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

For the period from July 1, 2003
to September 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 third quarter ended September 30, 2003. The Fund's earnings and cash flows have continued to generate distributions to unitholders in the expected amount of 9 cents per unit per month, or \$1.08 per unit on an annual basis.

RESULTS

The challenges faced by the foodservice industry in 2003 are by now well known. While The Keg has not been immune to these challenges, total system sales continue to grow and once again reached a new record level for the quarter. Total system sales for The Keg for the period from January 1, 2003 to September 30, 2003 were \$218,796,000, an increase of \$9,004,000, or 4.3% for the same period in 2002. For the quarter from July 1, 2003 to September 30, 2003 total system sales were \$72,272,000, an increase of \$2,154,000 or 3.1% over the same quarter in 2002.

The Keg's same store sales fell by 5.6% for the third quarter, and are down by 3.1% year to date. While these results are uncharacteristic for The Keg, they are not a pure indicator of restaurant traffic. A large part of the decline is 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. In fact, despite the combined impact of the SARS outbreak, the single case of BSE found in an Alberta cow, the August blackout in Eastern Canada, and the unparalleled decline in Canadian tourism expenditures, the decline in year-to-date restaurant traffic is only slightly in excess of 1% overall.

OUTLOOK

The foodservice industry has endured challenging back-to-back years in 2002 and 2003; 2003 in particular has seen a "perfect storm" of challenging developments. The industry outlook for 2004 is much more positive and a return to the long-term growth that has characterized the foodservice industry over the past twenty-five years is expected.

The Keg continues to deliver overall growth. Keg management remains singularly focused on running great steakhouses and bars, the brand's legendary quality remains its hallmark, and The Keg continues to enjoy the loyalty of its guests.

Sincerely,



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

November 14, 2003

FINANCIAL HIGHLIGHTS

	July 1 to Sept. 30, 2003	July 1 to Sept. 30, 2002	Jan. 1 to Sept. 30, 2003	May 31 to Sept. 30, 2002
(\$000's except earnings per unit)				
Gross sales reported by Keg restaurants in the Royalty Pool	<u>\$ 66,613</u>	<u>\$ 67,732</u>	<u>\$ 205,250</u>	<u>\$ 90,262</u>
Royalty income	\$ 2,677	\$ 2,725	\$ 8,231	\$ 3,627
Interest income	<u>1,078</u>	<u>1,083</u>	<u>3,201</u>	<u>1,446</u>
Total income	3,755	3,808	11,432	5,073
Expenses	(314)	(281)	(928)	(373)
Non-controlling interest ⁽¹⁾	<u>(1,369)</u>	<u>(1,316)</u>	<u>(4,133)</u>	<u>(1,766)</u>
Earnings for the period	<u>\$ 2,072</u>	<u>\$ 2,211</u>	<u>\$ 6,371</u>	<u>\$ 2,934</u>
Basic and diluted earnings per Fund unit	<u>\$.25</u>	<u>\$.27</u>	<u>\$.78</u>	<u>\$.36</u>
Distributions declared per Fund unit	<u>\$.27</u>	<u>\$.27</u>	<u>\$.81</u>	<u>\$.36</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 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		39 weeks ended	
	Sept. 28, <u>2003</u>	Sept. 29, <u>2002</u>	Sept. 28, <u>2003</u>	Sept. 29, <u>2002</u>
Corporate Keg restaurants	\$ 38,384	\$ 39,717	\$ 120,323	\$ 121,332
Franchised Keg restaurants ⁽¹⁾	<u>33,888</u>	<u>30,401</u>	<u>98,473</u>	<u>88,459</u>
Total system sales	<u>\$ 72,272</u>	<u>\$ 70,118</u>	<u>\$ 218,796</u>	<u>\$ 209,791</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.

THIRD QUARTER

Total system sales for the 13 weeks ended September 28, 2003 were \$72.3 million compared to \$70.1 million for the 13 weeks ended September 29, 2002, an increase of \$2.2 million or 3.1%. During the 13 weeks ended September 28, 2003, no restaurants were opened or closed. During the same period in the prior year, two new restaurants were opened and one restaurant was closed. As at September 28, 2003, there were a total of 86 Keg restaurants as compared with the 81 restaurants at September 29, 2002.

THIRD QUARTER (CONTINUED)

Same store sales (sales of restaurants that operated during the entire period of both the current and the prior year) declined by 5.6% 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 1.38 in the third quarter of 2003, significantly reducing the Canadian dollar equivalent of our U.S. restaurant sales. Management attributes the balance of the same store sales declines to the combined impact of three factors: the SARS outbreak; the single case of BSE found in an Alberta cow; and the August blackout in Eastern Canada.

YEAR TO DATE

Total system sales for the 39 weeks ended September 28, 2003 were \$218.8 million compared to \$209.8 million for the 39 weeks ended September 29, 2002, an increase of \$9.0 million or 4.3%. During the 39 weeks ended September 28, 2003, three new restaurants were opened and one restaurant was closed. During the same period in the prior year, three new restaurants were opened and three 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 3.1% for the 39 weeks ended September 28, 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 39-week period in 2002 to 1.43 for the same period of 2003. Same store sales in Canada were marginally negative for the 39-week period ended September 28, 2003 due to the disappointing same store sales results for the third quarter as noted above.

OPERATING RESULTS

THIRD QUARTER

Gross sales reported by the restaurants in the Royalty Pool decreased by 1.7% from \$67,732,000 in 2002 to \$66,613,000 in 2003. The decrease reflects the impact of the same store sales declines discussed above, and is partially offset by the addition of one new restaurant to the Royalty Pool at the beginning of the year. Royalty income decreased by \$48,000 from \$2,725,000 in 2002 to \$2,677,000 in 2003 as a result of the decrease in gross sales explained above.

Operating expenses for the quarter ended September 30, 2003 were \$314,000 and included general and administrative expenses of \$96,000, interest on the long-term debt in the amount of \$189,000 and amortization on the deferred financing charges of \$29,000. General and administrative expenses increased by \$20,000 over the third quarter of 2002 due primarily to first time costs associated with the Annual General Meeting and the Annual Report. Interest costs have increased by \$13,000 in the quarter as a result of an increase in the average interest rate on the Fund debt from 4.8% in 2002 to 5.1% in 2003.

The non-controlling interest expense, which represents KRL's effective interest in the earnings of the Fund, has increased from \$1,316,000 in 2002 to \$1,369,000 in 2003. This increase is due to KRL's increased effective ownership in the Fund from 10.0% to 12.6% as a result of the new store roll-in on January 1, 2003.

THIRD QUARTER (CONTINUED)

As a result, net earnings were down by \$139,000 from \$2,211,000 in 2002 to \$2,072,000 in 2003. Earnings per Fund unit were 25.4 cents compared to 27.1 cents for the same quarter in the prior year. Cash available for distribution during the quarter amounted to 25.8 cents per Fund unit versus the 27.5 cents per Fund unit available in the prior year. Distributions of 27.0 cents per Fund unit have been declared relative to this period for both the current and the prior year. The difference between the Fund's earnings and distributable cash is due to non-cash items included in the Fund's operating expenses.

YEAR-TO-DATE

Readers should note that since the Fund commenced operations on May 31, 2002, year-to-date results are not directly comparable to the prior year. The year-to-date results of 2002 had only 124 operating days versus 273 operating days for 2003. Thus, no discussion of comparable results is provided, as they would not be meaningful.

For the period from January 1, 2003 to September 30, 2003 royalty income was \$8,231,000 based on gross sales of \$205,250,000 from the 81 Keg restaurants in the Royalty Pool. Operating expenses for the 39 weeks ended September 30, 2003 were \$928,000 and included general and administrative expenses of \$283,000, interest on the long-term debt in the amount of \$559,000 and amortization on the deferred financing charges of \$86,000.

Net earnings of the Fund were \$6,371,000 resulting in earnings per Fund unit of 78.1 cents. Cash available for distribution to unitholders during the period amounted to 79.2 cents and distributions of 81.0 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 and both SARS and BSE have taken 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)

	September 30, <u>2003</u> (unaudited)	December 31, <u>2002</u> (audited)
ASSETS		
Current assets:		
Accounts receivable	\$ -	\$ 1
Due from Keg Restaurants Ltd. (note 5)	1,441	1,558
Prepaid expenses and deposits	<u>85</u>	<u>25</u>
	1,526	1,584
Note receivable from Keg Restaurants Ltd.	57,000	57,000
Intangible assets (note 6)	113,547	113,547
Deferred financing charges	<u>192</u>	<u>278</u>
	<u>\$ 172,265</u>	<u>\$ 172,409</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness	\$ 253	\$ 40
Accounts payable and accrued liabilities	185	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>
	445	1,556
Term loan	14,000	14,000
Non-controlling interest (note 7)	83,517	83,050
Unitholders' equity	<u>74,303</u>	<u>73,803</u>
	<u>\$ 172,265</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)

	July 1 to Sept. 30, 2003	July 1 to Sept. 30, 2002	January 1 to Sept. 30, 2003	May 31 to Sept. 30, 2002
Gross sales reported by Keg restaurants in the Royalty Pool (note 2).....	\$ 66,613	\$ 67,732	\$ 205,250	\$ 90,262
Revenue:				
Royalty income (note 2)	\$ 2,677	\$ 2,725	\$ 8,231	\$ 3,627
Interest income	1,078	1,083	3,201	1,446
	3,755	3,808	11,432	5,073
Expenses:				
General and administrative	96	76	283	102
Interest and financing fees	189	176	559	232
Amortization of deferred financing charges	29	29	86	39
	314	281	928	373
Earnings before non-controlling interest	3,441	3,527	10,504	4,700
Non-controlling interest (note 7)	1,369	1,316	4,133	1,766
Net earnings for the period	\$ 2,072	\$ 2,211	\$ 6,371	\$ 2,934
Basic and diluted earnings per Fund Unit (8,153,500 units).....	\$ 0.25	\$ 0.27	\$ 0.78	\$ 0.36

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(Expressed in thousands of dollars - unaudited)

	July 1 to Sept. 30, 2003	July 1 to Sept. 30, 2002	January 1 to Sept. 30, 2003	May 31 to Sept. 30, 2002
Balance, beginning of period.....	\$ 74,432	\$ 74,608	\$ 73,803	\$ -
Issue of Fund Units, net of issue costs.....	-	(50)	-	73,835
Net earnings.....	2,072	2,211	6,371	2,934
Distributions declared to Fund unitholders (note 4).....	(2,201)	(2,201)	(5,871)	(2,201)
Balance, end of period	\$ 74,303	\$ 74,568	\$ 74,303	\$ 74,568

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of dollars - unaudited)

	July 1 to Sept. 30, <u>2003</u>	July 1 to Sept. 30, <u>2002</u>	January 1 to Sept. 30, <u>2003</u>	May 31 to Sept. 30, <u>2002</u>
Cash provided by (used for):				
OPERATIONS:				
Net earnings for the period	\$ 2,072	\$ 2,211	\$ 6,371	\$ 2,934
Items not involving cash:				
Amortization of deferred financing charges	29	29	86	39
Non-controlling interest.....	1,369	1,316	4,133	1,766
Change in non-cash operating working capital (note 8(a))	<u>(64)</u>	<u>(872)</u>	<u>(72)</u>	<u>(1,116)</u>
	3,406	2,684	10,518	3,623
INVESTMENTS:				
Acquisition of Keg Rights (note 6).....	-	-	-	(30,487)
Note receivable from Keg Restaurants Ltd.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>(57,000)</u>
	-	-	-	(87,487)
FINANCING:				
Issuance of Fund Units	-	-	-	81,535
Costs of issuance of Fund Units	-	(50)	-	(7,700)
Proceeds from term loan.....	-	-	-	14,000
Deferred financing charges.....	-	-	-	(345)
Distributions paid to Fund unitholders (note 4)....	(2,201)	(2,201)	(6,604)	(2,201)
Distributions paid to non-controlling interest	<u>(1,365)</u>	<u>(1,314)</u>	<u>(4,127)</u>	<u>(1,314)</u>
	<u>(3,566)</u>	<u>(3,565)</u>	<u>(10,731)</u>	<u>83,975</u>
Increase in cash (bank indebtedness).....	(160)	(881)	(213)	111
Cash (bank indebtedness), beginning of period	<u>(93)</u>	<u>992</u>	<u>(40)</u>	<u>-</u>
Cash (bank indebtedness), end of period	<u>\$ (253)</u>	<u>\$ 111</u>	<u>\$ (253)</u>	<u>\$ 111</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 September 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 September 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 September 30, 2003 and from May 31, 2002 (commencement of operations) to September 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 September 30, 2003 (May 31, 2002 to September 30, 2002 – two restaurant closures).

	July 1 to Sept. 30, 2003	July 1 to Sept. 30, 2002	January 1 to Sept. 30, 2003	May 31 to Sept. 30, 2002
System sales reported by Keg restaurants in the Royalty Pool	\$ 66,613	\$ 67,732	\$ 205,250	\$ 90,262
Royalty income at 4% of system sales reported above	\$ 2,665	\$ 2,709	\$ 8,210	\$ 3,610
Make-whole payment, based on 4% of lost system sales	<u>12</u>	<u>16</u>	<u>21</u>	<u>17</u>
Total royalty income	<u>\$ 2,677</u>	<u>\$ 2,725</u>	<u>\$ 8,231</u>	<u>\$ 3,627</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 September 30, 2003

3. DISTRIBUTABLE CASH:

	July 1 to Sept. 30, <u>2003</u>	July 1 to Sept. 30, <u>2002</u>	January 1 to Sept. 30, <u>2003</u>	May 31 to Sept. 30, <u>2002</u>
Earnings for the period	\$ 2,072	\$ 2,211	\$ 6,371	\$ 2,934
Amortization of deferred financing charges	29	29	86	39
Non-controlling interest.....	<u>1,369</u>	<u>1,316</u>	<u>4,133</u>	<u>1,766</u>
	3,470	3,556	10,590	4,739
Distributable cash required for non-controlling interest.....	<u>(1,371)</u>	<u>(1,317)</u>	<u>(4,140)</u>	<u>(1,767)</u>
Distributable cash available for Fund unitholders	<u>\$ 2,099</u>	<u>\$ 2,239</u>	<u>\$ 6,450</u>	<u>\$ 2,972</u>
Basic and diluted distributable cash per Fund Unit (8,153,500 units).....	<u>\$ 0.26</u>	<u>\$ 0.27</u>	<u>\$ 0.79</u>	<u>\$ 0.36</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 \$5,870,520 in distributions declared and the \$6,604,335 in distributions paid to Fund unitholders during the period from January 1, 2003 to September 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.:

	September 30, <u>2003</u>	December 31, <u>2002</u>
Royalty fee, including GST	\$ 1,090	\$ 1,195
Interest on note receivable from Keg Restaurants Ltd.....	<u>351</u>	<u>363</u>
	<u>\$ 1,441</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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts expressed in thousands of dollars - unaudited)

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

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 5,7000,000 Class C Partnership Units (“Class C Units”).

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:

	September 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.....	4,133	3,075
Distributions declared to non-controlling interest.....	<u>(3,666)</u>	<u>(3,084)</u>
Balance, end of period.....	<u>\$ 83,517</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 September 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 September 30, 2003, 269,351 Class B Units receive a distribution entitlement and may be exchanged for Fund Units.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts expressed in thousands of dollars - unaudited)

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

7. NON-CONTROLLING INTEREST (CONTINUED):

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.

8. SUPPLEMENTARY CASH FLOW INFORMATION:

	July 1 to Sept. 30, <u>2003</u>	July 1 to Sept. 30, <u>2002</u>	January 31 to Sept. 30, <u>2003</u>	May 31 to Sept. 30, <u>2002</u>
(a) Change in non-cash operating working capital:				
Accounts receivable	\$ -	\$ 7,911	\$ 1	\$ (37)
Due from Keg Restaurants Ltd.	(54)	40	117	(1,287)
Prepaid expenses and deposits	1	15	(60)	(40)
Accounts payable and accrued liabilities	(11)	(8,790)	(130)	241
Interest payable	<u>-</u>	<u>(48)</u>	<u>-</u>	<u>7</u>
	<u>\$ (64)</u>	<u>\$ (872)</u>	<u>\$ (72)</u>	<u>\$ (1,116)</u>
(b) Supplementary information:				
Interest received	\$ 1,078	\$ 1,095	\$ 3,213	\$ 1,095
Interest paid	189	224	559	225

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

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

C. C. Woodward*
Chairman and Director
David Aisenstat
President and Director
Neil Maclean
Secretary, Treasurer and Director
George Killy*
Director
George Tidball*
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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