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**THE KEG
ROYALTIES INCOME FUND
SECOND QUARTER REPORT**

Keg

For the period from April 1, 2003
to June 30, 2003

THE KEG®
STEAKHOUSE & BAR

TO OUR UNITHOLDERS

On behalf of the board of Trustees, I am pleased to present the results of The Keg Royalties Income Fund (the "Fund") for the second quarter ended June 30, 2003. The Fund continues to deliver expected results in all key areas: earnings, cash flows and distributions to unitholders.

RESULTS

The foodservice industry has faced some unexpected and extraordinary challenges thus far in 2003. The Keg has not been immune to these challenges. However, total system sales continue to grow and new Kegs continue to open in both Canada and the United States. Total system sales for The Keg for the period from January 1, 2003 to June 30, 2003 reached a record level of \$146,524,000, an increase of \$6,848,000 or 4.9% for the same period in 2002. Total system sales for the quarter from April 1, 2003 to June 30, 2003 increased as well, albeit at a more modest rate. Total system sales for the quarter were \$69,436,000, representing an increase of \$1,361,000 or 2.0% over the same period in 2002.

The Keg's same store sales uncharacteristically fell by 4.9% for the second quarter, bringing the year-to-date figure into a negative position of 2.6%. However, it should be noted that the majority of the same store sales declines are not indicative of a slowdown of traffic at the restaurants themselves, but are attributable to the unfavourable impact of the U.S. dollar exchange rate when translating the sales of the U.S. Keg restaurants into Canadian dollars for Fund reporting purposes. It is due to the strength of The Keg brand and the consistently superior Keg experience that same stores sales for The Keg in Canada remain positive year-to-date despite the external factors which made the second quarter so difficult for the industry as a whole and the full service sector in particular.

OUTLOOK

The foodservice industry, particularly in Canada, has been through what has been called a "perfect storm" of challenging developments over the past few months. The unexpected strength of the Canadian dollar and the war in Iraq have had a negative effect on tourism across the country; SARS has been particularly impactful in Ontario and BSE particularly impactful in Alberta, but both have been felt to varying degrees throughout Canada. Overall, 2003 will be remembered as a tough year for our industry. Looking ahead, it is hard to imagine that conditions will not be more favourable: the war in Iraq is over, the U.S. dollar exchange rate has stabilized, the SARS outbreak has been contained and the single case of BSE in Alberta has not resulted in any material negative consumer reaction to beef consumption. Going forward, we expect 2004 will most likely see a return to the long-term growth that has characterized the foodservice industry over the past twenty-five years.

In spite of the industry woes resulting from these one-time events, The Keg has managed to continue to deliver overall growth. Keg management remains singularly focused on running great steakhouses and bars; and no compromises have been made in any aspect of The Keg's legendary quality during these difficult times.

We remain confident that this focus and consistency will ensure the continued strength of The Keg brand and the continued loyalty of The Keg's guests.

Sincerely,



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

August 29, 2003

FINANCIAL HIGHLIGHTS

(\$000's except earnings per unit)	Apr. 1, 2003 to June 30, 2003	Jan. 1, 2003 to June 30, 2003
Gross sales reported by the 81 Keg restaurants in the Royalty Pool	<u>\$ 65,161</u>	<u>\$ 138,637</u>
Royalty income	\$ 2,615	\$ 5,554
Interest income	<u>1,068</u>	<u>2,123</u>
Total income	3,683	7,677
Expenses	(314)	(615)
Non-controlling interest ⁽¹⁾	<u>(1,359)</u>	<u>(2,764)</u>
Earnings for the period	<u>\$ 2,010</u>	<u>\$ 4,298</u>
Basic and diluted earnings per Fund unit	<u>\$.25</u>	<u>\$.53</u>
Distributions declared per Fund unit	<u>\$.27</u>	<u>\$.54</u>

⁽¹⁾ Represents the effective interest of KRL in the earnings of the Fund.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

On May 31, 2002, The Keg Royalties Income Fund (the "Fund"), through its subsidiary The Keg Rights Limited Partnership (the "Partnership"), purchased the Keg trademarks and related property (collectively, the "Keg Rights") from Keg Restaurants Ltd. ("KRL"). The Partnership, in turn, granted KRL an exclusive licence to use the Keg Rights for a term of 99 years pursuant to a licence and royalty agreement. This agreement obligates KRL to make a monthly royalty payment equal to 4% of the gross sales of Keg restaurants in Canada and the United States.

Annually, on January 1st, the pool of Keg restaurants on which KRL pays a royalty to the Partnership (the "Royalty Pool") will be adjusted to include the gross sales from new Keg restaurants opened on or before October 2nd of the prior year, less gross sales from any Keg restaurants that have permanently closed during the year. In return for adding these net sales to the Royalty Pool, KRL will receive the right to indirectly acquire additional Fund units (the "Additional Entitlement"). The Additional Entitlement is calculated as 92.5% of the royalty revenue added to the Royalty Pool, divided by the yield of the Fund units. KRL receives 80% of the Additional Entitlement initially, with the balance received when the actual full year performance of the new restaurants are known with certainty.

On January 1, 2003, three new Keg restaurants that opened during the period from April 1, 2002 through October 2, 2002 were added to the Royalty Pool. The gross sales of these three new restaurants have been estimated at \$14.0 million annually. Two permanently closed Keg restaurants with annual sales of \$3.8 million have been removed from the Royalty Pool, resulting in an estimated net increase in Royalty Pool sales of \$10.2 million annually. The total number of restaurants in the Royalty Pool has increased to 81.

OVERVIEW (CONTINUED)

The yield of the Fund units was determined to be 11.25% calculated using a weighted average unit price of \$9.60. 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 336,689 Fund units, being 3.58% of the Fund units on a fully diluted basis. On January 1, 2003, KRL received 80% of this entitlement representing the equivalent of 269,351 Fund units, being 2.89% of the Fund units on a fully diluted basis. KRL will also receive a proportionate increase in monthly distributions from the Partnership. Including the Additional Entitlement described above, KRL has the right to exchange its units in the capital of the Partnership for 1,175,295 Fund units, representing 12.60% of the Fund units on a fully diluted basis. If KRL receives 100% of the estimated Additional Entitlement for 2003, it would have the right to exchange its Partnership units for 1,242,633 Fund units, representing 13.22% of the Fund units on a fully diluted basis. The balance of the Additional Entitlement will be adjusted to be effective January 1, 2003 once the actual performance of the new restaurants have been confirmed. All Fund units obtained by KRL in exchange for these Partnership units are subject to a contractual re-sale restriction, which expires on May 31, 2005.

The Fund's operating expenses are limited to administration expenses, interest on long-term debt and amortization of deferred financing fees.

SYSTEM SALES

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

(\$000's)	13 weeks ended		26 weeks ended	
	June 29, 2003	June 30, 2002	June 29, 2003	June 30, 2002
Corporate Keg restaurants	\$ 38,554	\$ 39,670	\$ 81,941	\$ 81,614
Franchised Keg restaurants ⁽¹⁾	<u>30,881</u>	<u>28,405</u>	<u>64,583</u>	<u>58,063</u>
Total system sales	<u>\$ 69,436</u>	<u>\$ 68,075</u>	<u>\$ 146,524</u>	<u>\$ 139,677</u>

⁽¹⁾ The amount of system sales for the franchised Keg restaurants is the amount of gross sales reported to KRL by franchised Keg restaurants without independent audit and includes the gross sales of a joint venture restaurant located in Coquitlam, British Columbia.

SECOND QUARTER

Total system sales for the 13 weeks ended June 29, 2003 were \$69.4 million compared to \$68.1 million for the 13 weeks ended June 30, 2002, an increase of \$1.3 million or 2.0%. During the 13 weeks ended June 29, 2003, two new restaurants were opened while no restaurants were closed and one restaurant was relocated. During the same period in the prior year, one new restaurant was opened while no restaurants were closed. As at June 29, 2003, there were a total of 86 Keg restaurants as compared with the 81 restaurants at June 30, 2002.

SECOND QUARTER (CONTINUED)

Same store sales (sales of restaurants that operated during the entire period of both the current and the prior year) declined by 4.9% for the quarter. Almost half of this decrease is a function of the fluctuation of the U.S. dollar exchange rate rather than a decrease in actual restaurant traffic. The average exchange rate moved from 1.56 in the third quarter of 2002 to 1.40 in the third quarter of 2003. Same store sales in Canada were negative in this quarter due largely to the one-time impact of SARS on the Ontario economy and on the hospitality and tourism industry in particular. The single case of BSE discovered in Alberta also impacted sales negatively, although not to the same extent as SARS.

YEAR TO DATE

Total system sales for the 26 weeks ended June 29, 2003 were \$146.5 million compared to \$139.7 million for the 26 weeks ended June 30, 2002, an increase of \$6.8 million or 5.0%. During the 26 weeks ended June 29, 2003, two new restaurants were opened, no restaurants were closed and one restaurant was relocated. During the same period in the prior year, one new restaurant was opened and two restaurants were closed.

Same store sales (sales of restaurants that operated during the entire period of both the current and the prior year) declined by 1.5% for the 39 weeks ended June 29, 2003. Almost two-thirds of this decrease is a function of the fluctuation of the U.S. dollar exchange rate rather than a decrease in actual restaurant traffic. The average exchange rate moved from 1.57 for the six-month period in 2002 to 1.46 for the same period of 2003. Same store sales in Canada remain positive year-to-date despite the disappointing same store sales results for the third quarter as noted above.

OPERATING RESULTS

Readers should note that since the Fund commenced operations on May 31, 2002, quarterly and year-to-date results are not directly comparable to the prior year. The second quarter of 2002 had only 31 operating days versus 91 operating days for the same quarter in 2003. Thus no discussion of comparable results are provided as they would not be meaningful.

SECOND QUARTER

For the period April 1, 2003 to June 30, 2003 royalty income was \$2,615,000 based on gross sales of \$65,161,000 from the 81 Keg restaurants in the Royalty Pool.

Operating expenses for the quarter ended June 30, 2003 were \$314,000 and included general and administrative expenses of \$92,000, interest on the long-term debt of the Fund in the amount of \$193,000 and amortization on the deferred financing charges of \$29,000. The difference between the Fund's earnings and distributions declared is due to non-cash items included in the Fund's operating expenses.

SECOND QUARTER (CONTINUED)

Net earnings of the Fund were \$2,010,000 resulting in earnings per Fund unit of 24.6 cents. Cash available for distribution to unitholders during the period amounted to 25.0 cents and distributions of 27.0 cents have been declared relative to this period.

YEAR TO DATE

For the period from January 1, 2003 to June 30, 2003 royalty income was \$5,554,000 based on gross sales of \$138,637,000 from the 81 Keg restaurants in the royalty pool. Operating expenses for the 26 weeks ended June 30, 2003 were \$615,000 and included general and administrative expenses of \$187,000, interest on the long-term debt of the Fund in the amount of \$370,000 and amortization on the deferred financing charges of \$58,000.

Net earnings of the Fund were \$4,298,000 resulting in earnings per Fund unit of 52.7 cents. Cash available for distribution to unitholders during the period amounted to 53.4 cents and distributions of 54.0 cents have been declared relative to this period. It is anticipated that the monthly distribution to unitholders will remain at 9.0 cents per unit for the balance of the fiscal year, which equates to an annualized distribution of \$1.08 per unit.

OUTLOOK

Following the challenging year the commercial foodservice industry experienced in 2002, it was widely expected that there would be a significant rebound in 2003. That will in fact not be the case, with the Canadian industry facing broader challenges than the U.S. The negative impact of the strong Canadian dollar has hurt the tourism sector, with one-time crises such as SARS and the single case of BSE in Alberta also taking their toll.

Despite the continuing industry woes, The Keg has still managed to increase its system wide sales overall as well as maintain same store sales near the record levels of 2002. As always, management and staff remain focused on running great steakhouses and bars with the renowned Keg spirit fully in evidence every day in every Keg.

KRL remains committed to growth, both through expansion into new markets and same store sale increases. In addition to new Kegs in both Canada and the U.S., KRL will continue 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 thirty years.

RISKS AND UNCERTAINTIES

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

Management of KRL has advised the Trustees that it continues to monitor the situation regarding the single case of BSE found in an Alberta cow in May, 2003. To date, no other case of BSE has been discovered after widespread testing of Canadian herds. Most importantly to the Keg, there does not appear to be any significant negative consumer reaction to beef in general, and the guest count in restaurants has not been materially impacted. KRL management has further advised the Trustees that KRL has maintained an uninterrupted supply of quality beef despite the borders being closed and the woes of the cattle producers. With the partial resumption of beef trade with the U.S. already underway and a full return to normal trade expected in the near future, no issues with respect to either supply or consumer confidence are anticipated.

FORWARD LOOKING INFORMATION

The information provided in this report includes forward-looking statements with respect to business plans, activities and events anticipated by the Fund and the Fund's future results. Although the Fund 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 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.

CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of dollars)

	June 30, <u>2003</u> (unaudited)	December 31, <u>2002</u> (audited)
ASSETS		
Current assets:		
Accounts receivable	\$ -	\$ 1
Due from Keg Restaurants Ltd. (note 5)	1,387	1,558
Prepaid expenses and deposits	<u>86</u>	<u>25</u>
	1,473	1,584
Note receivable from Keg Restaurants Ltd.	57,000	57,000
Intangible assets	113,547	113,547
Deferred financing charges	<u>220</u>	<u>278</u>
	<u>\$ 172,240</u>	<u>\$ 172,409</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness	\$ 93	\$ 40
Accounts payable and accrued liabilities	196	315
Interest payable on term loan	7	7
Distributions payable to Fund unitholders	-	734
Distributions payable to non-controlling interest	<u>-</u>	<u>460</u>
	296	1,556
Term loan	14,000	14,000
Non-controlling interest (note 7)	83,512	83,050
Unitholders' equity	<u>74,432</u>	<u>73,803</u>
	<u>\$ 172,240</u>	<u>\$ 172,409</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Trustees



C.C. Woodward, Trustee



George Tidball, Trustee

CONSOLIDATED STATEMENTS OF EARNINGS

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

	April 1 to June 30, <u>2003</u>	May 31 to June 30, <u>2002</u>	January 1 to June 30, <u>2003</u>
Gross sales reported by Keg restaurants in the Royalty Pool (note 2).....	\$ <u>65,161</u>	\$ <u>22,530</u>	\$ <u>138,637</u>
Revenue:			
Royalty income.....	\$ 2,615	\$ 901	\$ 5,554
Interest income.....	<u>1,068</u>	<u>363</u>	<u>2,123</u>
	3,683	1,264	7,677
Expenses:			
General and administrative.....	92	25	187
Interest and financing fees.....	193	56	370
Amortization of deferred financing charges.....	<u>29</u>	<u>10</u>	<u>58</u>
	<u>314</u>	<u>91</u>	<u>615</u>
Earnings before non-controlling interest.....	3,369	1,173	7,062
Non-controlling interest (note 7).....	<u>1,359</u>	<u>450</u>	<u>2,764</u>
Net earnings for the period.....	<u>\$ 2,010</u>	<u>\$ 723</u>	<u>\$ 4,298</u>
Basic and diluted earnings per Fund Unit (8,153,500 units).....	<u>\$ 0.25</u>	<u>\$ 0.09</u>	<u>\$ 0.53</u>

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(Expressed in thousands of dollars - unaudited)

	April 1 to June 30, <u>2003</u>	May 31 to June 30, <u>2002</u>	January 1 to June 30, <u>2003</u>
Balance, beginning of period.....	\$ 74,623	\$ -	\$ 73,803
Issue of Fund Units, net of issue costs.....	-	73,885	-
Net earnings.....	2,010	723	4,298
Distributions declared to Fund unitholders (note 4).....	<u>(2,201)</u>	<u>-</u>	<u>(3,669)</u>
Balance, end of period.....	<u>\$ 74,432</u>	<u>\$ 74,608</u>	<u>\$ 74,432</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of dollars - unaudited)

	April 1 to June 30, <u>2003</u>	May 31 to June 30, <u>2002</u>	January 1 to June 30, <u>2003</u>
Cash provided by (used for):			
OPERATIONS:			
Net earnings for the period	\$ 2,010	\$ 723	\$ 4,298
Items not involving cash:			
Amortization of deferred financing charges.....	29	10	58
Non-controlling interest.....	1,359	450	2,764
Change in non-cash operating working capital (note 8(a))	<u>15</u>	<u>(244)</u>	<u>(8)</u>
	3,413	939	7,112
INVESTMENTS:			
Acquisition of Keg Rights (note 6).....	-	(30,487)	-
Note receivable from Keg Restaurants Ltd.	<u>-</u>	<u>(57,000)</u>	<u>-</u>
	-	(87,487)	-
FINANCING:			
Issuance of Fund Units	-	81,535	-
Costs of issuance of Fund Units.....	-	(7,650)	-
Proceeds from term loan.....	-	14,000	-
Deferred financing charges.....	-	(345)	-
Distributions paid to Fund unitholders (note 4)	(2,201)	-	(4,403)
Distributions paid to non-controlling interest	<u>(1,379)</u>	<u>-</u>	<u>(2,762)</u>
	<u>(3,580)</u>	<u>87,540</u>	<u>(7,165)</u>
Increase in cash (bank indebtedness).....	(167)	992	(53)
Cash (bank indebtedness), beginning of period	<u>74</u>	<u>-</u>	<u>(40)</u>
Cash (bank indebtedness), end of period	<u>\$ (93)</u>	<u>\$ 992</u>	<u>\$ (93)</u>

See note 8(b) for supplementary cash flow information.

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts expressed in thousands of dollars - unaudited)

For the period from January 1, 2003 to June 30, 2003

1. BASIS OF PRESENTATION:

The Keg Royalties Income Fund (the “Fund”) prepares its interim consolidated financial statements in accordance with Canadian generally accepted accounting principles on a basis consistent with those used and described in the annual consolidated financial statements for the period from April 12, 2002 (establishment) to December 31, 2002. The disclosures contained in these interim consolidated financial statements do not include all the requirements of Canadian generally accepted accounting principles for annual financial statements.

These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the period April 12, 2002 to December 31, 2002. There were no material transactions during the period from establishment on April 12, 2002 to the commencement of operations on May 31, 2002. As a result, the comparative balances shown are for the period from May 31, 2002 to June 30, 2002.

2. GROSS SALES:

The gross sales reported by the 81 Keg restaurants (2002 – 80 Keg restaurants) on which Keg Restaurants Ltd. (“KRL”) pays a royalty (the “Royalty Pool”) are from January 1, 2003 to June 30, 2003 and from May 31, 2002 (commencement of operations) to June 30, 2002.

The royalty payment from KRL to The Keg Rights Limited Partnership (the “Partnership”) is four percent of system sales for such period reported by Keg restaurants in the Royalty Pool plus a make-whole payment, if required by a restaurant closure, based on four percent of lost system sales. System sales for any period and for any Keg restaurant located in Canada and the United States, as defined in the Licence and Royalty Agreement means the gross sales by such Keg restaurants for such period. Lost system sales, in respect of any Keg restaurant that has permanently closed during such period, means an amount based on the amount of system sales for such restaurant during the Initial Keg Restaurant Period for the 52-weeks ended March 31, 2002. The make-whole payment is based on one restaurant closure for the period from January 1, 2003 to June 30, 2003. Make-whole payments were not required for the period from May 31, 2002 to June 30, 2002 as there were no restaurant closures.

	April 1 to June 30, <u>2003</u>	May 31 to June 30, <u>2002</u>	January 1 to June 30, <u>2003</u>
System sales reported by Keg restaurants in the Royalty Pool	\$ <u>65,161</u>	\$ <u>22,530</u>	\$ <u>138,637</u>
Royalty income at 4% of system sales reported above	\$ 2,606	\$ 901	\$ 5,545
Make-whole payment, based on 4% of lost system sales.....	<u>9</u>	<u>-</u>	<u>9</u>
Total royalty income.....	<u>\$ 2,615</u>	<u>\$ 901</u>	<u>\$ 5,554</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

For the period from January 1, 2003 to June 30, 2003

3. DISTRIBUTABLE CASH:

	April 1 to June 30, <u>2003</u>	May 31 to June 30, <u>2002</u>	January 1 to June 30, <u>2003</u>
Earnings for the period	\$ 2,010	\$ 723	\$ 4,298
Amortization of deferred financing charges.....	29	10	58
Non-controlling interest.....	<u>1,359</u>	<u>450</u>	<u>2,764</u>
	3,398	1,183	7,120
Distributable cash required for non-controlling interest	<u>(1,363)</u>	<u>(450)</u>	<u>(2,769)</u>
Distributable cash available for Fund unitholders.....	<u>\$ 2,035</u>	<u>\$ 733</u>	<u>\$ 4,351</u>
Basic and diluted distributable cash per Fund Unit (8,153,500 units)	<u>\$ 0.25</u>	<u>\$ 0.09</u>	<u>\$ 0.53</u>

Distributable cash is not an earnings measure recognized by generally accepted accounting principles (“GAAP”) and therefore may not be comparable to similar measures presented by other issuers. Basic and diluted distributable cash per Fund Unit is computed on a basis consistent with that described by GAAP for computing earnings per Fund Unit.

4. UNITHOLDER DISTRIBUTIONS:

The \$733,815 difference between the \$3,669,075 in distributions declared and the \$4,402,890 in distributions paid to Fund unitholders during the period from January 1, 2003 to June 30, 2003 is due to the declaration of the January 2003 distribution on December 31, 2002. Annually, two distributions are expected to be declared during the first quarter, three distributions in each of the second and third quarters and four distributions in the fourth quarter. This is done to ensure that the distribution based on December KRL Royalty Pool system sales, which is paid the following month in January, is recorded in the period it was earned for income tax purposes.

5. DUE FROM KEG RESTAURANTS LTD.:

	June 30, <u>2003</u>	December 31, <u>2002</u>
Royalty fee, including GST	\$ 1,036	\$ 1,195
Interest on note receivable from Keg Restaurants Ltd.	<u>351</u>	<u>363</u>
	<u>\$ 1,387</u>	<u>\$ 1,558</u>

The above amounts were received when due from KRL subsequent to the end of the above periods to facilitate the following month’s distribution to Fund unitholders.

6. ACQUISITION OF KEG RIGHTS:

On May 31, 2002, the Partnership, a subsidiary of the Fund, acquired the trademarks, trade names, operating procedures and systems and other intellectual property (collectively, the “Keg Rights”) from KRL for \$113,546,820 of which \$30,487,380 was paid in cash, \$9,059,440 was paid by the issuance of 905,944 Class A Partnership Units (“Class A Units”), \$17,000,000 was paid by the issuance of 3,376,700 Class B Partnership Units (“Class B Units”) and \$57,000,000 was paid by the issuance of 5,700,000 Class C Partnership Units (“Class C Units”).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts expressed in thousands of dollars - unaudited)

For the period from January 1, 2003 to June 30, 2003

6. ACQUISITION OF KEG RIGHTS (CONTINUED):

Concurrently with the acquisition of the Keg Rights, the Partnership granted KRL a licence to use the Keg Rights for a term of 99 years for which KRL pays the Partnership a royalty of four percent of the system sales reported by KRL for restaurants included in the Royalty Pool (note 2).

7. NON-CONTROLLING INTEREST:

	June 30, <u>2003</u>	December 31, <u>2002</u>
Balance, beginning of period.....	\$ 83,050	\$ -
Issuance of Class A Partnership Units.....	-	9,059
Issuance of Class B Partnership Units.....	-	17,000
Issuance of Class C Partnership Units.....	-	57,000
Non-controlling interest in earnings of the Partnership.....	2,764	3,075
Distributions declared to non-controlling interest.....	<u>(2,302)</u>	<u>(3,084)</u>
Balance, end of period.....	<u>\$ 83,512</u>	<u>\$ 83,050</u>

The Class A Units are entitled to a preferential proportionate distribution equal to the distribution on the Class C Units, multiplied by the number of Class A Units divided by the number of Limited Partnership Units ("LP Units") issued and outstanding. The Keg Holdings Trust ("KHT"), a subsidiary of the Fund, holds all of the 8,153,500 LP Units issued and outstanding at June 30, 2003. The LP Units are eliminated upon consolidation of the Fund. In addition, the Class A Units receive a residual distribution proportionately with the Class B Units, LP Units and General Partnership Units relative to the aggregate number of each class issued and outstanding (or in the case of the Class B Units, the number issued and outstanding multiplied by the Class B current distribution entitlement). Class A Units are exchangeable for Fund Units on the basis of one Fund Unit for one Class A Unit.

The Class B Units are entitled to a preferential proportionate distribution and a residual distribution based on the incremental royalty paid to the Partnership from new Keg restaurants. The distribution entitlements of the Class B Units are adjusted annually on January 1 beginning in January 2003. Class B Units are exchangeable for Fund Units based upon a defined calculation that itself is based on system sales from new restaurants. As at June 30, 2003, 269,351 Class B Units receive a distribution entitlement and may be exchanged for Fund Units.

The Class C Units are entitled to a preferential monthly distribution equal to \$0.0625 per Class C Unit issued and outstanding. KRL, the holder of the Class C Units has the right to transfer Class C Units to KHT, in consideration for the assumption by KHT of an amount of the note receivable from KRL equal to \$10.00 per Class C Unit transferred.

All Fund Units obtained by KRL in exchange for the above Partnership Units are subject to a contractual re-sale restriction, which expires on May 31, 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts expressed in thousands of dollars - unaudited)

For the period from January 1, 2003 to June 30, 2003

8. SUPPLEMENTARY CASH FLOW INFORMATION:

	April 1 to June 30, <u>2003</u>	May 31 to June 30, <u>2002</u>	January 1 to June 30, <u>2003</u>
(a) Change in non-cash operating working capital:			
Accounts receivable	\$ 1	\$ (7,948)	\$ 1
Due from Keg Restaurants Ltd. (note 5)	143	(1,327)	171
Prepaid expenses and deposits	(65)	(55)	(61)
Accounts payable and accrued liabilities	(64)	9,031	(119)
Interest payable	-	55	-
	<u>\$ 15</u>	<u>\$ (244)</u>	<u>\$ (8)</u>
(b) Supplementary information:			
Interest received	\$ 1,080	\$ -	\$ 2,135
Interest paid	193	-	370

KEG RESTAURANTS LTD.

Provided as a supplement to the financial statements of
The Keg Royalties Income Fund
39 weeks ended June 29, 2003

FINANCIAL HIGHLIGHTS

The following table sets out selected financial information and other data of Keg Restaurants Ltd. (“KRL”), which should be read in conjunction with the attached unaudited, consolidated financial statements of KRL for the 39 weeks ended June 29, 2003.

SELECTED FINANCIAL INFORMATION OF KRL

	13 weeks ended		39 weeks ended	
	June 29, 2003	June 30, 2002	June 29, 2003	June 30, 2002
	(in thousands of dollars)		(in thousands of dollars)	
System sales ⁽¹⁾	<u>\$ 69,436</u>	<u>\$ 68,075</u>	<u>\$ 219,604</u>	<u>\$ 206,875</u>
Corporate restaurant sales ⁽²⁾	\$ 38,885	\$ 39,994	\$ 125,203	\$ 122,330
Retail operating contribution ⁽³⁾	\$ 29	\$ 140	\$ 17	\$ 149
Franchise fee income	1,447	1,300	4,450	3,919
Operating costs and expenses	<u>(38,518)</u>	<u>(38,559)</u>	<u>(120,044)</u>	<u>(115,606)</u>
Operating earnings	\$ 1,843	\$ 2,875	\$ 9,626	\$ 10,792
Equity income ⁽⁴⁾	1,363	450	4,085	450
Royalty fee expense	<u>(2,614)</u>	<u>(901)</u>	<u>(8,281)</u>	<u>(901)</u>
EBITDA ⁽⁵⁾	<u>\$ 592</u>	<u>\$ 2,424</u>	<u>\$ 5,430</u>	<u>\$ 10,341</u>

Notes:

- ⁽¹⁾ Represents the gross sales of all restaurants owned by KRL and the gross sales reported to KRL by franchised Keg restaurants without independent audit.
- ⁽²⁾ Includes gross sales for all restaurants owned by KRL and its proportionate share of gross sales from a joint venture restaurant located in Coquitlam, BC.
- ⁽³⁾ Represents the revenue net of related expenses of a wholly owned subsidiary, which sells Keg branded food and liquor products.
- ⁽⁴⁾ Represents the equity income from KRL’s investment in The Keg Rights Limited Partnership and its effective 12.6% interest in The Keg Royalties Income Fund, which began on May 31, 2002.
- ⁽⁵⁾ EBITDA is earnings before amounts for interest, taxes, depreciation and amortization. EBITDA is not a recognized measure under Canadian Generally Accepted Accounting Principles.

MANAGEMENT DISCUSSION AND ANALYSIS

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. The revenue of KRL is derived from sales from corporate Keg restaurants, its proportionate share of a joint venture Keg restaurant, franchise fee income and revenue from sales of food and liquor products marketed under the Keg brand name. Sales from corporate Keg restaurants are affected by the number of new corporate Keg restaurants that are opened or closed. Franchise 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.

Operating costs and expenses include food and beverage costs, premises costs, and labour costs of corporate Keg restaurants, marketing and advertising expenses net of franchisee contributions, as well as general and administrative costs associated with the operations of KRL in providing services to the corporate and franchised Keg restaurants.

On May 31, 2002, KRL completed a transaction in which KRL sold the Keg trademarks and related 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 licensed the use of these Keg Rights to KRL under a licence and royalty agreement for a term of 99 years. KRL pays the Partnership a royalty of 4% of system sales (the “Royalty”). The Royalty was initially based on the 80 Keg restaurants in existence on March 31, 2002.

Annually, on January 1st, the pool of Keg restaurants on which KRL pays a royalty to the Partnership (the “Royalty Pool”) will be adjusted to include the gross sales from new Keg restaurants opened on or before October 2nd of the prior year, less gross sales from any Keg restaurants that have permanently closed during the year. In return for adding these net sales to the Royalty Pool, KRL will receive the right to indirectly acquire additional Fund units (the “Additional Entitlement”). The Additional Entitlement is calculated as 92.5% of the royalty revenue added to the Royalty Pool, divided by the yield of the Fund units. KRL receives 80% of the Additional Entitlement initially, with the balance received when the actual full year performance of the new restaurants is known with certainty.

On January 1, 2003, three new Keg restaurants that opened during the period from April 1, 2002 through October 2, 2002 were added to the Royalty Pool. The gross sales of these three new restaurants have been estimated at \$14.0 million annually. Two permanently closed Keg restaurants with annual sales of \$3.8 million have been removed from the Royalty Pool, resulting in an estimated net increase in Royalty Pool sales of \$10.2 million annually. The total number of restaurants in the Royalty Pool has increased to 81. The yield of the Fund units was determined to be 11.25% calculated using a weighted average unit price of \$9.60. 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 336,689 Fund units, being 3.58% of the Fund units on a fully diluted basis. On January 1, 2003, KRL received 80% of this entitlement representing the equivalent of 269,351 Fund units, being 2.89% of the Fund units on a fully diluted basis. KRL will also receive a proportionate increase in monthly distributions from the Partnership. Including the Additional Entitlement described above, KRL has the right to exchange its units in the capital of the Partnership for 1,175,295 Fund units,

OVERVIEW (CONTINUED)

representing 12.60% of the Fund units on a fully diluted basis. If KRL receives 100% of the estimated Additional Entitlement for 2003, it would have the right to exchange its Partnership units for 1,242,633 Fund units, representing 13.22% of the Fund units on a fully diluted basis. The balance of the Additional Entitlement will be adjusted to be effective January 1, 2003 once the actual performance of the new restaurants have been confirmed. All Fund units obtained by KRL in exchange for these Partnership units are subject to a contractual re-sale restriction, which expires on May 31, 2005.

THIRD QUARTER OPERATING RESULTS

System sales for the 13 weeks ended June 29, 2003 were \$69,436,000 compared to \$68,075,000 for the 13 weeks ended June 30, 2002, an increase of \$1,361,000 or 2.0%. During the 13 weeks ended June 29, 2003, one new corporate restaurant and one new franchised restaurant were opened, no restaurants were closed and one franchised restaurant was relocated. During the same period in the prior year, one new corporate restaurant was opened while no restaurants were closed. As at June 29, 2003, there were a total of 86 restaurants as compared with the 81 restaurants at June 30, 2002.

Same store sales (sales of restaurants that operated during the entire period of both the current and the prior year) declined by 4.9% for the quarter. Almost half of this decrease is a function of the fluctuation of the U.S. dollar exchange rate rather than a decrease in actual restaurant traffic. The average exchange rate moved from 1.56 in the third quarter of 2002 to 1.40 in the third quarter of 2003. Same store sales in Canada were negative in this quarter due largely to the one-time impact of SARS on the Ontario economy and on the hospitality and tourism industry in particular. The single case of BSE discovered in Alberta also impacted sales negatively, although not to the same extent as SARS.

Franchise fee income climbed from \$1,300,000 during the third quarter of the prior year to \$1,447,000 during the third quarter of the current year, an increase of \$147,000 or 11.3%. This increase resulted from additional franchise fees from two franchised restaurants that opened at the beginning of the current fiscal year and two relocated franchised restaurants.

Operating costs and expenses for the quarter decreased to \$38,518,000 from \$38,559,000 for the comparable quarter in 2002. The net decrease of \$41,000 was primarily due to six expense categories. Restaurant variable operating costs decreased by \$879,000 primarily due to decreased sales for the quarter. Food costs increased by \$386,000 primarily as a result of significantly higher beef prices than in the comparable quarter in the prior year. Labour costs increased by \$431,000. Restaurant fixed costs increased by \$273,000 due to increased facility costs related to two additional corporate restaurants and significantly higher insurance costs. Marketing and advertising expenditures decreased by \$169,000 as a result of a one-time investment spend in two markets in the United States in the prior year. General administrative expenses decreased by \$43,000.

Operating earnings decreased by \$1,032,000 from \$2,875,000 for the 13 weeks ended June 30, 2002 to \$1,843,000 for the 13 weeks ended June 29, 2003 due to the decline in sales and the cost increases noted above. Management views operating earnings as a key figure 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.

THIRD QUARTER OPERATING RESULTS (CONTINUED)

The Fund commenced operations on May 31, 2002 so investment income and royalty expense for the quarter are not directly comparable to the same quarter in the prior year. Investment income from KRL's effective interest in the Fund amounted to \$1,363,000 (2002 - \$450,000) and the royalty expense paid for the use of the Keg Rights totalled \$2,614,000 (2002 - \$901,000) during the 13 weeks ended June 29, 2003, resulting in a net expense of \$1,251,000 (2002 - \$451,000). These figures do not include interest of \$1,066,000 (2002 - \$363,000) on the \$57,000,000 note payable to the Fund, which has been included in interest expense for the period.

EBITDA for the 13 weeks ended June 29, 2003 was \$592,000 compared to \$2,424,000 for the same period in the prior year. While operating earnings decreased by \$1,032,000 over the comparable quarter, the balance of the \$1,832,000 decline in EBITDA for the quarter is due to the increase of \$800,000 in net expenses related to the Fund for the use of the Keg Rights as noted above.

The net loss for the period amounted to \$1,926,000 compared to a net loss of \$7,519,000 during the same period in 2002. The loss in the third quarter of the prior year was mainly due to costs associated with the early repayment of long-term debt.

YEAR TO DATE OPERATING RESULTS

System sales for the 39 weeks ended June 29, 2003 were \$219,604,000 compared to \$206,875,000 for the 39 weeks ended June 30, 2002, an increase of \$12,729,000 or 6.2%. During the 39 weeks ended June 30, 2003, two new corporate restaurants and three new franchised restaurants were opened, no restaurants were closed and one franchised restaurant was relocated. During the same period in the prior year, three new corporate restaurants and one new franchised restaurant were opened, three corporate restaurants were closed and two franchised restaurants were relocated.

Same store sales (sales of restaurants that operated during the entire period of both the current and the prior year) declined by 1.5% for the 39 weeks ended June 29, 2003. Three quarters of this decrease is a function of the fluctuation of the U.S. dollar exchange rate rather than a decrease in actual restaurant traffic. The average exchange rate moved from 1.58 for the year-to-date period in 2002 to 1.49 for the same period of 2003. Same store sales in Canada remain positive year-to-date despite the disappointing same store sales results for the third quarter as noted above.

Franchise fee income climbed from \$3,919,000 during the prior year to \$4,450,000 during the current year, an increase of \$531,000 or 13.5%. This increase resulted from additional franchise fees from two franchised restaurants that opened at the beginning of the current fiscal year and two relocated franchised restaurants.

YEAR TO DATE OPERATING RESULTS (CONTINUED)

Operating costs and expenses for the period increased to \$120,044,000 from \$115,606,000 for the comparable period in 2002. The increase of \$4,438,000 was primarily due to six expense categories. Restaurant variable operating costs increased by \$2,240,000 primarily due to the increased sales for the period. Food costs increased by \$1,567,000 primarily as a result of significantly higher beef prices than in the comparable period in the prior year. Labour costs increased by \$563,000. Restaurant fixed costs increased by \$733,000 due to increased facility costs related to two additional corporate restaurants and significantly higher insurance and utility costs. Marketing and advertising expenditures decreased by \$43,000 partly as a result of an investment spend in two markets in the United States in the prior year. General administrative expenses decreased by \$434,000 due to the closure of a regional office in the United States in the prior year.

Operating earnings decreased by \$1,166,000 from \$10,792,000 for the 39 weeks ended June 30, 2002 to \$9,626,000 for the 39 weeks ended June 29, 2003 due to the cost increases noted above. Management views operating earnings as a key figure 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.

The Fund commenced operations on May 31, 2002 so investment income and royalty expense for the period are not directly comparable to the same period in the prior year. Investment income from KRL's effective interest in the Fund amounted to \$4,085,000 (2002 - \$450,000) and the royalty expense paid for the use of the Keg Rights totalled \$8,281,000 (2002 - \$901,000) during the 39 weeks ended June 29, 2003, resulting in a net expense of \$4,196,000 (2002 - \$451,000). These figures do not include interest of \$3,197,000 (2002 - \$363,000) on the \$57,000,000 note payable to the Fund, which has been included in interest expense for the period.

EBITDA for the 39 weeks ended June 29, 2003 was \$5,430,000 compared to \$10,341,000 for the same period in the prior year. While operating earnings decreased by \$1,166,000 over the comparable period, the balance of the \$4,911,000 decline in EBITDA for the period is due to the increase of \$3,745,000 net expenses related to the Fund for the use of the Keg Rights as noted above.

The net loss for the period amounted to \$2,828,000 compared to earnings of \$7,316,000 during the same period in 2002. The loss in the comparable period of the prior year was mainly due to costs associated with the early repayment of long-term debt.

OUTLOOK

Following the challenging year the commercial foodservice industry experienced in 2002, it was widely expected that there would be a significant rebound in 2003. That will in fact not be the case, with the Canadian industry facing broader challenges than the U.S. The negative impact of the strong Canadian dollar has hurt the tourism sector, with one-time crises such as SARS and the single case of BSE in Alberta also taking their toll.

OUTLOOK (CONTINUED)

Despite the continuing industry woes, The Keg has still managed to increase our total system sales as well as maintain same store sales near the record levels of 2002. As always, management and staff remain focused on running great steakhouses and bars with the renowned Keg spirit fully in evidence every day in every Keg.

KRL remains committed to growth, both through expansion into new markets and same store sales increases. In addition to building new Kegs in both Canada and the U.S., we continue to refurbish, and in some cases relocate, existing Keg restaurants in order to better serve our guests and to protect and enhance the strong leadership position our brand has enjoyed for over thirty years.

RISKS AND UNCERTAINTIES

Management of KRL continues to anticipate certain risks and uncertainties associated with the ordinary course of business. Such risks and uncertainties include the competitive nature of the restaurant industry, the availability and quality of raw materials, the ability of KRL to maintain and grow Keg restaurants, government regulation and fluctuation in foreign currency, among others.

Management has continued to monitor the situation regarding the single case of BSE found in an Alberta cow in May, 2003. To date, no other case of BSE has been discovered after widespread testing of Canadian herds. Most importantly to the Keg, there does not appear to be any significant negative consumer reaction to beef in general, and the volumes in our restaurants have not been materially impacted. KRL has maintained an uninterrupted supply of quality beef despite the borders being closed and the woes of the cattle producers. With the partial resumption of beef trade with the U.S. already underway and a full return to normal trade expected in the near future, no issues with respect to either supply or consumer confidence are anticipated.

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.


CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of dollars)


	June 29, 2003 <u>(unaudited)</u>	September 29, 2002 <u>(audited)</u>
ASSETS		
Current assets:		
Cash	\$ 2,791	\$ 10,859
Restricted cash	1,250	2,000
Short-term investment	18,318	18,318
Accounts receivable	3,342	2,952
Inventories	4,136	3,488
Prepaid expenses and deposits	3,404	2,398
Current portion of notes receivable	118	139
Property, plant and equipment held for resale	<u>-</u>	<u>2,289</u>
	33,359	42,443
Long-term investments	28,532	28,516
Notes receivable	317	316
Property, plant and equipment	37,206	35,897
Deferred charges	3,200	3,060
Future income taxes	<u>6,424</u>	<u>6,238</u>
	<u>\$ 109,038</u>	<u>\$ 116,470</u>
LIABILITIES AND SHAREHOLDER'S DEFICIENCY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 14,599	\$ 19,647
Unearned revenue	5,471	4,657
Current portion of long-term debt	<u>529</u>	<u>581</u>
	20,599	24,885
Note payable to The Keg Royalties Income Fund	57,000	57,000
Long-term debt	6,272	7,805
Deferred gain on sale of intangible assets	37,200	37,484
Due to related company	3,672	-
Due to shareholder	896	15
Shareholder's deficiency:		
Share capital	1	1
Cumulative translation adjustment	(2,353)	701
Deficit	<u>(14,249)</u>	<u>(11,421)</u>
	<u>(16,601)</u>	<u>(10,719)</u>
	<u>\$ 109,038</u>	<u>\$ 116,470</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board



 David Aisenstat, Director



 Neil Maclean, Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Expressed in thousands of dollars - unaudited)

	13 weeks ended June 29, <u>2003</u>	13 weeks ended June 30, <u>2002</u>	39 weeks ended June 29, <u>2003</u>	39 weeks ended June 30, <u>2002</u>
System sales (note 2)	<u>\$ 69,436</u>	<u>\$ 68,075</u>	<u>\$ 219,604</u>	<u>\$ 206,875</u>
Revenue:				
Restaurant sales	\$ 38,885	\$ 39,994	\$ 125,203	\$ 122,330
Retail sales	<u>1,605</u>	<u>2,640</u>	<u>2,857</u>	<u>3,280</u>
	<u>40,490</u>	<u>42,634</u>	<u>128,060</u>	<u>125,610</u>
Operating costs:				
Restaurant operating costs	35,234	34,756	109,833	104,552
Retail operations	<u>1,576</u>	<u>2,500</u>	<u>2,840</u>	<u>3,131</u>
	<u>36,810</u>	<u>37,256</u>	<u>112,673</u>	<u>107,683</u>
Earnings from operations	3,680	5,378	15,387	17,927
Equity income	1,363	450	4,085	450
Franchise fee income	1,447	1,300	4,450	3,919
Other investment income	<u>(2)</u>	<u>11</u>	<u>(1)</u>	<u>23</u>
	6,488	7,139	23,921	22,319
Royalty expense	2,614	901	8,281	901
General and administrative expenses	<u>3,282</u>	<u>3,814</u>	<u>10,210</u>	<u>11,077</u>
Earnings before undernoted items	592	2,424	5,430	10,341
Amortization	1,686	1,739	5,091	5,329
Amortization of deferred gain	(95)	(32)	(285)	(32)
Interest	1,205	1,268	3,610	3,774
Loss (gain) on disposal of property, plant and equipment	<u>31</u>	<u>(141)</u>	<u>39</u>	<u>322</u>
Earnings (loss) before long-term debt settlement and income taxes	(2,235)	(410)	(3,025)	948
Long-term debt settlement expenses	<u>-</u>	<u>11,206</u>	<u>-</u>	<u>(11,206)</u>
Loss before income taxes	(2,235)	(11,616)	(3,025)	(10,258)
Income taxes:				
Current (recovery)	(45)	12	(11)	48
Future (recovery)	<u>(264)</u>	<u>(4,109)</u>	<u>(186)</u>	<u>(2,990)</u>
	<u>(309)</u>	<u>(4,097)</u>	<u>(197)</u>	<u>(2,942)</u>
Net loss for the period	(1,926)	(7,519)	(2,828)	(7,316)
Deficit, beginning of period	<u>(12,323)</u>	<u>(821)</u>	<u>(11,421)</u>	<u>(1,024)</u>
Deficit, end of period	<u>\$ (14,249)</u>	<u>\$ (8,340)</u>	<u>\$ (14,249)</u>	<u>\$ (8,340)</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of dollars - unaudited)

	13 weeks ended June 29, <u>2003</u>	13 weeks ended June 30, <u>2002</u>	39 weeks ended June 29, <u>2003</u>	39 weeks ended June 30, <u>2002</u>
Cash provided by (used for):				
OPERATIONS:				
Net loss for the period	\$ (1,926)	\$ (7,519)	\$ (2,828)	\$ (7,316)
Items not involving cash:				
Amortization	1,686	1,739	5,091	5,329
Amortization of deferred gain	(95)	(32)	(285)	(32)
Share of equity earnings from investments	(1,361)	(461)	(4,084)	(473)
Loss (gain) on disposition of property, plant and equipment ...	31	(141)	39	322
Future income tax recovery	(264)	(4,109)	(186)	(2,990)
Write-off of deferred financing charges	-	1,268	-	1,268
Change in non-cash operating working capital (note 4(a))	<u>(780)</u>	<u>130</u>	<u>(6,182)</u>	<u>(572)</u>
	(2,709)	(9,125)	(8,435)	(4,464)
INVESTMENTS:				
Additions to property, plant and equipment and deferred charges	(3,874)	(4,182)	(10,852)	(10,643)
Net proceeds (costs) from disposition of property, plant and equipment	8	353	13	(16)
Proceeds from disposition of property, plant and equipment held for resale	-	-	2,237	-
Purchase of short-term investment	-	(18,318)	-	(18,318)
Distributions and advances from investments	1,374	466	4,073	474
Proceeds from the sale of intangible assets	-	30,487	-	30,487
Costs incurred on the sale of intangible assets	-	(322)	-	(322)
Increase in notes receivable	(63)	(403)	(38)	(403)
Decrease (increase) in restricted cash	<u>750</u>	<u>(2,000)</u>	<u>750</u>	<u>(2,000)</u>
	(1,805)	6,081	(3,817)	(741)
FINANCING:				
Increase (decrease) in amount due to shareholder	(319)	(25)	881	(150)
Increase in amount due to related company	3,672	-	3,672	-
Loan from The Keg Royalties Income Fund	-	57,000	-	57,000
Decrease in accrued long-term debt commitment fees	-	(1,655)	-	(1,182)
Issuance of long-term debt	-	2,355	-	8,304
Repayment of long-term debt	<u>(139)</u>	<u>(46,970)</u>	<u>(369)</u>	<u>(48,370)</u>
	<u>3,214</u>	<u>10,705</u>	<u>4,184</u>	<u>15,602</u>
Increase (decrease) in cash	(1,300)	7,661	(8,068)	10,397
Cash, beginning of period	<u>4,091</u>	<u>5,119</u>	<u>10,859</u>	<u>2,383</u>
Cash, end of period	<u>\$ 2,791</u>	<u>\$ 12,780</u>	<u>\$ 2,791</u>	<u>\$ 12,780</u>

See note 4(b) for supplementary cash flow information.

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts expressed in thousands of dollars - unaudited)

13 weeks ended June 29, 2003 and June 30, 2002

39 weeks ended June 29, 2003 and June 30, 2002

1. BASIS OF PRESENTATION:

Keg Restaurants Ltd. ("KRL") prepares its interim consolidated financial statements in accordance with Canadian generally accepted accounting principles on a basis consistent with those used and described in the annual consolidated financial statements for the 52 weeks ended September 29, 2002. The disclosures contained in these interim consolidated financial statements do not include all requirements of Canadian generally accepted accounting principles for annual financial statements.

These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the 52 weeks ended September 29, 2002.

2. SYSTEM SALES:

System sales for any period and for any Keg restaurant located in Canada and the United States means the gross sales by such Keg restaurants for such period.

Gross sales are the sales reported to KRL by owners of Keg restaurants in Canada and the United States under franchise agreements, without audit or other form of independent assurance, and the sales of Keg restaurants in Canada and the United States owned by KRL and its subsidiaries. In each case, these sales are reported net of discounts for coupons and other promotional items and applicable sales taxes.

3. SEGMENT DISCLOSURES:

KRL's principal business activity is the operation and franchising of Keg steakhouse restaurants and bars in Canada and the United States; accordingly, KRL is considered to operate in only one reportable segment.

Geographic information:

	13 weeks ended June 29, 2003	13 weeks ended June 30, 2002	39 weeks ended June 29, 2003	39 weeks ended June 30, 2002
Restaurant sales:				
Canada	\$ 23,775	\$ 25,437	\$ 76,602	\$ 75,843
United States	<u>15,110</u>	<u>14,557</u>	<u>48,601</u>	<u>46,487</u>
	<u>\$ 38,885</u>	<u>\$ 39,994</u>	<u>\$ 125,203</u>	<u>\$ 122,330</u>
Franchise revenue:				
Canada	\$ 1,408	\$ 1,274	\$ 4,357	\$ 3,893
United States	<u>39</u>	<u>26</u>	<u>93</u>	<u>26</u>
	<u>\$ 1,447</u>	<u>\$ 1,300</u>	<u>\$ 4,450</u>	<u>\$ 3,919</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts expressed in thousands of dollars - unaudited)

13 weeks ended June 29, 2003 and June 30, 2002

39 weeks ended June 29, 2003 and June 30, 2002

3. SEGMENT DISCLOSURES (CONTINUED):

	June 29, <u>2003</u>	Sept. 29, <u>2002</u>
Property, plant and equipment:		
Canada	\$ 13,225	\$ 11,996
United States	<u>23,981</u>	<u>23,901</u>
	<u>\$ 37,206</u>	<u>\$ 35,897</u>

4. SUPPLEMENTARY CASH FLOW INFORMATION:

	13 weeks ended June 29, <u>2003</u>	13 weeks ended June 30, <u>2002</u>	39 weeks ended June 29, <u>2003</u>	39 weeks ended June 30, <u>2002</u>
(a) Change in non-cash operating working capital:				
Accounts receivable	\$ 574	\$ (8,984)	\$ (390)	\$ (9,504)
Inventories	(395)	(650)	(648)	(811)
Prepaid expenses and deposits	464	(347)	(1,006)	(945)
Accounts payable and accrued liabilities	(873)	9,902	(5,038)	9,574
Unearned revenue	(615)	(180)	814	842
Cumulative translation adjustment	<u>65</u>	<u>389</u>	<u>86</u>	<u>272</u>
	<u>\$ (780)</u>	<u>\$ 130</u>	<u>\$ (6,182)</u>	<u>\$ (572)</u>
(b) Supplementary information:				
Income taxes paid (recovered)	\$ (45)	\$ 43	\$ (15)	\$ 52
Interest paid	1,232	829	4,110	2,696
Interest received	40	16	154	55
Non-cash transactions:				
Investment in The Keg Rights Limited Partnership in exchange for partial payment on sale of intangible assets	\$ -	\$ 27,869	\$ -	\$ 27,869

5. COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current period.

UNITHOLDER INFORMATION

CORPORATE HEAD OFFICE

The Keg Royalties Income Fund
#150 – 10760 Shellbridge Way
Richmond, BC V6X 3H1

BOARD OF TRUSTEES

C. C. Woodward
George Killy
George Tidball

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Director
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Director

* Audit Committee and Governance Committee Member

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

STOCK EXCHANGE LISTING

Toronto Stock Exchange: KEG.UN

INVESTOR ENQUIRIES

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