase in sales), the loss of sales from restaurants temporarily closed for renovation during the comparable quarter of the current year ($460,000 decrease in sales), and the loss of sales from permanently closed restaurants that did not operate during the quarter ($4,697,000 decrease in sales).

ROYALTY INCOME

Total royalty income increased from $5,391,000 in the first quarter of 2014 to $5,859,000 in the first quarter of 2015. The increase of $468,000 during the comparable quarter consists of an increase in royalty fee income of $464,000, and an increase in Make-whole payments of $4,000. The increase in royalty fee income was due to the net impact of same store sales increases at comparable royalty pool restaurants during the quarter ($367,000 increase in royalty fee income), the positive effect of the exchange rate increase on the translation of US restaurant sales into their Canadian dollar equivalent ($67,000 increase in royalty fee income), the sales of new restaurants added to the Royalty Pool on January 1, 2015 ($236,000 increase in royalty fee income), the loss of sales from restaurants temporarily closed for renovation during the comparable quarter of the current year ($18,000 decrease in royalty fee income), and the loss of sales from permanently closed restaurants ($188,000 decrease in royalty fee income). Make-whole payments increased due to proceeds from a business interruption claim.

INTEREST INCOME

Interest income earned by the Fund during the first quarter of the current year was $1,056,000, and was comprised of interest income on the Keg Loan of $1,054,000 and other interest income of $2,000. Interest income on the Keg Loan remained the same comparable during the quarter, while other interest income increased by $1,000 due to higher surplus cash balances on hand during the quarter.

ADMINISTRATIVE EXPENSES

Expenses incurred by the Partnership for the quarter ended March 31, 2015 were $96,000, comprised entirely of general and administrative expenses. The increase in general and administrative expenses of $4,000 from the comparable quarter of the prior year was primarily the result of an increase in legal expenses.

INTEREST AND FINANCING EXPENSES

Interest and financing expenses incurred by the Trust were $149,000 for the three months ended March 31, 2015, and included interest on the long-term debt of $143,000, and amortization of deferred financing charges of $6,000. Interest costs during the comparable quarter decreased by $4,000 as the average interest rate on the term loan decreased from 4.25% to 4.15%, as a result of a reduction in the prime lending rate in early January 2015. Amortization of deferred financing charges remained the same during the comparable quarter.

OPERATING INCOME

The Fund's operating income increased from $6,201,000 during the first quarter of 2014, to $6,670,000 during the first quarter of 2015. The increase of $469,000 was due to the net impact of the increase in royalty income of $468,000, the increase in interest income of $1,000, the increase in administrative expenses of $4,000, and the decrease in interest and financing expenses of $4,000.

DISTRIBUTIONS TO KRL

Distributions attributable to KRL during the three months ended March 31, 2015 were $2,361,000, which included distributions of $1,292,000 on the Exchangeable units and $1,069,000 on the Class C units. Distributions on the Exchangeable units increased by $145,000 from the comparable quarter of the prior year, due to the combination of an increase in the operating income of the Fund during first quarter of the current fiscal 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 22.39% during the first quarter of 2014 to 23.07% during the first quarter of fiscal 2015, as a result of the 2015 initial Additional Entitlement received by KRL on January 1, 2015, from the roll-in of sales of net new restaurants on that date. The distributions declared on the Class C units remained the same during the comparable periods, which were $0.0625 per Class C unit per month.

PROFIT BEFORE FAIR VALUE ADJUSTMENT AND TAXES

Profit before fair value adjustment and taxes increased by $324,000 from a profit of $3,985,000 (35.1 cents/Fund unit) in the first quarter of 2014, to a profit of $4,309,000 (38.0 cents/Fund unit) in the first quarter of 2015.

FAIR VALUE ADJUSTMENT

The fair value of the Exchangeable units increased $8,511,000 during the three months ended March 31, 2015, as compared with a decrease of $266,000 during the three months ended March 31, 2014. The market price of a Fund unit (the basis upon which Exchangeable units are valued), increased from $17.47 to $19.94 during the first quarter of the current year; there were 3,403,979 Exchangeable units outstanding at the end of the first quarter of 2015. The market price of a Fund unit decreased from $16.44 to $16.19 during the comparable quarter of the prior year; there were 3,275,588 Exchangeable units outstanding at the end of the first quarter of 2014.

TAXES

Taxes for the three-month period ended March 31, 2015, were $1,213,000, and included SIFT tax expense of $1,128,000 and non-cash deferred taxes of $85,000. SIFT tax expense increased by $123,000 mostly due to the increase in the taxable income of the Fund during the comparable three-month period. Deferred taxes increased by $37,000 due to changes in the temporary differences between the accounting and tax basis of the Keg Rights owned by the Partnership.

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Profit (loss) decreased by $8,613,000 from a profit of $3,198,000 (28.2 cents/Fund unit) in the first quarter of 2014, to a loss of $5,415,000 (-47.7 cents/Fund unit) in the first quarter of 2015, primarily due to the increase in the non-cash fair value adjustment of the Exchangeable unit liability.

DISTRIBUTABLE CASH

Distributable cash before SIFT tax increased by $292,000 from $4,099,000 (36.1 cents/Fund unit) to $4,391,000 (38.7 cents/Fund unit) during the comparable quarter. Cash available for distribution to Fund unitholders increased by $169,000 from $3,094,000 (27.3 cents/Fund unit) to $3,263,000 (28.7 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 adjustments, and deferred 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.

Distributions of $2,725,000 (24.0 cents/Fund unit) were paid to Fund unitholders in the first quarter of 2014 and $2,747,000 (24.2 cents/Fund unit) during the first quarter of 2015.

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 2015, the Fund generated $3,263,000 in distributable cash and paid distributions of $2,747,000 to public unitholders, resulting in a surplus of $516,000. The cumulative surplus since the inception of the Fund is $1,244,000 as at March 31, 2015. The Fund has cash on hand of $1,924,000 and a positive working capital balance of $3,215,000 as at March 31, 2015.

TERM LOAN

The Trust has a $14 million non-revolving term loan facility, which bears interest at bank prime plus 1.25% 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 28, 2013, the Fund amended the terms of this loan with its existing banking syndicate and the maturity date was extended to July 1, 2016. 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 adjustments, taxes, depreciation and amortization ("EBITDA"). As at March 31, 2015, 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 1.25% 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. As at March 31, 2015, 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, 2015 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, judgement is required in determining whether the Fund control the Partnership. Making this judgement involves taking into consideration the concept of power over the Partnership, exposure to variable returns, and the ability to use power to direct the relevant activities of the Partnership so as to generate economic returns. Using these criteria, management has determined that the Fund ultimately controls the Partnership through its 90% ownership of the managing general partner, The Keg GP Ltd.

KEG RIGHTS

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

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

EXCHANGEABLE UNIT FAIR VALUE ADJUSTMENT

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, 2015.

As at March 31, 2015, the closing price of a Fund unit was $19.94 resulting in a market capitalization of $294.3 million. KRL's 23.07% ownership of the Fund (on a fully-diluted basis) was calculated to be $67.9 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 TAX EXPENSE

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

The determination of deferred 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, 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, 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

In Canada, Restaurants Canada has estimated that sales in the full-service restaurant category, the category in which The Keg operates, increased by 4.8% in 2014 and has projected sales to increase by 3.6% in 2015. In the US, the National Restaurant Association has estimated that sales in the full-service category increased by 2.8% in 2014, and has projected sales to increase by 2.9% in 2015. Given the close historical relationship between disposable income and foodservice spending, management of KRL expects that as economic conditions continue to improve in North America, so will sales in the full-service category of the restaurant industry.

While management of KRL does not expect a significant improvement in economic conditions in the near term, management believes that The Keg will continue to outperform the full-service restaurant category with respect to same store sales growth. Management of KRL continues to monitor the global economy and evaluate its potential impact on the North American business environment, particularly the effect on consumer confidence and discretionary spending. Management of KRL has advised the Trustees that it intends to continue to focus on growing same store sales and to continue to expand the number of corporate and franchised restaurants in Canada and the US.

KRL management has also advised the Trustees that it believes that the strong same store sales growth KRL has delivered in the past will continue to be realized over the long term through a combination of increased guest counts and increased guest average cheque. Advertising and promotions programs will continue to focus on food taste, quality and excellent service in a friendly atmosphere.

Management of KRL has further advised the Trustees that it believes that continued Canadian market expansion will be leveraged by KRL's leading market position and national presence.

Corporate market expansion in the US will continue to focus on three target markets, specifically: Phoenix, Arizona; Denver, Colorado; and Dallas, Texas. KRL management has advised the Trustees that it intends to continue to pursue franchising opportunities in the US.

KRL continues to refurbish, and in some cases, relocate existing Keg restaurants in order to better serve its guests and to protect and enhance the strong leadership position The Keg brand has enjoyed for over forty years. Management of KRL currently expects to open five restaurants prior to October 2, 2015, consisting of three corporate and two franchised restaurants in Canada. The scheduled opening of these new restaurants is conditional upon the timely receipt of municipal approvals, construction permits, and ongoing evaluation of the current economic environment.

RISKS AND UNCERTAINTIES

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

THE RESTAURANT INDUSTRY

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

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

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

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

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

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, 2015, KRL has 12 restaurants located in the US, all of which are corporately owned through its wholly owned subsidiaries. Keg restaurants located in the US generate sales in US dollars, which must be translated into their Canadian dollar equivalent for Fund reporting purposes. Fluctuations in foreign exchange rates will affect the Canadian dollar equivalent of the sales of the restaurants located in the US, which will affect the amount of the royalty.

FORWARD LOOKING INFORMATION

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

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

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

The foregoing list of factors is not exhaustive and should be considered in conjunction with the risks and uncertainties set out in KRL's Management's Discussion and Analysis for the 52 weeks ended September 28, 2014, which are available on SEDAR at www.sedar.com.

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

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

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

ADDITIONAL INFORMATION

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

UNITHOLDER INFORMATION

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BOARD OF TRUSTEES

C. C. Woodward

George Killy

Tim Kerr

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

C. C. Woodward*
Chairman and Director

David Aisenstat
President and Director

Neil Maclean
Secretary, Treasurer and Director

George Killy*
Director

Tim Kerr*
Director

* Audit Committee and Governance Committee Member

REGISTRAR AND TRANSFER AGENT

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