KEG RESTAURANTS LTD.

FIRST QUARTER REPORT

For the 13 weeks ended March 29, 2020

Provided as a supplement to the condensed consolidated financial statements of
The Keg Royalties Income Fund

MESSAGE FROM THE CEO

The COVID-19 pandemic has disrupted our lives and the economy in a truly unprecedented manner. The restaurant industry has been among the most affected areas, as has been widely reported. The efforts to control the spread of the COVID-19 virus resulted in the temporary closure of all 107 Keg locations on March 17, 2020. This was done only after extensive research and discussion among The Keg's senior leaders as members of the COVID-19 Crisis Committee, which we had formed in mid-February as the storm clouds were beginning to become darker.

The Keg proactively announced our decision to close our restaurants as we had become increasingly concerned about our ability to ensure the health and safety of our guests, our staff and the communities we are a part of as the virus spread. As expected, it turned out that all of the jurisdictions in which we operate validated our decision by legally mandating closures within days of our announcement. All of our restaurants remain closed at this point, but many of the provinces and states where The Kegs are located are now setting firm dates when restaurants will be permitted to open, along with some restrictions which will initially be imposed on those operations.

This has of course been a challenging time for our team. Initially we needed to focus on the shutdown of our many restaurants spread over a large geographical area with only a one or two-day notice period. This involved the physical shutdowns themselves, the unfortunate but unavoidable temporary layoffs of thousands of fine and dedicated associates at the restaurant level, dealing with perishable inventories, and supporting our Franchisees and our suppliers as they get through this tough period.

The most difficult of those elements has been the necessity for us to make severe adjustments which affect our Keg people. With the exception of the General Manager at each corporate Keg location, we temporarily laid off all restaurant level employees. While we did provide what we believe was the most generous temporary separation compensation in the industry, including all salaried and all hourly employees, it was nonetheless the most difficult and painful decision we have ever had to make in over nearly fifty years of Keg history. To demonstrate solidarity with those Keggers, I ceased receiving any compensation whatsoever and all of our senior leaders have also voluntarily taken significant salary reductions. We have strongly urged our Franchisees to follow our lead when dealing with their teams; to their credit and with our deep gratitude, most of The Keg Franchisees have done so as closely as possible.

At our Corporate Offices, we have been fortunate not to have laid off additional associates. This has been enabled by a number of federal and provincial government programs designed to motivate employers to retain staff. We salute the governments at both levels for their programs; the last thing we wanted was to be forced into more layoffs due to the COVID-19 crisis and those programs have enabled The Keg to avoid that fate. In order to maintain a safe and healthy environment for our Corporate Offices, most of our people now largely work remotely and, when people do need to come into the office on occasion, we diligently maintain physical distancing protocols and flexible working arrangements.

When it comes to dealing with our Franchisees and our suppliers, we have been focused on making sure both of those key groups are not put in difficult positions due to COVID-19 where it can be avoided. In the case of Franchisees, that has certainly involved full information sharing, best practices required to get through this difficult period and the establishment of rigid reopening procedures and practices. We have also deferred the Franchise fees which are due from Franchisees to Keg Restaurants Ltd. since March 1st and plan to expand that deferral to include the fees which will be incurred during the initial reopening period. For suppliers, the most significant thing we can do to assist them has been to pay our bills in full and on time, which we have done. This has been particularly well appreciated as it does not seem to be the industry-wide norm.

Happily, the aforementioned COVID-19 Crisis Committee has morphed into the Reopening Blueprint Task Force. That same group of Keg leaders is now fully engaged in developing the many policies, programs and strict rules by which The Keg's reopenings will be governed. That plan will be ingrained into each Keg location and each Keg staff member to ensure that the goal of our Reopening Blueprint is executed fully and without exception.

As noted above, when we decided to temporarily close our restaurants, it was because we no longer felt certain we could ensure the health and safety of our staff, guests and communities while COVID-19 was spreading. As we prepare to reopen, please be assured of one thing: a singular focus on ensuring a safe and healthy environment in every Keg is the guiding light of our Reopening Blueprint. We will meet that goal and we will also be making sure that The Keg's legendary hospitality remains fully intact throughout your Keg experience. The Keg can't wait to welcome you back!

David Aisenstat
Chief Executive Officer
May 13, 2020

CHANGE IN YEAR END

On December 20, 2018, Keg Restaurants Ltd ("KRL") filed notice in accordance with the requirements of National Instrument 51-102 – *Continuous Disclosure Obligations,* that it was changing its financial year end from the Sunday closest to December 30th, in any year, to the last Sunday of December. The change was implemented to align KRL's financial year end with the financial year-end of its parent, Recipe. As a result of the change, for financial reporting purposes, KRL had a transitional 15-month financial year ending on December 30, 2018, which was the last Sunday of December 2018.

In order to provide a better basis for comparison of financial results, management of KRL have prepared this Management Discussion & Analysis ("MD&A") as if the new year end date had always been in effect for the historical periods. The historical periods have been re-named and the related period end dates are now as follows:

Q1 2018 - 13 weeks ended April 1, 2018

Q2 2018 - 13 weeks ended July 1, 2018

Q3 2018 - 13 weeks ended September 30, 2018

Q4 2018 - 13 weeks ended December 30, 2018

Year End 2018 - 52 weeks ended December 30, 2018

ADOPTION OF IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

On December 31, 2018, KRL adopted IFRS 15, *Revenue From Contracts With Customers,* ("IFRS 15") using the full retrospective approach. This approach applies the requirements at the date of initial application, in this case January 1, 2018. Accordingly, the information presented in the consolidated statements of comprehensive income for 2018 has been restated from what was previously reported. KRL previously reported marketing contributions from franchisees and the related advertising expenditures on a net basis in the consolidated financial statements. Under IFRS 15, KRL is now required to report such contributions and expenditures on a gross basis in the consolidated statement of comprehensive income (loss).

ADOPTION OF IFRS 16, *LEASES*

On December 31, 2018, concurrent with the beginning of its 2019 fiscal year, KRL adopted IFRS 16, *Leases,* ("IFRS 16") using the modified retrospective approach. This approach applies the requirements of the standard retrospectively, with the cumulative effects of the initial application recorded in the opening deficit on the consolidated statement of financial position, as at December 31, 2018, with no restatement of financial results of comparative periods from prior fiscal years reflected in the statement of comprehensive income (loss).

AMENDMENT OF ADJUSTMENT DATE FOR ROLL-INS

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

FINANCIAL HIGHLIGHTS

The following table sets out selected financial information and other data of KRL which should be read in conjunction with the attached unaudited, condensed consolidated financial statements of KRL for the 13 weeks ended March 29, 2020. Readers should note that all interim financial results presented herein have not been audited. A reconciliation of the balances reflected in the condensed consolidated statements of comprehensive income (loss) and the balances reflected in this Management Discussion & Analysis ("MD&A") can be found in the "IFRS 16-LEASES" section.

SELECTED FINANCIAL INFORMATION OF KRL

	13 weeks ended Mar. 29, 2020	13 weeks ended Mar. 31, 2019
	(in thousands of dollars)	
System sales [1]	**$ 144,113**	**$ 168,298**
Corporate restaurant sales [2]	$ 73,340	$ 86,233
Corporate restaurant costs [3]	(65,826)	(73,763)
Corporate restaurant profit	$ 7,514	$ 12,470
Pre-opening costs [4]	(147)	(1)
Retail operating contribution [5]	335	227
Franchise service fee income [6]	3,897	4,531
Franchise marketing fee income [7]	1,409	1,597
General and administrative expenses [8]	(6,584)	(6,419)
Operating earnings [9]	**$ 6,424**	**$ 12,405**
Royalty expense [10]	(5,706)	(6,686)
Investment income [11]	2,675	2,834
EBITDA [12]	**$ 3,393**	**$ 8,533**
Covid-19 Closure Costs [13]	(5,227)	-
Adjusted EBITDA [14]	**$ (1,834)**	**$ 8,553**
Non-cash and property disposal costs [15]	(3,547)	(3,698)
Interest and financing charges [16]	(1,137)	(1,173)
Fair value gain (loss) [17]	(31,422)	4,828
IFRS 16 adjustments [18]	(137)	(261)
Profit (loss) before income taxes	**$ (38,077)**	**$ 8,249**
Income tax recovery (expense)	6,317	(1,099)
Profit loss	**$ (31,760)**	**$ 7,150**
SSSG [19]		
Canada	(0.5) %	1.1 %
United States	2.5 %	3.8 %
Consolidated	(0.3) %	1.8 %
Restaurants in KRL System [20]		
# Beginning of Period	107	105
Opened	--	2
Closed	--	(2)
# End of Period	107	105

Notes:

1) Represents the gross sales of all corporate restaurants owned by KRL and the gross sales reported to KRL by franchised Keg restaurants without independent audit.

(2) Includes gross sales for all corporate restaurants owned by KRL.

(3) Includes food and beverage costs; staff and management labour costs; as well as premises costs for all corporate restaurants owned by KRL.

(4) Represents non-capital expenditures associated with opening new corporate restaurants, which are expensed as incurred. Includes costs incurred prior to the restaurant opening for business, such as food and beverage costs, staff and management costs, facility costs if incurred, and other restaurant operating expenses, as well as travel and accommodation costs for the training and management teams.

(5) Represents the revenue net of related expenses of a wholly owned subsidiary, which sells Keg branded food products.

(6) Represents service fees received by KRL from franchises for the use of The Keg name as well as the use of its systems, methods, standards, specifications and procedures. The service fees payable to KRL are typically 5% of gross sales for older franchises and 6% for new franchises granted after January 1, 2013.

(7) Represents marketing fees received by KRL from franchisees as their contribution towards total marketing expenditures made by KRL. IFRS 15, *Revenue From Contracts With Customers*, requires separate disclosure of this marketing fee income. Historically, KRL netted marketing fee contributions received from franchisees against total marketing expenditures made by KRL within general and administrative expenses. The marketing fees payable to KRL are typically 2.5% of gross sales for older franchises and 2.0% for new franchises granted after January 1, 2013. KRL targets to spend at least 2.25% of system sales on marketing and advertising on an annual basis.

(8) Includes marketing and advertising expenses, as well as general and administrative costs associated with the operation of KRL in providing services to the corporate and franchised Keg restaurants.

(9) Operating earnings is not a recognized measure under International Financial Reporting Standards ("IFRS") and therefore is unlikely to be comparable to similar measures presented by other issuers. This non-IFRS financial measure provides useful information to investors and management by providing an indication of operating earnings. Investors are cautioned that this should not be construed as an alternative net income measure of profitability.

(10) KRL makes monthly royalty payments to the Partnership equal to 4% of gross sales of Keg restaurants in the Royalty Pool.

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

(12) EBITDA is profit (loss) before interest, income taxes, depreciation and amortization (including write-downs of property, plant and equipment, if any), gain (loss) on disposal of property, plant and equipment, and fair value gain (loss) and provision, and Covid-19 closure costs. EBITDA is not a recognized measure under IFRS.

(13) Covid-19 closure costs are those incremental costs specifically incurred as a direct result of the temporary closure of all corporate restaurants effective March 17, 2020, due to the Covid-19 crisis. These costs include the write-offs of perishable food products, and amounts paid to both corporate restaurant staff and corporate restaurant assistant mangers prior to laying them off, in order to help ease their transition to employment insurance benefits.

(14) Adjusted EBITDA is EBITDA less Covid-19 closure costs. Adjusted EBITDA is not a recognized measure under IFRS but management of KRL believe it provides meaningful information.

(15) Includes amortization on property, plant, equipment (on both restaurant and corporate assets) and intangible assets, net of amortization on the deferred gain, as well as losses on the disposal or write-down of property, plant and equipment.

(16) Includes interest charges incurred to third parties, net of interest earned, interest paid on the $57.0 million note payable to the Fund and non-cash amortization of deferred financing charges.

(17) Fair value gain (loss) 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 asset under IFRS. KRL is required to determine the fair value of that asset at the end of each reporting period and adjust for any increase or decrease, taking into consideration the issuance or sale of any Exchangeable units during the same period. Provision on financial assets is the non-cash impairment of financial assets as determined by management based on an assessment of discounted future cash flows.

(18) IFRS 16 adjustments includes all of the adjustments to profit (loss) before income taxes required as a result of the adoption of IFRS 16, *Leases*, effective December 31, 2018. This accounting standard introduces a new model for the recognition and measurement of leases and obligates lessees to recognize a right-of-use asset, representing the control and right to use the underlying asset, and a lease liability representing the lessees' obligation to make future lease payments.

(19) 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 for periods that were not materially affected by the Covid-19 crisis, which for the first quarter of 2020 was the 8-week period ended February 23, 2020, and for the first quarter of 2019, was the 8-week period ended February 24, 2019. SSSG is not an IFRS financial measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. However, the management of KRL believe that SSSG provides useful information regarding the increase or decrease in gross sales for comparable restaurants.

(20) The KRL system is the total of all Keg restaurants open and operating at a specific point in time. As of March 29, 2020, the KRL system includes 107 Keg restaurants, 49 of which are owned and operated by KRL and its subsidiaries, (39 in Canada and 10 in the United Sates), and 58 Keg restaurants which are owned and operated by Keg franchisees (all of which are in Canada).

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

SUMMARY OF QUARTERLY FINANCIAL RESULTS

	Q1 2020	Q4 2019	Q3 2019	Q2 2019
	(in thousands of dollars)			
System sales [1]	**$ 144,113**	**$ 165,604**	**$ 160,928**	**$ 155,333**
Corporate restaurant sales [2]	$ 73,340	$ 84,184	$ 79,880	$ 79,271
Corporate restaurant costs [3]	(65,826)	(73,551)	(71,446)	(70,754)
Corporate restaurant profit	$ 7,514	$ 10,633	$ 8,434	$ 8,517
Pre-opening costs [4]	(147)	(280)	(430)	-
Retail operating contribution [5]	335	168	214	657
Franchise service fee income [6]	3,897	4,490	4,455	4,167
Franchise marketing fee income [7]	1,409	1,637	1,605	1,511
General and administrative expenses [8]	(6,584)	(5,874)	(6,164)	(6,325)
Operating earnings [9]	**$ 6,424**	**$ 10,774**	**$ 8,114**	**$ 8,527**
Royalty expense [10]	(5,706)	(6,340)	(6,225)	(6,136)
Investment income [11]	2,675	2,777	2,807	2,682
EBITDA [12]	**$ 3,393**	**$ 7,211**	**$ 4,696**	**$ 5,073**
Covid-19 Closure Costs [13]	(5,227)	-	-	-
Adjusted EBITDA [14]	**$ (1,834)**	**$ 7,211**	**$ 4,696**	**$ 5,073**
Non-cash and property disposal costs [15]	(3,547)	(8,865)	(5,002)	(3,450)
Interest and financing charges [16]	(1,137)	(1,269)	(1,284)	(1,229)
Fair value gain (loss) [17]	(31,422)	(4,981)	(3,066)	(907)
IFRS 16 adjustments [18]	(137)	(74)	(1,485)	(372)
Profit (loss) before income taxes	**$ (38,077)**	**$ (7,978)**	**$ (6,141)**	**$ (885)**
Income tax recovery (expense)	6,317	1,669	694	(274)
Profit loss	**$ (31,760)**	**$ (6,309)**	**$ (5,447)**	**$ (1,159)**
SSSG [19]				
Canada	(0.5) %	(2.8) %	(3.8) %	(1.8) %
United States	2.5 %	(0.1) %	(1.9) %	1.2 %
Consolidated	(0.3) %	(2.5) %	(3.6) %	(1.2) %
Restaurants in KRL System [20]				
# Beginning of Period	107	106	105	105
Opened	--	1	2	1
Closed	--	--	(1)	(1)
# End of Period	107	107	106	105

SUMMARY OF QUARTERLY FINANCIAL RESULTS

	Q1 2019	Q4 2018	Q3 2018	Q2 2018
	(in thousands of dollars)			
System sales [1]	**$ 168,298**	**$ 165,921**	**$ 162,279**	**$ 155,489**
Corporate restaurant sales [2]	$ 86,233	$ 85,534	$ 82,062	$ 79,419
Corporate restaurant costs [3]	(73,763)	(73,604)	(72,417)	(69,410)
Corporate restaurant profit	$ 12,470	$ 11,930	$ 9,645	$ 10,009
Pre-opening costs [4]	(1)	-	-	(2)
Retail operating contribution [5]	227	44	181	616
Franchise service fee income [6]	4,531	4,318	4,206	3,962
Franchise marketing fee income [7]	1,597	1,622	1,609	1,515
General and administrative expenses [8]	(6,419)	(6,119)	(6,093)	(6,114)
Operating earnings [9]	**$ 12,405**	**$ 11,795**	**$ 9,548**	**$ 9,986**
Royalty expense [10]	(6,686)	(6,486)	(6,350)	(6,044)
Investment income [11]	2,834	2,718	2,735	2,581
EBITDA [12]	**$ 8,553**	**$ 8,027**	**$ 5,933**	**$ 6,523**
Covid-19 Closure Costs [13]	-	-	-	-
Adjusted EBITDA [14]	**$ 8,553**	**$ 8,027**	**$ 5,933**	**$ 6,523**
Non-cash and property disposal costs [15]	(3,698)	(9,638)	(2,896)	(3,618)
Interest and financing charges [16]	(1,173)	(1,313)	(1,254)	(1,320)
Fair value gain (loss) [17]	4,828	(6,368)	363	(2,620)
IFRS 16 adjustments [18]	(261)	-	-	-
Profit (loss) before income taxes	**$ 8,249**	**$ (9,292)**	**$ 2,146**	**$ (1,035)**
Income tax recovery (expense)	(1,099)	2,021	(58)	(340)
Profit loss	**$ 7,150**	**$ (7,271)**	**$ 2,088**	**$ (1,375)**
SSSG [19]				
Canada	1.1 %	0.2 %	2.3 %	0.8 %
United States	3.8 %	2.5 %	6.3 %	4.1 %
Consolidated	1.8 %	0.7 %	3.0 %	0.7 %
Restaurants in KRL System [20]				
# Beginning of Period	105	105	105	106
Opened	2	--	--	--
Closed	(2)	--	--	(1)
# End of Period	105	105	105	105

SELECTED ANNUAL FINANCIAL INFORMATION OF KRL

	52 weeks ended Mar. 29, 2020	52 weeks ended Dec. 29, 2019	52 weeks ended Dec. 30, 2018	52 weeks ended Dec. 31, 2017
		(in thousands of dollars)		
System sales [1]	**$ 625,978**	**$ 650,162**	**$ 650,543**	**$ 624,793**
Corporate restaurant sales [2]	$ 316,675	$ 329,567	$ 331,009	$ 304,771
Corporate restaurant costs [3]	(281,577)	(289,514)	(286,644)	(259,515)
Corporate restaurant profit	$ 35,098	$ 40,053	$ 44,365	$ 45,256
Pre-opening costs [4]	(857)	(711)	(10)	(1,734)
Retail operating contribution [5]	1,374	1,266	1,008	596
Franchise service fee income [6]	17,009	17,643	16,804	16,452
Franchise marketing fee income [7]	6,161	6,349	6,393	6,430
General and administrative expenses [8]	(24,944)	(24,778)	(25,308)	(25,300)
Operating earnings [9]	**$ 33,841**	**$ 39,822**	**$ 43,452**	**$ 41,700**
Royalty expense [10]	(24,408)	(25,388)	(25,359)	(24,294)
Investment income [11]	10,940	11,099	10,729	9,969
EBITDA [12]	**$ 20,373**	**$ 25,533**	**$ 28,622**	**$ 27,375**
Covid-19 Closure Costs [13]	(5,227)	-	-	-
Adjusted EBITDA [14]	**$ 15,146**	**$ 25,533**	**$ 28,622**	**$ 27,375**
Non-cash and property disposal costs [15]	(20,864)	(21,015)	(19,760)	(11,422)
Interest and financing charges [16]	(4,919)	(4,955)	(5,067)	(4,809)
Fair value gain (loss) [17]	(40,376)	(4,126)	(15,550)	(4,029)
IFRS 16 adjustments [18]	(2,068)	(2,192)	-	-
Profit (loss) before income taxes	**$ (53,081)**	**$ (6,755)**	**$ (11,755)**	**$ 7,115**
Income tax recovery (expense)	8,406	990	2,029	(1,002)
Profit loss	**$ (44,675)**	**$ (5,765)**	**$ (9,726)**	**$ 6,113**
SSSG [19]				
Canada	(2.4) %	(1.8) %	1.2 %	5.1%
United States	0.3 %	0.9 %	4.5 %	4.3%
Consolidated	(2.0) %	(1.3) %	1.5 %	4.7%
Restaurants in KRL System [20]				
# Beginning of Period	105	105	106	101
Opened	6	6	--	7
Closed	(4)	(4)	(1)	(2)
# End of Period	107	107	105	106

	Mar. 29, 2020	Dec. 29, 2019	Dec. 30, 2018	Dec. 31, 2017
		(in thousands of dollars)		
Total assets	$ 357,953	$ 406,588	$ 308,311	$ 331,952
Total long-term liabilities	314,789	307,821	214,844	226,772

For the 13 Weeks Ended March 29, 2020
As of May 13, 2020

OVERVIEW

Keg Restaurants Ltd. ("KRL") is the owner/operator and franchisor of casual dining steakhouse restaurants operating under the trade name "The Keg Steakhouse & Bar" in Canada and select markets in the United States ("US"). On May 31, 2002, KRL completed a transaction in which KRL sold The Keg trademarks and other related intellectual property (collectively, the "Keg Rights") to The Keg Rights Limited Partnership (the "Partnership"), a subsidiary of The Keg Royalties Income Fund (the "Fund"). 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").

KRL's investment in the Partnership is measured at fair value. The increase or decrease in the fair value of KRL's investment in any period is reported as a gain or loss through comprehensive income (loss). Distributions attributable to KRL on the Class A, entitled Class B and the Class D Partnership units ("Exchangeable units") and on the Class C Partnership units ("Class C units") are reported as interest income through comprehensive income (loss).

The revenue of KRL is derived from sales of corporate Keg restaurants, franchise service fee income, franchise marketing fee income, and revenue from sales of food products marketed under The Keg brand name. Sales from corporate Keg restaurants are affected by the number of corporate Keg restaurants that are opened or closed. Franchise service and marketing fee income is affected by the amount of sales generated by existing franchised Keg restaurants and the number of franchised Keg restaurants that are opened or closed.

Restaurant operating costs and expenses include food and beverage costs, labour costs, operating supply expenses, local marketing and promotion costs, other trade costs, and premises costs of corporate Keg restaurants. General and administrative expenses include administrative expenses, as well as national marketing and advertising expenses, net of other income earned. Administrative expenses include the salaries and benefits of corporate employees, as well as related travel and accommodation costs; all associated with the operations of KRL in providing services to corporate and franchised restaurants. Administrative expenses also include the premises costs of two offices, the head office in Richmond, British Columbia, and a regional office in Toronto, Ontario.

The pre-opening costs are non-capital expenditures associated with opening new corporate restaurants, which are incurred prior to the restaurant opening for business. They include food and beverage costs, staff and management costs, facility costs if incurred, and other restaurant operating costs, as well as travel and accommodation costs for the training and management teams.

Investment income represents the distributions of the Partnership attributable to KRL on the Exchangeable units, as well as on the Class C units.

The fair value gain (loss) is the non-cash increase or decrease in the fair value of the Exchangeable units held by KRL during any respective period. KRL estimates the fair value of the Exchangeable units using the closing market price of the publicly traded units of the Fund (the "Fund units") on the Toronto Stock Exchange ("TSX"). The Exchangeable units have similar distribution and voting rights as the Fund units and are exchangeable into Fund units on a one-for-one basis, thus it is estimated that the fair value of an Exchangeable unit approximates the market value of a Fund unit.

Readers should note that KRL's year-end historically fell on the Sunday closest to September 30th, in any year. KRL filed notice on December 20, 2018 that it was changing its financial year end from the Sunday closest to September 30th in any year, to the last Sunday of December, in accordance with the requirements of National Instrument 51-102 – *Continuous Disclosure Obligations*. The change was implemented to align KRL's financial year end with the financial year end of its parent, Recipe. As a result of the change, KRL had a transitional 15-month financial year ending on December 30, 2018, which was the last Sunday of December 2018. The change in KRL's year-end date will not impact the operation of the Fund, nor its financial reporting obligations, or the Fund's existing year end of December 31st.

THE ROYALTY POOL

Annually, on January1st, 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.

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

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

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

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

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

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

KRL'S INTEREST IN THE FUND

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

On January 1, 2020, KRL became entitled to the initial 80% of the Additional Entitlement for 2020, consisting of 354,212 Exchangeable units, increasing its effective ownership of the Fund to 29.55%. See "The Royalty Pool".

FAIR VALUE GAIN (LOSS)

Fair value gain (loss) is the non-cash increase or decrease in the market value of the Exchangeable units held by KRL during the respective period. The Exchangeable units held by KRL are classified as a financial asset under IFRS. KRL is required to determine the fair value of that asset 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 asset, 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 asset of KRL also increases, and a non-cash gain is recorded during that period. If the market price of a Fund unit decreases during a period, the financial asset of KRL also decreases, and a non-cash loss is recorded during that period.

IFRS 16, *LEASES*

KRL adopted IFRS 16 on December 31, 2018, which is effective for annual reporting periods on or after January 1, 2019. Previously, KRL classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying assets to KRL, and classified operating lease payments as operating costs. KRL has applied IFRS 16 using the modified retrospective approach which applies the requirements of the standard retrospectively, with the cumulative effects of initial application recorded in the opening deficit on the statement of financial position as at December 31, 2018, with no restatement of the financial results reflected in the historical statement of comprehensive income (loss).

On transition to IFRS 16, KRL identified and reviewed each contract that had a lease. KRL's lease contracts consist of real estate leases for use in the operation of its corporate restaurants and corporate offices. KRL has recorded these leased assets as right-of-use assets, representing its control and right to use the underlying assets, and also recorded a related lease liability, representing its obligation to make future lease payments. Both the right-of-use assets and the related lease liability are reported on the statement of financial position.

The right-of-use assets were valued at the initial amount of the lease liability, plus any lease payments made on or before the commencement date of the lease, plus any initial indirect costs, plus an estimate of costs to dismantle, remove or restore the underlying asset, less any lease inducements received. Right-of-use assets are depreciated using the straight-line method from the commencement date of the respective lease to the earlier of, either the end of the useful life of the right-of-use assets, or the end of the lease term. Depreciation of restaurant right-of-use assets are reported on the statement of comprehensive income (loss) as amortization of restaurant right-of-use assets, while depreciation of corporate right-of-use assets are reported as amortization of corporate right-of-use assets.

The lease liability was initially determined using the present value of remaining future lease payments due under the lease, discounted at KRL's incremental borrowing rate, since the interest rates implicit in the various leases could not be readily determined.

The lease liability is subsequently measured at amortized cost using the effective interest rate method. The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in KRL's estimate of the amount expected to be payable under a residual value guarantee, or if KRL changes its assessment of whether it will exercise a purchase, extension or termination option.

OWNERSHIP OF THE FUND

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

	Mar. 29, 2020 (1)		Mar. 31, 2019 (1)	
	#	%	#	%
Fund units held by public unitholders (2)	11,353,500	70.45	11,353,500	72.44
Exchangeable Partnership units held by KRL: (3)				
Class A units (4)	905,944	5.62	905,944	5.78
Class B units (5)	176,700	1.10	176,700	1.13
Class D units (5)	3,679,642	22.83	3,236,213	20.65
Total Exchangeable Partnership units (6)	4,762,336	29.55	4,318,857	27.56
Total Fund and Exchangeable Partnership units	16,115,836	100.00	15,672,357	100.00

Notes:

(1) Information is current as of March 29, 2020. On January 1, 2020, KRL became entitled to the initial 80% of the Additional Entitlement for 2020, consisting of 354,412 Exchangeable units, increasing its effective ownership of the Fund to 29.55% on a fully diluted basis. As of March 29, 2020, there are 11,353,500 Fund units outstanding, and 4,762,336 Exchangeable units issued and outstanding, all of which are entitled to distributions.

(2) Represents the public's actual ownership of the Fund as of March 29, 2020 and March 31, 2019. The public's average effective ownership of the Fund (based on the weighted average number of Fund units held by public unitholders during the respective period) was 70.45% during the 13 weeks ended March 29, 2020 (13 weeks ended March 31, 2019 – 72.44%). The weighted average number of Fund units outstanding for the 13-week period ended March 29, 2020 was 11,353,500 (13-week period ended March 31, 2019 – 11,353,500).

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

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

(5) These Exchangeable Partnership units are issued to KRL in return for adding net sales to the Royalty Pool on an annual basis. Class D units are equivalent to Class B units in all material respects but began to be issued once all Class B units became fully entitled to distributions on January 1, 2008. As of March 29, 2020, KRL is the registered holder of 176,700 Class B units and 3,679,642 Class D units, all of which are entitled (March 31, 2019 – 176,700 Class B units and 3,236,213 Class D units, all of which were entitled). Also included in these figures is 80% of the Additional Entitlement estimated at the beginning of each calendar year, pursuant to which KRL receives a proportionate increase in monthly distributions from the Partnership. The remaining 20% of KRL's Additional Entitlement of Class B and Class D units is adjusted retroactively to January 1st of each year once the actual sales performance of the new restaurants has been confirmed. KRL is not entitled to proportionate monthly distributions from the Partnership on the remaining 20% of KRL's Additional Entitlement until such time as the Additional Entitlement is adjusted retroactively at the end of each calendar year.

(6) Represents KRL's actual ownership of the Fund as of March 29, 2020 and March 31, 2019. KRL's average effective ownership of the Fund (based on the weighted average number of Exchangeable units held by KRL during the respective period) was 29.55% during the 13 weeks ended March 29, 2020 (13 weeks ended March 31, 2019 – 27.56%). The weighted average number of Exchangeable units held by KRL during the 13-week period ended March 29, 2020 was 4,762,336 (13-week period ended March 31, 2019 – 4,318,857).

EBITDA

EBITDA is profit (loss) before interest, income taxes, depreciation and amortization (including write-downs of property, plant and equipment, if applicable), gain (loss) on disposal of property, plant and equipment, fair value gain (loss) and provision. Management of KRL believe that EBITDA provides useful information, as it is an approximate measure of the funds generated by KRL which are available to meet its financing obligations. EBITDA is not a recognized measure under IFRS and therefore may not be comparable to similar measures presented by other issuers. EBITDA is determined as follows:

($000's)	13 weeks ended Mar. 29, 2020	13 weeks ended Mar. 31, 2019
Profit (loss) for the period [1]	$ (31,760)	$ 7,150
Income taxes [2]	(6,317)	1,099
Fair value loss (gain) [3]	31,422	(4,828)
Loss (gain) on disposal of PP&E [4]	91	733
Amortization of deferred gain	(446)	(423)
Interest expense on lease liability [5]	1,148	1,073
Interest expense [6]	1,137	1,173
Amortization of intangible assets	193	193
Amortization of corporate right-of-use assets [7]	84	89
Amortization of tangible corporate assets	133	130
Amortization of restaurant right-of-use assets [8]	3,818	3,418
Amortization of tangible restaurant assets	3,576	3,453
Impairment of tangible restaurant assets	-	-
EBITDA, before rents	$ 3,079	$ 13,260
Restaurant rents [9]	(4,691)	(4,569)
Office rents [10]	(142)	(138)
Other rents [11]	(80)	-
Adjusted EBITDA	**$ (1,834)**	**$ 8,553**
Covid-19 Closure Costs	5,227	-
EBITDA	**$ 3,393**	**$ 8,553**

Notes:

(1) Profit (loss) for the period is the amount identified in the condensed consolidated financial statements of KRL for the respective period.

(2) Income taxes include both current cash income taxes paid or payable and non-cash deferred income taxes.

(3) Fair value gain (loss) is the non-cash increase or decrease in the fair value of the Exchangeable units held by KRL during the respective period.

(4) Represents the gain or loss on the disposal of property, plant and equipment.

(5) Interest expense on the lease liability is the notional interest on the lease liability, determined using KRL's incremental cost of borrowing, which management of KRL has currently estimated within a range of 4.32% and 4.70%.

(6) Interest expense is the actual interest paid or payable on third party debt, and includes interest on the $57.0 million note payable to the Fund, interest and financing charges on bank debt, and non-cash amortization of deferred financing charges, net of interest income.

(7) Amortization of corporate right-of-use assets is the depreciation of corporate right-of-use assets determined under IFRS 16, *Leases,* calculated using the straight-line method.

(8) Amortization of restaurant right-of-use assets is the depreciation and impairment, if any, of restaurant right-of-use assets determined under IFRS 16, *Leases*, calculated using the straight-line method.

(9) Restaurant rents are the cost of real estate leases used in the operation of corporately owned restaurants.

(10) Office rents are the cost of real estate leases incurred for the corporate head office in Richmond, British Columbia, and a corporate office in Toronto, Ontario.

(11) Other rents are the cost of real estate leases incurred prior to the opening of a restaurant, if any.

NON-CASH AND PROPERTY DISPOSAL COSTS

Non-cash expenses include amortization (on both restaurant and corporate assets), amortization of intangible assets and the write-down of property, plant and equipment, if required, net of the amortization on the deferred gain. Loss on disposal of property, plant and equipment includes the non-cash write-off of the unamortized cost of disposed assets, and in some cases, other disposal costs. These expenses exclude the impact of IFRS 16, *Leases*, discussed below (see IFRS 16 Adjustments).

($000's)	13 weeks ended Mar. 29, 2020	13 weeks ended Mar. 31, 2019
Amortization of tangible restaurant assets [1]	$ (3,576)	$ (3,065)
Impairment of tangible restaurant assets [2]	-	-
Amortization of corporate assets	(133)	(130)
Amortization of intangible assets	(193)	(193)
Amortization of deferred gain	446	423
Non-cash expenses	$ (3,456)	$ (2,965)
Loss on disposal of property, plant and equipment [3]	(91)	(733)
Non-cash and property disposal costs	$ (3,547)	$ (3,698)

Notes:

[1] Amortization of tangible restaurant assets excludes any incremental amortization of previously impaired tangible restaurant assets, required as a result of the adoption of IFRS 16, *Leases*, on December 31, 2018.

[2] A restaurant's tangible assets are considered impaired, and its assets written down to the present value of its estimated future cash flows if that amount exceeds its carrying value of amortized cost. This amount is presented net of any reversals of tangible assets previously impaired, if applicable.

[3] Loss on disposal of property, plant and equipment includes the non-cash write-off of the unamortized cost of any disposed assets as well as other disposal costs. Other disposal costs primarily relate to permanently closed corporate restaurants and may include equipment removal costs, restoration costs of the premises, if required under the terms of the lease, lease carrying costs such as rent and property taxes until the termination of the lease, and lease termination fees.

IFRS 16 ADJUSTMENTS

KRL adopted IFRS 16, *Leases*, on December 31, 2018, concurrent with the beginning of its 2019 fiscal year, using the modified retrospective approach. That approach applies the requirement of the standard retrospectively, with the cumulative effects of the initial application recorded in opening retained earnings on the balance sheet, as at December 31, 2018, with no restatement of financial results of prior comparable periods. The impact on profit (loss) before income taxes consists of the following adjustments:

($000's)	13 weeks ended Mar. 29, 2020	13 weeks ended Mar. 31, 2019
Restaurant rents	$ 4,691	$ 4,569
Office rents	142	138
Other rents	80	-
Amortization of tangible restaurant assets [1]	-	(388)
Amortization of restaurant right-of-use assets	(3,818)	(3,418)
Impairment of restaurant right-of-use assets	-	-
Amortization of corporate right-of-use assets	(84)	(89)
Interest expense on lease liability	(1,148)	(1,073)
Rounding	-	-
IFRS 16 adjustments [2]	$ (137)	$ (261)

Notes:

[1] Amortization of tangible restaurant assets represents the incremental amortization of previously impaired tangible restaurant assets, which were re-valued as a result of the adoption of IFRS 16, *Leases*, on December 31, 2018.

[2] Represents the net impact on profit (loss) before current income taxes and excludes any effect of non-cash deferred income taxes.

SYSTEM SALES

The operating earnings of KRL are derived from the profits of corporate-owned Keg restaurants, franchise fee income, and revenue (net of related expenses) from sales of food and liquor products marketed under The Keg brand name. Profits from corporate-owned restaurants are directly affected by the gross sales from these restaurants and franchise fee income is directly affected by the gross sales from the franchised restaurants. The total system sales of The Keg chain are of interest to readers as these 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, 2020	13 weeks ended Mar. 31, 2019
Corporate Keg restaurants [(1)]	$ 73,340	$ 86,233
Franchised Keg restaurants [(2)]	70,773	82,065
Total system sales	$ 144,113	$ 168,298

Notes:

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

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

FIRST QUARTER

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

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

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

OPERATING RESULTS

FIRST QUARTER

CORPORATE RESTAURANT SALES

Gross sales from corporate-owned restaurants decreased from $86,233,000 during the first quarter of the prior year to $73,340,000 during the first quarter of the current year. The decrease of $12,893,000, or 15.0%, was due to the net impact of the same store sales increases at comparable corporate restaurants during the current quarter ($349,000 increase in sales), the positive effect of the exchange rate increase on the translation of the US corporate restaurant sales into their Canadian dollar equivalent ($124,000 increase in sales), the loss of sales from corporate restaurants temporarily closed due to the Covid-19 crisis ($13,620,000 decrease in sales), the sales of the new corporate restaurants that operated during the comparable quarter ($3,381,000 increase in sales), and the loss of sales from permanently closed corporate restaurants that did not operate during the comparable quarter ($3,127,000 decrease in sales).

CORPORATE RESTAURANT COSTS

Corporate restaurant operating costs decreased by $7,937,000, from $73,763,000 for the 13-week period ended March 31, 2019, to $65,826,000 for the 13-week period ended March 29, 2020, consisting of a decrease in restaurant variable costs of $7,337,000, and a decrease in restaurant fixed costs of $600,000.

Restaurant variable operating costs decreased by $8,009,000 due to the decreased sales for the quarter. Food costs decreased by $280,000, as menu pricing more than offset product cost inflation during the comparable quarter. Liquor, wine and beer costs increased by $50,000 during the comparable quarter, as product pricing only partially offset product cost inflation. Other product costs increased by $5,000 during the comparable quarter. Restaurant staff labour costs increased by $595,000 during the comparable quarter, due to the combined impact of reduced labour efficiency at corporate restaurants during the comparable quarter, and the negative impact of minimum wage increases. Minimum wages were increased in British Columbia (on June 1, 2019), in Quebec (on May 1, 2019), and in Arizona (on January 1, 2020). These minimum wage increases significantly increased staff labour costs in British Columbia, Quebec and the United States in the comparable quarter by approximately 10.1%, 2.4%, and 9.2% respectively. Operating supply expenses increased by $162,000, due to a general increase in most operating supply categories including flatware, linen and cleaning costs. Local marketing and promotion costs increased by $140,000, primarily due to increased local promotion spends in most corporate markets during the comparable quarter.

Restaurant fixed costs for non-comparable corporate restaurants increased by $114,000. Restaurant fixed costs also include a foreign exchange loss of $33,000 realized in translating the fixed costs of the US corporate restaurants into their Canadian dollar equivalent for accounting purposes. Restaurant management costs for the comparable corporate restaurants decreased by $529,000, due to the net impact of salary increases granted to restaurant managers at the beginning of the current year, increased restaurant management benefit costs, significantly reduced restaurant management bonuses, (resulting from reduced corporate restaurant profitability during the comparable quarter), and the saving of one week of salaries and related payroll benefits for corporate restaurant assistant managers, realized as a result of the layoffs necessitated by the temporary closure of all corporate restaurants. Restaurant trade costs for the comparable corporate restaurants decreased by $374,000, as utility costs, credit card commissions and repairs and maintenance expenses all declined due to the partial closure of the restaurants during the comparable quarter. Restaurant facility costs for the comparable corporate restaurants increased by $156,000 for the quarter, mostly due to higher fixed rent charges, and insurance costs.

PRE-OPENING COSTS

Pre-opening costs increased from $1,000 during the first quarter of the prior year to $147,000 during the first quarter of the current year. The increase of $146,000 over the comparable quarter of the prior year, was due to one additional corporate restaurant under development during the first quarter of the current year.

RETAIL OPERATING CONTRIBUTION

Retail operating contribution (revenue net of related expenses of a wholly-owned subsidiary which sells Keg branded food products) increased from a profit of $227,000 during the 13 weeks ended March 31, 2019, to a profit of $335,000 during the 13 weeks ended March 29, 2020. The increase in retail operating contribution of $108,000 during the quarter was due to the net impact of an increase in retail sales of $1,860,000, and an increase in retail operating costs of $1,752,000.

FRANCHISE SERVICE FEE INCOME

Franchise service fee income decreased from $4,531,000 during the first quarter of the prior year to $3,897,000 during the first quarter of the current year, a decrease of $634,000 or 14.0%. The increase in franchise service fees earned was due to the net impact of the same store sales decreases at comparable franchise restaurants during the quarter ($32,000 less franchise service fee income), the loss of sales from franchise restaurants temporarily closed due to the Covid-19 crisis ($709,000 less franchise service fee income), the sales of the new franchise restaurants that operated during the quarter ($129,000 more franchise service fee income), the incremental sales of the relocated franchise restaurants ($23,000 more franchise service fee income), the sales of franchise restaurants temporarily closed for renovation during the first quarter of the prior year ($4,000 more franchise service fee income), the amortization of franchise renewal fees ($6,000 more franchise service fee income), as well as franchise service fee rate changes and other miscellaneous franchise service fee adjustments ($55,000 less franchise service fee income).

FRANCHISE MARKETING FEE INCOME

Franchise marketing fee income decreased from $1,597,000 during the first quarter of the prior year to $1,409,000 during the first quarter of the current year, a decrease of $188,000 or 11.8%. The increase in franchise marketing fees earned was due to the net impact of the same store sales decreases at comparable franchise restaurants during the quarter ($12,000 less franchise marketing fee income), the loss of sales from franchise restaurants temporarily closed due to the Covid-19 crisis ($260,000 less franchise marketing fee income), the sales of the new franchise restaurants that operated during the quarter ($43,000 more franchise marketing fee income), the incremental sales of the relocated franchise restaurants ($3,000 less franchise marketing fee income), the sales of franchise restaurants temporarily closed for renovation during the first quarter of the prior year ($1,000 more franchise marketing fee income), as well as franchise marketing fee rate changes and other miscellaneous franchise marketing fee adjustments ($43,000 more franchise marketing fee income).

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the 13 weeks ended March 29, 2020 were $6,584,000 and include total marketing expenses of $3,176,000, and administrative expenses of $4,813,000, net of other income items of $1,405,000. Total general and administrative expenses increased by $165,000 during the comparative quarter, due to the net impact of a decrease in marketing expenditures of $249,000, an increase in administrative expenses of $192,000 and a decrease in other income items of $222,000.

Marketing expenditures decreased primarily as a result of the lower system sales for the current quarter, (as KRL targets to spend 2.25% of system sales on marketing and advertising), but also due to the timing of certain marketing expenditures. Administrative expenses increased as a result of the net impact of increased corporate salaries, (which increased as a result of salary increases granted to corporate personnel at the beginning of the current year), increased benefit costs, increased corporate personnel, reduced corporate bonuses (which decreased as a result of reduced company profitability during the comparable quarter), as well as increased travel related costs. Other income decreased mostly due to non-recurring reorganization costs incurred in the first quarter of the current year.

OPERATING EARNINGS

Operating earnings decreased by $5,981,000 from $12,405,000 for the 13-week period ended March 31, 2019, to $6,424,000 for the 13-week period ended March 29, 2020. Management of KRL has estimated that operating earnings decreased by $5,168,000 as a direct result of the closure of all restaurants during the quarter as a result of the Covid-19 crisis. Management views operating earnings as a key metric as it indicates the funds generated by KRL which are available to meet its royalty payment obligations to the Fund, interest and income tax obligations, and to pay any discretionary expenses.

ROYALTY EXPENSE

Total royalty expense decreased from $6,686,000 in the 13-week period of the prior year to $5,706,000 in the 13-week period of the current year. The decrease of $980,000 during the comparable quarter consists of a decrease in royalty fee payments of $925,000, and a decrease in Make-whole payments of $55,000.

The decrease in royalty fee payments of $925,000 was due to the net impact of the same store sales decreases at comparable Royalty Pool restaurants during the quarter ($10,000 decrease in royalty fee payments), the positive effect of the exchange rate decrease on the translation of US restaurant sales into their Canadian dollar equivalent ($1,000 increase in royalty fee payments), the loss of sales from franchise restaurants temporarily closed due to the Covid-19 crisis ($1,068,000 decrease in royalty fee payments), the sales of new restaurants added to the Royalty Pool on January 1, 2020 ($325,000 increase in royalty fee payments), the sales of restaurants temporarily closed for renovation during the first quarter of the prior year ($3,000 increase in royalty fee payments), and the loss of sales from permanently closed restaurants ($176,000 decrease in royalty fee payments).

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

INVESTMENT INCOME

Distributions attributable to KRL during the 13-week period ended March 29, 2020 were $2,675,000, which included distributions of $1,606,000 on the Exchangeable units and $1,069,000 on the Class C units. Distributions on the Exchangeable units decreased by $159,000 from the comparable quarter of the prior year, due to the net impact of a decrease in the operating income of the Fund during the first quarter of the current year, which was partially offset by an increase in KRL's average effective ownership of the Fund during that period. KRL's average effective ownership of the Fund increased from 27.56% during the first quarter of the prior year to 29.55% during the first quarter of the current year, primarily as a result of the Additional Entitlement for 2020 received by KRL on January 1, 2020, from the roll-in of sales of net new restaurants on that date. The distributions declared on the Class C units remained the same during the comparable periods, which were $0.0625 per Class C unit per month.

EBITDA

EBITDA for the 13-week period of the current year was $3,393,000 compared to $8,553,000 for the 13-week period of the prior year. The decrease in EBITDA of $5,160,000 for the quarter was due to the net impact of the decrease in operating earnings of $5,981,000, the decrease in royalty expense of $980,000 and, the decrease in the investment income of $159,000. Management of KRL has estimated that EBITDA decreased by $4,146,000 as a direct result of the closure of all restaurants during the quarter due to the Covid-19 crisis.

COVID-19 CLOSURE COSTS

Covid-19 closure costs for the 13 weeks ended March 29, 2020 were $5,277,000 and included the write-off of perishable food products of $628,000, amounts paid to corporate restaurant employees to help ease their transition to employment insurance benefits of $4,569,000, and other miscellaneous closure costs of $30,000. The amounts paid to corporate restaurant employees included $4,042,000 paid to corporate restaurant staff and $527,000 paid to corporate restaurant assistant managers.

ADJUSTED EBITDA

Adjusted EBITDA for the 13 weeks ended March 29, 2020 was a loss of $1,834,000 compared to a profit of $8,533,000 for the 13 weeks ended March 31, 2020. The decrease in Adjusted EBITDA of $10,387,000 was primarily due to lost profits of $4,416,000 resulting from the closure of all restaurants as noted above, and the Covid-19 closure costs of $5,227,000.

NON-CASH AND PROPERTY DISPOSAL COSTS

Non-cash and property disposal costs for the quarter ended March 29, 2020 were $3,547,000 and included amortization of tangible restaurant assets of $3,576,000, amortization of tangible corporate assets of $133,000, amortization of intangible assets of $193,000, and loss on disposal of property, plant and equipment of $91,000, less amortization of the deferred gain of $446,000. Non-cash expenses decreased by $151,000 from the comparable quarter of the prior year, due to the net impact of an increase in the amortization of tangible restaurant assets of $511,000, an increase in the amortization of tangible corporate assets of $3,000, a decrease in the loss on disposal of property, plant and equipment of $642,000, and an increase in the amortization of the deferred gain of $23,000.

INTEREST AND FINANCING CHARGES

Interest and financing charges for the quarter ended March 29, 2020 were $1,137,000 and included interest of $1,063,000 on the $57.0 million note payable to the Fund, $198,000 of interest and financing charges on bank debt, and $20,000 of non-cash amortization of deferred financing charges, net of $144,000 of interest income earned on the cash balances. Total interest and financing charges decreased by $36,000 during the comparable quarter, consisting of a decrease in the interest costs on the note payable to the Fund of $3,000, a decrease in interest and financing charges on bank debt of $26,000, a decrease in amortization of deferred finance charges of $8,000, and a decrease in interest income of $1,000.

The interest costs on the note payable to the Fund decreased as in 2020 it was based on 91 days of a 366 day year, as 2020 is a leap year, whereas in 2019 it was based on 91 days of a 365 year. The decrease in the interest and financing charges on bank debt of $26,000 was due to the net impact of lower average bank debt during the first quarter of the current year ($11,000 decrease in interest expense), KRL's lower effective borrowing rate on that bank debt ($12,000 decrease in interest expense), lower bank prime interest rates ($9,000 decrease in interest expense), as well as higher finance charges ($6,000 increase in finance charges).

FAIR VALUE GAIN (LOSS)

The fair value of the Exchangeable units decreased by $31,422,000 during the 13 weeks ended March 29, 2020, as compared with an increase of $4,828,000 during the 13 weeks ended March 31, 2019.

During the 13 weeks ended March 29, 2020, the fair value of the 4,407,924 Exchangeable units held by KRL during that entire quarter decreased, as the closing market price of a Fund unit (the basis upon which the Exchangeable units held by KRL are valued) decreased from $15.37 to $8.85, resulting in a non-cash loss to KRL of $28,740,000. In addition, the fair value of Exchangeable units granted to KRL on January 1, 2020, as the initial 80% of the Additional Entitlement for 2020 decreased from $16.42 (the January 1, 2020 roll-in price) to $8.85, resulting in a non-cash loss to KRL of $2,682,000.

During the 13 weeks ended March 31, 2019, the fair value of the 4,030,068 Exchangeable units held by KRL during that entire quarter increased, as the closing market price of a Fund unit (the basis upon which the Exchangeable units held by KRL are valued) increased from $16.16 to $17.40, resulting in a non-cash gain to KRL of $4,997,000. The fair value of the 52,995 Exchangeable units granted to KRL on December 31, 2018 (but effective January 1, 2018), as the remaining balance of the Additional Entitlement for 2018, decreased from $20.28 (the roll-in price) to $17.40 resulting in a non-cash loss to KRL of $153,000. In addition, the fair value of the 235,793 Exchangeable units granted to KRL on January 1, 2019, as the initial 80% of the Additional Entitlement for 2019, decreased from $17.47 (the January 1, 2019 roll-in price) to $17.40, resulting in a non-cash loss to KRL of $16,000.

IFRS 16 ADJUSTMENTS

The IFRS 16 adjustments in the first quarter of the current year were a net cost of $137,000, and included restaurant rents of $4,691,000, office rents of $142,000, and other rents of $80,000, which were replaced with amortization of restaurant right-of-use assets of $3,818,000, amortization of corporate right-of-use assets of $84,000, and interest expense on the lease obligation of $1,148,000. IFRS 16 adjustments decreased by $124,000 from the comparable quarter of the prior year, due to the net impact of an increase in restaurant rents of $122,000, an increase in office rents of $4,000, an increase in other rents of $80,000, a decrease in the amortization of tangible restaurants assets of $388,000, an increase in the amortization of restaurant right-of-use assets of $400,000, a decrease in the amortization of corporate right-of-use assets of $5,000, and an increase in the interest expense on the lease obligation of $75,000.

PROFIT (LOSS) BEFORE INCOME TAXES

The loss before income taxes for the 13 weeks ended March 29, 2020 amounted to $38,077,000 compared to a profit before income taxes of $8,249,000 for the 13 weeks ended March 31, 2019. The decrease in loss before income taxes of $46,326,000 during the first quarter of the current year was due to the decrease in EBITDA of $5,160,000, the increase in Covid-19 closure costs of $5,227,000, the decrease in non-cash and property disposal costs of $151,000, the decrease in interest and financing charges of $36,000, the non-cash change in the fair value gain (loss) of $36,250,000, and the non-cash decrease in IFRS 16 adjustments of $124,000.

LIQUIDITY AND CAPITAL RESOURCES

KRL must invest in the maintenance of the corporate Keg restaurants on an annual basis and it is estimated that the cost of these maintenance capital expenditures is $4,000,000 per annum. KRL will use cash flow from operations to fund seasonal fluctuations in working capital and maintenance capital expenditures. As substantially all of the restaurant sales are for cash or cash equivalents, and accounts payable are generally due in fifteen to thirty days, KRL is able to carry current liabilities in excess of current assets. In addition to cash flow from operations, KRL uses a combination of long-term and short-term borrowings to fund its capital expenditures incurred to build new corporate restaurants.

As at March 29, 2020, KRL has a working capital deficiency of $73,940,000. This deficiency arose primarily as a result of the current portion of unearned revenue balance of $78,650,000. The unearned revenue balance is not expected to result in a cash outflow as it represents gift cards that were sold by KRL, which will be settled through the provision of services. While these factors create a liquidity risk, KRL has a long history of generating positive cash flows from operations, has unused borrowing capacity, and as a result, believes that it will have sufficient resources to satisfy all of its financial liabilities as they come due.

During the quarter ended March 29, 2020, KRL was significantly impacted by the global crisis resulting from the spread of Covid-19 and the corresponding government mandated closures of non-essential services. Consequently, on March 17, 2020, KRL proactively announced the temporary closures of all 107 Keg restaurant locations across Canada and select US States. 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 KRL’s ability to remain in compliance with its debt covenants.

LONG-TERM DEBT OBLIGATIONS

On November 29, 2019, KRL entered into an amended credit agreement with its Canadian banking syndicate. The amendment modified the facility from a revolving credit/term loan facility to an all revolving facility, increased the size of the facility, reduced the applicable interest rate and extended its maturity date. The amended credit facility of $55,000,000 is available for working capital purposes and to partially finance the construction of new corporate restaurants and major renovations. KRL’s credit facilities will now bear interest at a rate between bank prime and bank prime plus 0.75%, based on certain financial criteria, rather than at bank prime plus 0.25% to bank prime plus 1.0%. The maturity date was extended from October 1, 2020 to July 4, 2022.

As at March 29, 2020, $19,000,000 of the revolving facility has been drawn, while $36,000,000 of that facility remains available, and KRL qualifies for interest at bank prime.

The credit facilities are secured by a general security agreement over KRL’s assets located in both Canada and the United States, and a pledge of KRL’s equity interests in the Partnership.

Future minimum principal repayments due within twelve periods of the balance sheet date as at March 29, 2020, under various long-term debt agreements, are as follows:

Q2 2020 – Q1 2021	$	-
Q2 2021 – Q1 2022		-
Q2 2022 – Q1 2023		19,000,000

OPERATING LINE OF CREDIT

KRL has a revolving demand operating facility of up to $5,000,000 with a Canadian chartered bank, which now bears interest at a rate between bank prime and bank prime plus 0.75%, based on certain financial criteria. This credit facility is available for general corporate purposes including working capital, overdrafts and letters of credit. As at March 29, 2020, $28,000 of this facility has been used to issue letters of credit, and $4,972,000 remains available. KRL meets the criteria for interest at bank prime. On November 29, 2019, the maturity date of this credit facility also was extended from October 1, 2020 to July 4, 2022.

OTHER LONG-TERM COMMITMENTS

KRL has base rental obligations under operating leases for office and restaurant premises as well as certain franchise restaurants. Some of the restaurant premises leases require additional payments contingent on sales volume. KRL has sub-leased certain restaurants to franchisees and, under the terms of the sub-leases, the franchisee assumes all rights and obligations under the head lease. Under the terms of the head lease agreements, KRL remains contingently liable to the landlord for any default in payment by franchisees.

However, KRL has personal guarantees and full indemnities from certain of the principals of the franchisees, for any and all costs related to the head lease. Accordingly, the company records net lease expense in its consolidated statements of comprehensive income (loss). As of March 29, 2020, all sub-lease accounts were current.

RELATED PARTY TRANSACTIONS

As at March 29, 2020, $56,000 owing from companies owned by a director of KRL are included in accounts receivable (December 29, 2019 – $45,000). Also included in accounts receivable at March 29, 2020 is $68,000 owing from KRL's parent company (December 29, 2019 – $92,000). All of these receivables are current as of March 29, 2020 and KRL expects to collect these amounts in full. KRL also has $34,000 in amounts owing to a company owned by a director of KRL included in accounts payable and accrued liabilities as at March 29, 2020 (December 29, 2019 – $51,000).

Included in the long-term portion of other receivables as at March 29, 2020 is a $750,000 non-interest-bearing employee demand note (December 29, 2019 – $750,000).

As at March 29, 2020, KRL has a $1,433,000 royalty fee payable, including GST, to the Partnership (December 29, 2019, – $2,901,000) and a $340,000 interest payable amount due to the Fund on the Keg Loan (December 29, 2019 – $340,000) included in accounts payable and accrued liabilities.

As at March 29, 2020, KRL has $735,000 in distributions receivable from the Partnership (December 29, 2019 – $1,231,000) related to its ownership of the Class C and Exchangeable Partnership units. These amounts were received from the Partnership when due, subsequent to the above periods.

KRL performs accounting services for a company owned by a director of KRL. For the 13 weeks ended March 29, 2020, KRL earned $30,000 related to these services (13 weeks ended March 31, 2019 – $69,000). These amounts have been fully recognized by KRL as other income.

KRL incurs royalty expense with respect to the licence and royalty agreement between KRL and the Partnership. As a result of the common directors on the board of KRL and on the board of The Keg GP, the general partner of the Partnership, the royalty expense is treated as a related party transaction. KRL incurred royalty expense of $5,706,000 for the 13-week period ended March 29, 2020 (13-week period ended March 31, 2019 – $6,686,000).

KRL also records investment income on its investment in Exchangeable and Class C units of the Partnership. During the 13-week period ended March 29, 2020, KRL recorded investment income of $1,606,000 and $1,069,000, respectively (13-week period ended March 31, 2019 – $1,765,000 and $1,069,000, respectively).

CRITICAL ACCOUNTING ESTIMATES

INVESTMENT IN THE PARTNERSHIP

KRL's investment in the Partnership is comprised of the Exchangeable and Class C units, which are financial assets. The value of additional Keg restaurants rolled into the Royalty Pool is also recognized within KRL's investment in the Partnership. The value of additional 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 new Keg restaurants being added to the Royalty Pool. As such, the calculation is dependent on a number of variables including the estimated sales of the new Keg restaurants and a discount rate. The value assigned to the new Keg restaurants could differ from actual results.

EXCHANGEABLE UNITS FAIR VALUE GAIN (LOSS)

KRL has elected under IFRS to measure the Exchangeable units as a financial asset at fair value through profit or loss. KRL estimates the fair value of the Exchangeable units using the closing market price of the publicly traded Fund units on the Toronto Stock Exchange. The Exchangeable units have similar distribution and voting rights as the Fund units and are exchangeable into Fund units on a one-for-one basis, thus it is estimated that the market value of the Exchangeable units approximate the market value of the Fund units.

The fair value of the Exchangeable units for KRL is determined 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 29, 2020, the closing price of a Fund unit was $8.85, resulting in a market capitalization of $142.6 million KRL's 29.55% ownership of the Fund (on a fully-diluted basis) was calculated to be $42.1 million. This valuation technique may not represent the actual value of the financial asset should such Exchangeable units be exchanged for units of the Fund.

IMPAIRMENT OF PROPERTY, PLANT, EQUIPMENT AND RIGHT-OF-USE ASSETS

Property, plant and equipment are tested for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment test requires management to forecast the future cash flows expected to be derived from the assets, and these cash flows must then be discounted by an appropriate discount rate selected by management. If actual cash flows differ from these forecasts, or if KRL's cost of capital differs from the discount rate chosen, KRL's results of operations and financial position could be materially impacted.

UNEARNED REVENUE

Gift cards that remain unredeemed after two years are recognized as income as the likelihood of redemption subsequent to that period is remote based on historical redemption patterns. The amount of any gift cards redeemed, that were previously included in income, is expensed in the year of redemption. If redemption patterns differ significantly from historical patterns, KRL's results of operations and financial position could be materially impacted.

CURRENT INCOME TAX EXPENSE

Current income tax is the expected tax payable on taxable income for the period, using tax rates enacted, or substantially enacted, at the end of the reporting period, and any adjustments in respect of previous years.

DEFERRED INCOME TAX EXPENSE

KRL uses the asset and liability method of accounting for deferred 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 a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

DEFERRED INCOME TAX EXPENSE (CONTINUED)

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, KRL's results of operations and financial position could be materially impacted.

In the December 28, 2014 year, KRL had a change in Canadian tax status due to the sale of the controlling interest of KRL. As a result of the change in tax status, certain temporary differences which were previously tax effected using a refundable rate of tax applicable to Canadian-Controlled Private Corporations ("CCPC's") have now been tax effected using the lower general tax rate applicable to non-CCPC's.

PROVISIONS

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow or resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect of time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Risk is reflected by adjusting either the cash flows or the discount rate. If these judgements and estimates applied prove to be inaccurate, KRL's results of operations and financial position could be materially impacted.

CONSOLIDATION

Applying the criteria outlined in IFRS 10, *Consolidated Financial Statements*, judgement is required in determining whether KRL 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 KRL does not ultimately control the Partnership.

FINANCIAL INSTRUMENTS

KRL's financial instruments consist of cash and cash equivalents, accounts receivable, distributions receivable from the Partnership, other receivables, exchangeable unit investment in the Partnership, Class C unit investment in the Partnership, accounts payable and accrued liabilities, long-term debt, note payable and note payable to the Fund. The carrying values of these instruments approximate their fair values. The exchangeable unit investment in the Partnership is classified as a financial asset measured at fair value through profit or loss.

Due to the interrelationship between the note payable to the Fund and the Class C Partnership units held by KRL, it is not practicable to estimate the fair value of the note payable with sufficient reliability. It is management's opinion that KRL is not exposed to significant interest rate or credit risk arising from these financial instruments.

SUBSEQUENT EVENTS

COVID-19 PANDEMIC

Subsequent to March 31, 2020, the government of Canada announced various assistance programs available to KRL and its franchisees in response to the Covid-19 crisis, including the deferral of certain tax payments, wage subsidy programs, and assistance with rent obligations. In addition to applying for those assistance programs for which it qualifies, KRL has implemented a number of cost reduction measures. Those include voluntary corporate management salary reductions, overhead cost reductions, and reductions to planned capital expenditures. KRL has been actively working with its landlord partners to complete rent deferral and short-term lease modifications in response to the Covid-19 crisis.

While the actions taken by KRL to provide liquidity during the Covid-19 disruption period are considered sufficient for the foreseeable future, the ultimate effect of the Covid-19 crisis on the economy and business in general, remains uncertain. The short-term impact from Covid-19 will depend on the length of time restaurants remain closed, and the financial solutions offered by various levels of government, lenders, and landlords.

SUBSEQUENT EVENTS (CONTINUED)

COVID-19 PANDEMIC

The medium and long-term impact from Covid-19 will depend on the length of time restaurants remain closed, and consumer dining behaviour following the re-opening of the restaurants. Potential financial solutions which may be required include, but are not limited to, obtaining sufficient financial support from government(s) for KRL and its franchisees, obtaining additional rent relief from landlords, and receiving debt covenant waivers from KRL's lenders, should they be required, and possibly revised covenants from KRL's lenders.

RESTAURANT CLOSURE

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

IFRS 16 – LEASES

RECONCILIATION OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) WITH MD&A

The following table provides a reconciliation between the balances reflected in the condensed consolidated statements of income (loss) and the balances reflected in the MD&A. Certain revenue items has been re-classified for purposes of presentation within the MD&A.

	13 Weeks Ended March 29, 2020				
	Statement of income (loss)	Other Allocations (1)	IFRS 15 Allocations (2)	IFRS 16 Adjustments (3)	MD&A
	(in thousands of dollars)				
Revenue:					
Restaurant sales	$ 73,340	$	$	$	$ 73,340
Franchise service fee income	3,897	(3,897)			-
Franchise marketing fee income	1,409		(1,409)		-
Retail sales	4,972	(4,972)			-
Total Revenue	$ 83,618	$ (8,869)	$ (1,409)	$ -	$ 73,340
Expenses & Other Revenue:					
Restaurant operating costs (4)	$ (61,135)	$ -	$ -	$ (4,691)	$ (65,826)
Restaurant pre-opening costs (4)	(67)			(80)	(147)
Royalty expense	(5,706)				(5,706)
Amortization & impairment of tangible restaurant assets	(3,576)				(3,576)
Impairment of tangible restaurant assets	-				-
Amortization of restaurant right-of-use assets	(3,818)			3,818	-
Retail operating costs/contribution	(4,637)	4,972			335
General & administrative expenses (5)	(11,669)	5,227		(142)	(6,584)
Covid-19 closure costs	-	(5,227)			(5,227)
Franchise service fee income	-	3,897			3,897
Franchise marketing fee income	-		1,409		1,409
Amortization of tangible corporate assets	(133)				(133)
Amortization of corporate right-of-use assets	(84)			84	-
Amortization of intangible assets	(193)				(193)
Interest income on Exchangeable Partnership units	1,606				1,606
Interest income on Class C Partnership units	1,069				1,069
Interest expense on long-term debt	(1,137)				(1,137)
Interest expense on lease liability	(1,148)			1,148	-
Amortization of deferred gain	446				446
Loss on disposal of property, plant & equipment	(91)				(91)
Fair value gain (loss) on Exchangeable Partnership units	(31,422)				(31,422)
Rounding					-
Profit (loss) before income taxes & IFRS 16 adjustments	$ (38,077)	$ -	$ -	$ 137	$ (37,940)
IFRS 16 adjustments	-			(137)	(137)
Profit (loss) before income taxes	$ (38,077)	$ -	$ -	$ -	$ (38,077)

Notes:

1). Certain items have been re-allocated for purposes of presentation within the MD&A. Franchise service fee income and marketing fee income have been re-allocated from Revenue to Other Revenue. The revenue of a wholly owned subsidiary, which sells branded food products, has been netted against related costs and has been reflected as retail operating contribution. Covid-19 closure costs have been separately disclosed from General & Administrative expenses and Impairment of tangible restaurant assets has been separately disclosed from Amortization of tangible restaurant assets.

2). Franchise marketing fee income was re-allocated as these fees represent a contribution from franchisees towards total marketing expenditures made by KRL.

3). IFRS 16 adjustments represent the net impact of adjustments to profit (loss) before income taxes as a result of the adoption of IFRS 16, *Leases,* effective December 31, 2018.

4). Restaurant facility lease payments are specifically excluded under IFRS 16, *Leases,* but have been added back to restaurant operating costs and restaurant pre-opening costs within the MD&A in order to provide a more meaningful basis of comparison with the financial results of prior periods.

5). Office facility lease payments are specifically excluded under IFRS 16, *Leases,* but have been added back to general and administrative expensses within the MD&A in order to provide a more meaningful basis of comparison with the financial result of prior periods.

IFRS 16 – LEASES (CONTINUED)

RECONCILIATION OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) WITH MD&A

The following table provides a reconciliation between the balances reflected in the condensed consolidated statements of income (loss) and the balances reflected in the MD&A. Certain revenue items has been re-classified for purposes of presentation within the MD&A.

	13 Weeks Ended March 31, 2019				
	Statement of income (loss)	Other Allocations (1)	IFRS 15 Allocations (2)	IFRS 16 Adjustments (3)	MD&A
	(in thousands of dollars)				
Revenue:					
Restaurant sales	$ 86,233	$	$	$	$ 86,233
Franchise service fee income	4,531	(4,531)			-
Franchise marketing fee income	1,597		(1,597)		-
Retail sales	3,112	(3,112)			-
Total Revenue	$ 95,473	$ (7,643)	$ (1,597)	$ -	$ 86,233
Expenses & Other Revenue:					
Restaurant operating costs (4)	$ (69,194)	$ -	$ -	$ (4,569)	$ (73,763)
Restaurant pre-opening costs (4)	(1)				(1)
Royalty expense	(6,686)				(6,686)
Amortization & impairment of tangible restaurant assets	(3,453)			388	(3,065)
Impairment of tangible restaurant assets	-				-
Amortization of restaurant right-of-use assets	(3,418)			3,418	-
Retail operating costs/contribution	(2,885)	3,112			227
General & administrative expenses (5)	(6,281)			(138)	(6,419)
Covid-19 closure costs	-				-
Franchise service fee income	-	4,531			4,531
Franchise marketing fee income	-		1,597		1,597
Amortization of tangible corporate assets	(130)				(130)
Amortization of corporate right-of-use assets	(89)			89	-
Amortization of intangible assets	(193)				(193)
Interest income on Exchangeable Partnership units	1,765				1,765
Interest income on Class C Partnership units	1,069				1,069
Interest expense on long-term debt	(1,173)				(1,173)
Interest expense on lease liability	(1,073)			1,073	-
Amortization of deferred gain	423				423
Loss on disposal of property, plant & equipment	(733)				(733)
Fair value gain (loss) on Exchangeable Partnership units	4,828				4,828
Rounding					-
Profit (loss) before income taxes & IFRS 16 adjustments	$ 8,249	$ -	$ -	$ 261	$ 8,510
IFRS 16 adjustments	-			(261)	(261)
Profit (loss) before income taxes	$ 8,249	$ -	$ -	$ -	$ 8,249

Notes:

1). Certain items have been re-allocated for purposes of presentation within the MD&A. Franchise service fee income and marketing fee income have been re-allocated from Revenue to Other Revenue. The revenue of a wholly owned subsidiary, which sells branded food products, has been netted against related costs and has been reflected as retail operating contribution. Covid-19 closure costs have been separately disclosed from General & Administrative expenses and Impairment of tangible restaurant assets has been separately disclosed from Amortization of tangible restaurant assets.

2). Franchise marketing fee income was re-allocated as these fees represent a contribution from franchisees towards total marketing expenditures made by KRL.

3). IFRS 16 adjustments represent the net impact of adjustments to profit (loss) before income taxes as a result of the adoption of IFRS 16, *Leases,* effective December 31, 2018.

4). Restaurant facility lease payments are specifically excluded under IFRS 16, *Leases,* but have been added back to restaurant operating costs and restaurant pre-opening costs within the MD&A in order to provide a more meaningful basis of comparison with the financial results of prior periods.

5). Office facility lease payments are specifically excluded under IFRS 16, *Leases,* but have been added back to general and administrative expensses within the MD&A in order to provide a more meaningful basis of comparison with the financial result of prior periods.

OUTLOOK

It has now been over seven weeks since the Covid-19 pandemic significantly disrupted our everyday lives, the world's economy and society in general. It is difficult to predict sales levels of KRL following re-opening with any level of certainty, as those sales levels will be impacted not only by the timing and restrictions regarding re-opening imposed by provincial and state governments, but also by any changes in consumer behaviours as a result of the Covid-19 crisis, as well as the pace of the economic recovery in each of the markets in which The Keg operates. What can be said with a high degree of certainty and confidence is that upon re-opening, The Keg will once again deliver the highest levels of food quality and best-in-class service that it is renowned for providing to its guests.

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

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

RISKS AND UNCERTAINTIES

THE RESTAURANT INDUSTRY

The performance of KRL is dependent upon restaurant sales and operating income, which are 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 Keg franchisees are unable to successfully compete in the casual dining segment of the restaurant industry, sales may be adversely affected 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 and discretionary spending patterns, and factors affecting the availability of beef could potentially force KRL to modify its restaurant content and menu which could result in a reduction of restaurant sales.

Accordingly, this could reduce the amount of the royalty and impact the 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 an outbreak of BSE "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 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 KRL's revenue which could have an adverse effect on its 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

KRL has 10 restaurants located in the US, all of which are corporately owned. Keg restaurants located in the US generate sales in US dollars, which must be translated into their Canadian dollar equivalent for reporting purposes. Corporate Keg restaurants located in the US incur costs in US dollars, which also must be translated into their Canadian dollar equivalent for reporting purposes. Fluctuations in foreign exchange rates will affect the Canadian dollar equivalent of the sales generated by the restaurants located in the US and in the case of corporate Keg restaurants, the translation of costs incurred into their Canadian dollar equivalent for reporting purposes.

FORWARD LOOKING INFORMATION

The information provided in this report includes forward-looking statements with respect to business plans, activities, prospects, opportunities, and events anticipated or being pursued by management of KRL and KRL's future results. Although management of KRL believes the assumptions underlying such statements to be reasonable, any of the assumptions may prove to be inaccurate and, as a result, the forward-looking information may prove to be incorrect. The anticipated results or events upon which current expectations are based may differ materially from actual results or events. The forward-looking information contained in this document is current only as of the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise, except as required by law.