THE KEG ROYALTIES INCOME FUND

YEAR END REPORT

For the year ended December 31, 2010

TO OUR UNITHOLDERS

On behalf of the Board of Trustees, I am pleased to present the results of The Keg Royalties Income Fund (the "Fund") for the three and twelve months ended December 31, 2010.

RESULTS

The gross sales reported by the 102 Keg restaurants in the Royalty Pool were $452,786,000 for the year, a decrease of $2,112,000 or 0.5% from the prior year. Keg Restaurants Ltd ("KRL"), the company which makes the royalty payments to the Fund, has a year end which falls on the Sunday closest to September 30th in any year. As a result of the floating year-end date, approximately every fifth year contains 53 weeks of operation. KRL's fiscal year ended October 3, 2010, contained 53 weeks of sales, and the period ended January 3, 2010, contained 14 weeks of sales. Royalty Pool sales for the year ended December 31, 2009 contained 53 weeks of sales and the Royalty Pool sales generated during that extra week of operation in the prior year were $8,099,000. After deducting the extra week of sales for comparative purposes, Royalty Pool sales for the comparable 52-week periods increased by $5,987,000 or 1.3%. These gross sales reflect the sales of the new Keg restaurants which opened during the period from October 3, 2008 through October 2, 2009, which were added to the Royalty Pool on January 1, 2010, net of a same store sales decrease of 1.7% for the year.

The Fund generated earnings before income taxes of $12,845,000 or $1.240/Fund unit during 2010 compared with $12,473,000 or $1.285/Fund unit during the prior year, an increase of $372,000, but a decrease of $0.045/Fund unit. Distributable cash available to pay distributions to public Unitholders increased by $317,000 from $12,501,000 to $12,818,000 for the year, but decreased by $0.051/Fund unit, from $1.288/Fund unit in 2009 to $1.237/Fund unit in 2010.

The Fund remains financially well positioned with surplus cash on hand of $933,000 and a positive working capital balance of $1,200,000 as of December 31, 2010.

OUTLOOK

While the past two years have been challenging for the restaurant industry in North America, indications are that the worst is now behind us. In Canada, the Canadian Restaurant and Foodservice Association has forecast sales in the full-service restaurant category, the category in which The Keg operates, to increase 2.6% in 2011, after meagre growth of 1.3% in 2010. In the United States, the National Restaurant Association expects sales in the full service segment to increase 3.1% in 2011, after three consecutive years of real sales declines. As such, we are optimistic that with strengthening consumer confidence, the industry will begin to see a change in momentum. For Unitholders, the key driver of growth in royalty income is same store sales growth. Management of KRL believes that as economic conditions and consumer sentiment continue to improve in North America, that sales for The Keg will also improve, leading it to once again outperform the full service category with respect to same store sales growth.

The Keg remains an industry leader in the full-service restaurant category in Canada; a fact confirmed by an independent research report from VisionCritical (formerly Angus Reid Strategies) in October 2010 that identified The Keg as the first choice of over 67% of diners when choosing a steak dinner. In 2010, JD Power and Associates named The Keg as the highest ranked casual restaurant in both Toronto and Vancouver, in their 2010 Canadian Restaurant Satisfaction Survey. KRL's management remains committed to maintaining and improving the legendary high standards that have come to define the brand throughout North America including The Keg's high quality menu, knowledgeable service and marketing innovation. KRL has consistently demonstrated its ability to deliver growth in both system sales and same store sales growth over the long term, which has provided not only stability but also growth in distributable cash and distributions to the Fund's unitholders.

Sincerely,

C.C. Woodward
Chairman, The Keg Royalties Income Fund
on behalf of the Board of Trustees
March 22, 2011

FINANCIAL HIGHLIGHTS

($000's except per unit amounts)	Oct. 1 to Dec. 31, 2010	Oct.1 to Dec. 31, 2009	Jan. 1 to Dec. 31, 2010	Jan.1 to Dec. 31, 2009
Restaurants in the Royalty Pool	**102**	**102**	**102**	**102**
Gross sales reported by Keg restaurants in the Royalty Pool	**$ 114,298**	**$ 117,885**	**$ 452,786**	**$ 454,898**
Royalty income [(1)]	$ 4,697	$ 4,879	$ 18,422	$ 18,645
Partnership expenses [(2)]	(112)	(101)	(417)	(397)
Partnership earnings	4,585	4,778	18,005	18,248
KRL's interest [(3)]	(2,169)	(2,445)	(8,787)	(9,546)
Equity income [(4)]	**2,416**	**2,333**	**9,218**	**8,702**
Interest income [(5)]	1,079	1,078	4,278	4,280
Total income	**3,495**	**3,411**	**13,496**	**12,982**
Interest and financing expenses [(6)]	(178)	(151)	(651)	(509)
Earnings before income taxes	**$ 3,317**	**$ 3,260**	**$ 12,845**	**$ 12,473**
Net earnings [(7)]	**$ 3,267**	**$ 3,110**	**$ 12,845**	**$ 12,398**
Distributable cash [(8)]	**$ 3,125**	**$ 3,182**	**$ 12,818**	**$ 12,501**
Distributions paid	**$ 3,388**	**$ 3,100**	**$ 13,264**	**$ 12,401**
Earnings before income taxes per Fund unit [(9)]	**$ .313**	**$ .336**	**$ 1.240**	**$ 1.285**
Earnings per Fund unit [(9)]	**$ .308**	**$ .321**	**$ 1.240**	**$ 1.278**
Distributable cash per Fund unit [(8)(9)]	**$ .295**	**$ .328**	**$ 1.237**	**$ 1.288**
Distributions paid per Fund unit [(9)]	**$ .320**	**$ .320**	**$ 1.280**	**$ 1.278**
Payout Ratio [(10)]	**108.4%**	**97.4%**	**103.5%**	**99.2%**

Notes:

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

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

(3) Represents the interest of KRL in the earnings of the Partnership from the 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.

(4) The Fund directly earns equity income from its investment in the Partnership. The amount is calculated as the royalty income, less the Partnership's operating expenses, less earnings attributable to KRL.

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

(6) The Fund directly incurs interest expense on the long-term debt and amortization of deferred financing charges.

(7) Net earnings for the three months ended December 31, 2010 reflect the non-cash future income tax expense of $50,000 (three months ended December 31, 2009 – $150,000) and net earnings for the year ended December 31, 2010 reflect the non-cash future income tax expense of $nil (year ended December 31, 2009 – $75,000).

(8) Distributable cash is defined as Standardized Distributable Cash which is the periodic cash flows from operating activities as reported in the GAAP financial statements, including the effects of changes in non-cash working capital.

(9) All per unit amounts are calculated based on the weighted average number of Fund units outstanding, which are those units held by public unitholders during the respective period. The weighted average numbers of Fund units outstanding for the three months ended December 31, 2010 were 10,603,500 (three months ended December 31, 2009 – 9,703,500) and for the year ended December 31, 2010 were 10,361,856 (year ended December 31, 2009 – 9,703,500).

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

(11) Same Store Sales Growth ("SSSG") is the overall increase 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.

SUMMARY OF QUARTERLY RESULTS

($000's except per unit amounts)	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Restaurants in the Royalty Pool	**102**	**102**	**102**	**102**
Gross sales reported by Keg restaurants in the Royalty Pool	**$ 114,298**	**$ 110,382**	**$ 111,153**	**$ 116,953**
Royalty income [1]	$ 4,697	$ 4,527	$ 4,502	$ 4,695
Partnership expenses [2]	(112)	(99)	(107)	(98)
Partnership earnings	4,585	4,428	4,395	4,597
KRL's interest [3]	(2,169)	(2,190)	(2,098)	(2,330)
Equity income [4]	**2,416**	**2,238**	**2,297**	**2,267**
Interest income [5]	1,079	1,078	1,066	1,055
Total income	**3,495**	**3,316**	**3,363**	**3,322**
Interest and financing expenses [6]	(178)	(173)	(152)	(148)
Earnings before income taxes	**$ 3,317**	**$ 3,143**	**$ 3,211**	**$ 3,174**
Net earnings [7]	**$ 3,267**	**$ 3,118**	**$ 3,186**	**$ 3,274**
Distributable cash [8]	**$ 3,125**	**$ 3,325**	**$ 3,115**	**$ 3,253**
Distributions paid	**$ 3,388**	**$ 3,388**	**$ 3,388**	**$ 3,100**
Earnings before income taxes per Fund unit [9]	**$ .313**	**$ .296**	**$ .305**	**$ .327**
Earnings per Fund unit [9]	**$ .308**	**$ .294**	**$ .303**	**$ .337**
Distributable cash per Fund unit [8][9]	**$ .295**	**$ .314**	**$ .296**	**$ .335**
Distributions paid per Fund unit [9]	**$ .320**	**$ .320**	**$ .322**	**$ .320**
Payout Ratio [10]	**108.4%**	**101.9%**	**108.8%**	**95.3%**
SSSG Canada [11]	**1.5%**	**0.0%**	**1.9%**	**(3.2)%**
SSSG United States [11]	**(0.5)%**	**(2.2)%**	**(6.2)%**	**(14.4)%**
SSSG Consolidated [11]	**0.8%**	**(0.6)%**	**(0.1)%**	**(6.6)%**
Restaurants Opened	**1**	**--**	**--**	**--**
Restaurants Closed	**--**	**1**	**1**	**--**
Restaurants Relocated	**--**	**--**	**--**	**1**
Net Restaurants Opened (Closed)	**1**	**(1)**	**(1)**	**--**

	Dec. 31, 2010	Dec. 31, 2009
Total assets	$ 126,873	$ 116,364
Total liabilities	17,023	16,880

SUMMARY OF QUARTERLY RESULTS

($000's except per unit amounts)	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Restaurants in the Royalty Pool	**102**	**102**	**102**	**102**
Gross sales reported by Keg restaurants in the Royalty Pool	**$ 117,885**	**$ 108,332**	**$ 107,824**	**$ 120,858**
Royalty income [1]	$ 4,879	$ 4,454	$ 4,418	$ 4,894
Partnership expenses [2]	(101)	(100)	(108)	(88)
Partnership earnings	4,778	4,354	4,310	4,806
KRL's interest [3]	(2,445)	(2,389)	(2,288)	(2,425)
Equity income [4]	**2,333**	**1,965**	**2,022**	**2,381**
Interest income [5]	1,078	1,078	1,067	1,058
Total income	**3,411**	**3,043**	**3,089**	**3,439**
Interest and financing expenses [6]	(151)	(132)	(102)	(124)
Earnings before income taxes	**$ 3,260**	**$ 2,911**	**$ 2,987**	**$ 3,315**
Net earnings [7]	**$ 3,110**	**$ 2,886**	**$ 2,937**	**$ 3,465**
Distributable cash [8]	**$ 3,182**	**$ 2,991**	**$ 3,069**	**$ 3,258**
Distributions paid	**$ 3,100**	**$ 3,100**	**$ 3,100**	**$ 3,100**
Earnings before income taxes per Fund unit [9]	**$ .336**	**$ .300**	**$ .308**	**$ .342**
Earnings per Fund unit [9]	**$ .321**	**$ .297**	**$ .303**	**$ .357**
Distributable cash per Fund unit [8][9]	**$ .328**	**$ .308**	**$ .316**	**$ .336**
Distributions paid per Fund unit [9]	**$ .320**	**$ .320**	**$ .320**	**$ .320**
Payout Ratio [10]	**97.4%**	**103.7%**	**101.0%**	**95.2%**
SSSG Canada [11]	**0.1%**	**(4.7)%**	**(6.9)%**	**(1.5)%**
SSSG United States [11]	**(9.6)%**	**(19.8)%**	**(15.7)%**	**(4.9)%**
SSSG Consolidated [11]	**(2.5)%**	**(5.9)%**	**(6.5)%**	**0.7%**
Restaurants Opened	**1**	**2**	**--**	**2**
Restaurants Closed	**--**	**--**	**1**	**3**
Restaurants Relocated	**1**	**1**	**--**	**--**
Net Restaurants Opened (Closed)	**1**	**2**	**(1)**	**(1)**

SELECTED ANNUAL INFORMATION

($000's except per unit amounts)	Year Ended Dec. 31, 2010	Year Ended Dec. 31, 2009	Year Ended Dec. 31, 2008
Restaurants in the Royalty Pool	**102**	**102**	**96**
Gross sales reported by Keg restaurants in the Royalty Pool	**$ 452,786**	**$ 454,898**	**$ 433,097**
Royalty income [1]	$ 18,422	$ 18,645	$ 17,494
Partnership expenses [2]	(417)	(397)	(376)
Partnership earnings	18,005	18,248	17,118
KRL's interest [3]	(8,787)	(9,546)	(8,253)
Equity income [4]	**9,218**	**8,702**	**8,865**
Interest income [5]	4,278	4,280	4,319
Total income	**13,496**	**12,982**	**13,184**
Interest and financing expenses [6]	(651)	(509)	(766)
Earnings before income taxes	**$ 12,845**	**$ 12,473**	**$ 12,418**
Net earnings [7]	**$ 12,845**	**$ 12,398**	**$ 12,368**
Distributable cash [8]	**$ 12,818**	**$ 12,501**	**$ 12,382**
Distributions paid	**$ 13,264**	**$ 12,401**	**$ 12,343**
Earnings before income taxes per Fund unit [9]	**$ 1.240**	**$ 1.285**	**$ 1.280**
Earnings per Fund unit [9]	**$ 1.240**	**$ 1.278**	**$ 1.275**
Distributable cash per Fund unit [8][9]	**$ 1.237**	**$ 1.288**	**$ 1.276**
Distributions paid per Fund unit [9]	**$ 1.280**	**$ 1.278**	**$ 1.272**
Payout Ratio [10]	**103.5%**	**99.2%**	**99.7%**
SSSG Canada [11]	**0.0%**	**(3.1)%**	**2.0%**
SSSG United States [11]	**(5.8)%**	**(12.3)%**	**(9.0)%**
SSSG Consolidated [11]	**(1.7)%**	**(3.4)%**	**0.4%**
Restaurants Opened	**1**	**5**	**9**
Restaurants Closed	**2**	**4**	**2**
Restaurants Relocated	**1**	**2**	**--**
Net Restaurants Opened (Closed)	**(1)**	**1**	**7**

	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
Total assets	$ 126,873	$ 116,364	$ 116,327
Total liabilities	17,023	16,880	16,840

MANAGEMENT DISCUSSION AND ANALYSIS

For the Three and Twelve Months Ended December 31, 2010
As of March 22, 2011

OVERVIEW

KEY ATTRIBUTES OF THE FUND

The Keg Royalties Income Fund (the "Fund") is a limited purpose, open-ended trust which trades on the Toronto Stock Exchange under the symbol KEG.UN. On May 31, 2002, as part of the Initial Public Offering (the "IPO"), the Fund, through its subsidiary The Keg Rights Limited Partnership (the "Partnership"), purchased The Keg trademarks and other related intellectual property (collectively, the "Keg Rights") from Keg Restaurants Ltd. ("KRL"). The Partnership, in turn, granted KRL an exclusive licence to use the Keg Rights for a term of 99 years pursuant to a licence and royalty agreement, which obligates KRL to make monthly royalty payments to the Partnership equal to 4% of gross sales of Keg restaurants included in a specific royalty pool (the "Royalty Pool").

The key feature of the Fund is that royalty income is based on the top-line, gross sales of Keg restaurants in the Royalty Pool and not on the profitability of either KRL or the Keg restaurants in the Royalty Pool. Moreover, the Fund is not subject to the variability of earnings or expenses associated with an operating business. The Fund's only expenses are nominal administrative expenses and interest on non-amortizing term debt. Thus, the success of the Fund depends primarily on the ability of KRL to maintain and increase the gross sales of the Keg restaurants in the Royalty Pool.

Increases in gross sales are derived from both same store sales growth from existing restaurants ("SSSG") and from the addition of new Keg restaurants. SSSG is the key driver of growth in royalty income and, since the Fund's expenses are relatively fixed in nature, SSSG results in growth in distributable cash which allows for higher distributions to the Fund's unitholders. KRL has generated SSSG through a combination of increased guest counts and increased guest average cheque. SSSG has been achieved by maintaining operational excellence within each Keg restaurant, innovative marketing and promotional programs, and pricing. Over the past twelve years, the period for which current management has been in control of KRL, SSSG has averaged 4.2% annually, a figure that compares very favourably against the restaurant industry as a whole. This consistent sales growth is one of the primary reasons that monthly cash distributions to the Fund's unitholders have been increased 7 times since the Fund's inception.

In the event that a Keg restaurant is permanently closed during the year (including the termination of a franchise agreement), KRL will continue to pay the royalty amount for that closed Keg restaurant ("Make-whole Payment") from the date of closure until those sales are replaced with gross sales from new Keg restaurants that are added to the Royalty Pool. The amount of the Make-whole Payment is based on the closed restaurant's gross sales when it was originally included in the Royalty Pool.

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. 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 24.89% as of December 31, 2010. The change in KRL's effective ownership of the Fund is the result of adding net sales to the Royalty Pool on an annual basis, in return for which KRL receives the right to indirectly acquire additional Fund units (see "The Royalty Pool"). The total number of restaurants included in the Royalty Pool has increased from 80 Keg restaurants in existence at the time of the IPO to 102 as of December 31, 2010. This has resulted in a net increase in Royalty Pool sales of $156.1 million and the issuance of 5,057,611 exchangeable units to KRL, as of December 31, 2010. KRL has exchanged a total of 2,450,000 Class B units for an equal number of Fund units (increasing the number of issued and outstanding Fund units from 8,153,500 at the time of the IPO to 10,603,500 as of April 9, 2010) and sold these units through the facilities of the Toronto Stock Exchange. On January 1, 2011, three new Keg restaurants that opened during the period from October 3, 2009 through October 2, 2010 were added to the Royalty Pool. See "Subsequent Events".

VARIABLE INTEREST ENTITY

During 2005, the Partnership was determined to be a variable interest entity in accordance with the criteria established in the Canadian Institute of Chartered Accountants' ("CICA") Guideline, Consolidation of Variable Interest Entities ("AcG-15"). As a result of this guideline, the Fund accounts for its investment in the Partnership on an equity basis and KRL consolidates the Partnership. Readers are advised that this is an accounting basis of presentation only and that earnings and distributable cash attributable to Fund unitholders are not impacted nor does this impact the contractual obligations between the Fund, and the Partnership, and KRL. The consolidated financial statements of the Fund therefore include the accounts of the Fund, its wholly-owned subsidiary The Keg Holdings Trust ("KHT") and its 90% owned subsidiary The Keg GP Ltd. ("KGP") (collectively, the "Companies"). KGP is the managing general partner of the Partnership. All residual ownership of the Companies is either directly or indirectly controlled by KRL.

FEDERAL GOVERNMENT TAX ON INCOME FUNDS

On June 12, 2007, the Canadian federal government's legislation to tax publicly traded income trusts passed third reading in the House of Commons and thus the associated income tax became substantively enacted for accounting purposes. Historically, the Fund had been exempt from recognizing future income tax assets and liabilities associated with temporary differences arising in the Fund and its equity accounted investment, The Keg Rights Limited Partnership. As a result of the substantive enactment of the new tax legislation, the Fund has recognized future income tax assets and liabilities that are expected to reverse subsequent to January 1, 2011. Future income tax expense is a non-cash item that does not affect cash flow.

On January 1, 2011, legislative changes to the tax treatment of certain income trusts, as a result of the Specific Investment Flow-through Trust tax (the "SIFT tax"), came into effect. As a result of these changes, income trusts will not be entitled to deduct distributions of certain types of income for tax purposes, and will therefore be subject to taxation similar to corporations. Accordingly, the Fund will be subject to tax at a rate of 26.5% for 2011 and 25% for the 2012 and later taxation years. As a result of this taxation imposed by the Federal Government, the Fund's Trustees have had to adopt a new distribution policy which reflects the Fund's obligation to make the SIFT tax payments. See "Distributions to Unitholders".

DISTRIBUTABLE CASH

During 2007, The Canadian Institute of Chartered Accountants and the Canadian Securities Administrators released a guideline on the measurement and reporting of distributable cash for income trusts and other flow through entities in Management's Discussion and Analysis. This guidance attempts to provide comparable measures of distributable cash among income trusts. The Fund adopted this guidance in 2007, and as a result, distributable cash is now defined as the periodic cash flows from operating activities as reported in the Canadian Generally Accepted Accounting Principles ("GAAP") financial statements including the change in non-cash working capital balances, less adjustments for capital expenditures and restrictions on distributions arising from compliance with financial covenants. Distributable cash may not be comparable to other issuers who have adopted this guidance. Previously, distributable cash was computed as earnings for the period plus non-cash items such as amortization and future income taxes; a non-GAAP measure which was also not necessarily comparable to similar measures presented by other issuers. Given the Fund has no capital expenditures and no expected restriction on distributions arising from compliance with financial covenants, the only significant difference that may arise in any particular reporting period between the two definitions is due to the inclusion of changes in non-cash working capital balances.

The Trustees are of the opinion that the inclusion of changes in non-cash working capital balances in the determination of distributable cash provide less meaningful information for Unitholders as the Fund's working capital requirements are not permanent in nature and are primarily due to the timing of payments between related parties. Readers are advised that this is a reporting change only, and that earnings and actual cash available for distribution to the Fund's unitholders are not impacted, nor are the contractual obligations between the Fund, the Partnership, and KRL.

THE ROYALTY POOL

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

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 has increased from the 80 Keg restaurants in existence on March 31, 2002, to 102 as of December 31, 2010. Forty-five new Keg restaurants that opened during the period from April 1, 2002, through October 2, 2009, with annual gross sales of $216.2 million have been added to the Royalty Pool. Twenty-three permanently closed Keg restaurants with annual sales of $60.1 million have been removed from the Royalty Pool. This has resulted in a net increase in Royalty Pool sales of $156.1 million annually, and KRL receiving a cumulative Additional Entitlement equivalent to 5,057,611 Fund units as of December 31, 2010.

On January 1, 2011, three new Keg restaurants that opened during the period from October 3, 2009 through October 2, 2010 were added to the Royalty Pool. See "Subsequent Events".

DISTRIBUTIONS TO UNITHOLDERS

The Fund's objective is to provide consistent monthly distributions to unitholders at the highest sustainable level, and the Trustees of the Fund continue to review distribution levels on an ongoing basis to fulfill that objective. Since the inception of the Fund, monthly distributions to unitholders have been increased seven times from the original level of $0.09 per unit at the time of the IPO, to the current level of $0.1065 per unit, an increase of 18.3%.

Year-to-date distributions were as follows:

Period	Payment Date	Per/Unit
January 1-31, 2010	February 26, 2010	10.65¢
February 1-28, 2010	March 31, 2010	10.65¢
March 1-31, 2010	April 30, 2010	10.65¢
April 1-30, 2010	May 31, 2010	10.65¢
May 1-31, 2010	June 30, 2010	10.65¢
June 1-30, 2010	July 30, 2010	10.65¢
July 1-31, 2010	August 31, 2010	10.65¢
August 1-31, 2010	September 30, 2010	10.65¢
September 1-30, 2010	October 29, 2010	10.65¢
October 1-31, 2010	November 30, 2010	10.65¢
November 1-30, 2010	December 31, 2010	10.65¢
December 1-31, 2010*	January 31, 2011	10.65¢

**Paid subsequent to the period*

Distributions paid during the year were funded entirely by cash flow from operations and no debt was incurred at any point during the year to fund distributions.

Since inception, the Fund has generated $91,693,000 of distributable cash and has paid cumulative distributions of $91,297,000, which resulted in a cumulative surplus of $396,000. The cumulative payout ratio (the ratio of cumulative cash distributions paid since inception to the cumulative standardized distributable cash generated since inception) is 99.6%.

DISTRIBUTIONS TO UNITHOLDERS (CONTINUED)

As a result of the SIFT tax imposed by the Federal Government, the Fund's Trustees have had to adopt a new distribution policy which reflects the Fund's obligation to make these tax payments. Beginning with the distribution for the month of January 2011 (payable to Unitholders on February 28th, 2011), distributions will be set at $0.08 per unit per month. This amounts to a distribution of $0.96 per unit annually. At this level, the eligible dividend portion of the Fund's distribution, combined with the return of capital component of the distribution, should provide taxable Canadian individuals with an effective after-tax cash return very closely comparable to the return that existed before the imposition of the SIFT tax.

OWNERSHIP OF THE FUND

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

	December 31, 2010[(1)]		December 31, 2009	
	#	%	#	%
Fund units held by public unitholders [(2)]	10,603,500	75.11	9,703,500	70.36
Exchangeable Partnership units held by KRL: [(3)]				
Class A units [(4)]	905,944	6.42	905,944	6.57
Class B units [(5)]	926,700	6.56	1,826,700	13.25
Class D units [(5)]	1,680,911	11.91	1,354,591	9.82
Total Exchangeable Partnership units [(6)]	3,513,555	24.89	4,087,235	29.64
Total Fund and Exchangeable Partnership units	14,117,055	100.00	13,790,735	100.00

Notes:

(1) Information is current as of December 31, 2010. On February 8, 2011, KRL exchanged 750,000 Class B Partnership units for an equal number of Fund units, and sold them through the facilities of the Toronto Stock Exchange. See "Subsequent Events".

(2) Represents the public's total effective ownership of the Fund as of December 31, 2010 and 2009. On April 9, 2010, KRL exchanged 900,000 Class B Partnership units for an equal number of Fund units, and sold them, thereby increasing the total number of Fund units held by public unitholders to 10,603,500. 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 75.11% during the three months ended December 31, 2010 (three months ended December 31, 2009 – 70.36%) and 73.40% during the year ended December 31, 2010 (year ended December 31, 2009 – 70.36%). The weighted average number of Fund units outstanding for the three-month period ended December 31, 2010 was 10,603,500 (three-month period ended December 31, 2009 – 9,703,500) and for the year ended December 31, 2010 was 10,361,856 (year ended December 31, 2009 – 9,703,500).

(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 may only be issued to KRL after all Class B units have become fully entitled to proportionate distributions from the Partnership (which occurred on January 1, 2008). As of December 31, 2010, KRL is the registered holder of 926,700 Class B units and 1,680,911 Class D units (December 31, 2009 – 1,826,700 Class B units and 1,354,591 Class D units).

(6) Represents KRL's total effective ownership of the Fund as of December 31, 2010 and 2009. On April 9, 2010, KRL exchanged 900,000 Class B Partnership units for an equal number of Fund units, and sold them, thereby decreasing the total number of exchangeable units held by KRL to 3,380,891. KRL's average effective ownership of the Fund (based on the weighted average number of Fund and exchangeable units held by KRL during the respective period) was 24.89% during the three months ended December 31, 2010 (three months ended December 31, 2009 – 29.64%) and 26.60% during the year ended December 30, 2010 (year ended December 31, 2009 – 29.64%).

SYSTEM SALES

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

($000's)	13 weeks ended Jan. 2, 2011	14 weeks ended Jan. 3, 2010	52 weeks ended Jan. 2, 2011	53 weeks ended Jan. 3, 2010
Corporate Keg restaurants [(1)]	$ 60,111	$ 62,967	$ 231,604	$ 233,139
Franchised Keg restaurants [(2)]	59,052	63,916	236,932	239,923
Total system sales	$ 119,163	$ 126,883	$ 468,536	$ 473,062

Notes:

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

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

FOURTH QUARTER

System sales for the 13 weeks ended January 2, 2011 were $119.2 million compared to $126.9 million for the 14 weeks ended January 3, 2010, a decrease of $7.7 million or 6.1%. System sales generated during the extra week of operation in the prior year were $8.6 million, so on a comparable basis, system sales increased by $0.9 million or 0.7%. During the 13 weeks ended January 2, 2011, one new corporate restaurant was opened. During the 14 weeks ended January 3, 2010, one new corporate restaurant was opened, one franchised restaurant was relocated and no restaurants were closed. As of January 2, 2011, there were a total of 103 Keg restaurants as compared with 104 Keg restaurants at January 3, 2010.

The Keg's same store sales (sales of restaurants that operated during the entire 13-week period of the current year and the 14-week period of the prior year) decreased by 5.5% in Canada and by 7.2% in the United States. After deducting the extra week of sales in the prior year for comparative purposes, same store sales for the comparable 13-week periods increased by 1.5% in Canada and decreased by 0.5% in the United States. After translating the sales of the U.S. restaurants into their Canadian dollar equivalent, consolidated same store sales for the comparable 13-week periods increased by 0.8%. The average exchange rate moved from 1.06 in KRL's first quarter of fiscal 2010 to 1.01 in KRL's first quarter of fiscal 2011, significantly reducing the Canadian dollar equivalent of the U.S. restaurant sales. Management of KRL attributes the same store sales performance experienced in the United States during the quarter, solely to the lingering weak economic conditions in that Country.

YEAR

System sales for the 52 weeks ended January 2, 2011, were $468.5 million compared to $473.1 million for the 53 weeks ended January 2, 2011, a decrease of $4.6 million or 1.0%. System sales generated during the extra week of operation in the prior year were $8.6 million, so on a comparable basis, system sales increased by $4.0 million or 0.9%. During the 52 weeks ended January 2, 2011, one new corporate restaurant was opened, one corporate restaurant was relocated and two franchised restaurants were closed. One closed franchised restaurant, located in Vancouver, BC, closed due to a lease expiry. The other closed franchised restaurant, located in Naples, Florida, closed due to deteriorating economic conditions in the United States, with Naples, Florida being one of the areas most impacted by the economic downturn. During the 53 weeks ended January 3, 2010, three new corporate and two new franchised restaurants were opened, two franchised restaurants were relocated and three corporate and one franchised restaurant were closed.

SYSTEM SALES (CONTINUED)

The Keg's same store sales (sales of restaurants that operated during the entire 52-week period of the current year and the 53-week period of the prior year) decreased by 1.9% in Canada and by 7.6% in the United States. After deducting the extra week of sales in the prior year for comparative purposes, same store sales for the comparable 52-week periods were flat in Canada and decreased by 5.8% in the United States. After translating the sales of the U.S. restaurants into their Canadian dollar equivalent, consolidated same store sales for the comparable 52-week periods decreased by 1.7%. The average exchange rate moved from 1.14 in KRL's 53-week period ended January 3, 2010 to 1.03 in KRL's 52-week period ended January 2, 2011, significantly reducing the Canadian dollar equivalent of the U.S. restaurant sales.

OPERATING RESULTS

FOURTH QUARTER

GROSS SALES

Gross sales reported by the restaurants in the Royalty Pool decreased from $117,885,000 to $114,298,000 for the comparable quarter. The decrease of $3,587,000, or 3.0%, reflects the addition of net new sales to the Royalty Pool at the beginning of the year, net of the loss of the extra week of week of sales in the prior year, and the same store sales decreases discussed previously.

ROYALTY INCOME

Total royalty income earned by the Partnership decreased by $182,000 from $4,879,000 in the fourth quarter of 2009, to $4,697,000 in the fourth quarter of 2010. Royalty income decreased by $144,000 during the quarter as a result of the decrease in gross sales for the reasons explained previously, and Make-whole Payments decreased by $38,000 due to fewer restaurants closed during the quarter (18 less closed weeks).

PARTNERSHIP EXPENSES

Expenses incurred by the Partnership for the three months ended December 31, 2010 were $112,000, comprised entirely of general and administrative expenses. The increase of $11,000 was due to an increase in audit costs incurred as a result of the pending implementation of International Financial Reporting Standards.

KRL'S INTEREST

KRL's interest in the earnings of the Partnership from the Class A, entitled Class B, Class C and Class D Partnership units decreased from $2,445,000 for the three-month period ended December 31, 2009 to $2,169,000 for the three-month period ended December 31, 2010. The decrease of $276,000 was primarily due to a decrease in KRL's average effective ownership interest in the Partnership from 29.64% during the three-month period ended December 31, 2009 to 24.89% during the three-month period ended December 31, 2010. The change in the average effective ownership of the Partnership during the period was a result of the 2010 initial Additional Entitlement (received by KRL on January 1, 2010), the sale of 900,000 Fund units owned by KRL on April 9, 2010, and the 2010 final Additional Entitlement (received by KRL on December 31, 2010).

EQUITY INCOME

The Fund's equity income from its investment in the Partnership increased from $2,333,000 during the fourth quarter of 2009, to $2,416,000 during the fourth quarter of 2010. The increase of $83,000 is due to the net impact of the decrease in royalty income of $182,000, the increase in Partnership expenses of $11,000, and the decrease in KRL's interest in the earnings of the Partnership of $276,000.

INTEREST INCOME

Interest income earned by the Fund during the fourth quarter of the current year was $1,079,000, comprised of interest income on the Keg Loan of $1,078,000 and other interest income of $1,000. Interest on the Keg Loan remained the same during the quarter. Other interest income increased by $1,000 due to higher interest rates applied to the surplus cash balances on hand during the quarter.

INTEREST AND FINANCING EXPENSES

Interest and financing expenses incurred by the Fund were $178,000 for the three months ended December 31, 2010, and included interest on the long-term debt of $168,000, and amortization of deferred financing charges of $10,000. Interest costs increased by $27,000 in the quarter as a result of an increase in the average interest rate on the long-term debt from 4.00% in the fourth quarter of 2009, to 4.75% in the fourth quarter of 2010. Amortization of deferred financing charges remained the same during the quarter.

EARNINGS BEFORE INCOME TAXES

Earnings before income taxes increased by $57,000 from $3,260,000 (33.6 cents/Fund unit) in the fourth quarter of 2009, to $3,317,000 (31.3 cents/Fund unit) in the fourth quarter of 2010.

FUTURE INCOME TAXES

Future income taxes decreased by $100,000 from a future income tax expense of $150,000 for the three months ended December 31, 2009 to a future income tax expense of $50,000 for the three months ended December 31, 2010. Future income tax is a non-cash expense or recovery which does not affect distributable cash.

NET EARNINGS AND COMPREHENSIVE INCOME

Net earnings increased by $157,000 from $3,110,000 (32.1 cents/Fund unit) in the fourth quarter of 2009, to $3,267,000 (30.8 cents/Fund unit) in the fourth quarter of 2010, mostly due to the decrease in KRL's interest in the Partnership discussed previously.

DISTRIBUTABLE CASH

Cash available for distribution to Fund unitholders decreased by $57,000 from $3,182,000 (32.8 cents/Fund unit) to $3,125,000 (29.5 cents/Fund unit) during the comparable quarter. The difference between the Fund's earnings and distributable cash is due to non-cash items such as amortization and future income taxes included in the Fund's net earnings, as well as changes in non-cash working capital balances.

DISTRIBUTIONS

Distributions of $3,388,000 (32.0 cents/Fund unit) were paid in the fourth quarter of 2010, as compared with $3,100,000 (32.0 cents/Fund unit) in the fourth quarter of 2009.

YEAR

GROSS SALES

Gross sales reported by the restaurants in the Royalty Pool decreased from $454,898,000 to $452,786,000 for the year. The decrease of $2,112,000 or 0.5% reflects the addition of net new sales to the Royalty Pool at the beginning of the year, net of the loss of the extra week of sales in the prior year, and the same store sales decreases discussed previously.

ROYALTY INCOME

Total royalty income earned by the Partnership decreased by $223,000 from $18,645,000 in 2009, to $18,422,000 in 2010. Royalty income decreased by $85,000 during the year as a result of the decrease in gross sales for the reasons explained previously, and Make-whole Payments decreased by $138,000 due to fewer restaurants closed during the period (61 less closed weeks).

PARTNERSHIP EXPENSES

Expenses incurred by the Partnership for the year ended December 31, 2010 were $417,000, comprised entirely of general and administrative expenses. The increase of $20,000 over 2009 was due to an increase in general and administrative expenses of $19,000 and a decrease in other interest income of $1,000. General and administrative expenses increased primarily due to an increase in audit costs incurred as a result of the pending implementation of International Financial Reporting Standards. Other interest income decreased due to lower surplus cash balances on hand during the year.

KRL’S INTEREST

KRL’s interest in the earnings of the Partnership from the Class A, entitled Class B, Class C and Class D Partnership units decreased from $9,546,000 for the year ended December 31, 2009, to $8,787,000 for the year ended December 31, 2010. The decrease of $759,000 was partly due to the decrease in Partnership earnings as a result of the decreased royalty income. In addition, KRL’s average effective ownership interest in the Partnership decreased from 29.64% during the year ended December 31, 2009, to 26.60% during the year ended December 31, 2010. The change in the average effective ownership of the Partnership during the period was a result of the 2010 initial Additional Entitlement (received by KRL on January 1, 2010), the sale of 900,000 Fund units owned by KRL on April 9, 2010, and the 2010 final Additional Entitlement (received by KRL on December 31, 2010).

EQUITY INCOME

The Fund’s equity income from its investment in the Partnership increased from $8,702,000 during 2009 to $9,218,000 during 2010. The increase of $516,000 is due to the net impact of the decrease in royalty income of $223,000, the increase in Partnership expenses of $20,000, and the decrease in KRL’s interest in the earnings of the Partnership of $759,000.

INTEREST INCOME

Interest income earned by the Fund during the current year was $4,278,000 and included interest income on the Keg Loan of $4,275,000, and other interest income of $3,000. Interest income on the Keg Loan remained the same during the year. Other interest income decreased by $2,000 due to lower surplus cash balances on hand during the year.

INTEREST AND FINANCING EXPENSES

Interest and financing expenses incurred by the Fund were $651,000 for the year ended December, 2010, and included interest on the long-term debt of $607,000, amortization of deferred financing charges of $39,000, and financing expenses of $5,000. Interest costs increased by $128,000 during the year as a result of an increase in the average interest rate on the long-term debt from 3.42% in 2009, to 4.34% in 2010. Amortization of deferred financing charges increased by $14,000 during the year, while financing expenses remained the same during the year.

EARNINGS BEFORE INCOME TAXES

Earnings before income taxes increased by $372,000 from $12,473,000 ($1.285/Fund unit) in 2009, to $12,845,000 ($1.240/Fund unit) in 2010.

FUTURE INCOME TAXES

Future income taxes decreased by $75,000 from a future income tax expense of $75,000 for the year ended December 31, 2009 to $nil for the year ended December 31, 2010. Future income tax is a non-cash expense or recovery which does not affect distributable cash.

NET EARNINGS AND COMPREHENSIVE INCOME

Net earnings increased by $447,000 from $12,398,000 ($1.278/Fund unit) in 2009, to $12,845,000 ($1.240/Fund unit) in 2010, mostly due to decrease in KRL's interest in the Partnership discussed previously.

DISTRIBUTABLE CASH

Cash available for distribution to Fund unitholders increased by $317,000 from $12,501,000 ($1.288/Fund unit) in 2009 to $12,818,000 ($1.237/Fund unit) in 2010. The difference between the Fund's earnings and distributable cash is due to the non-cash items such amortization and future income taxes included in the Fund's net earnings, as well as changes in non-cash working capital balances.

DISTRIBUTIONS

Distributions of $12,401,000 ($1.278/Fund unit) were paid in 2009 and $13,264,000 ($1.280 Fund/unit) in 2010.

LIQUIDITY & CAPITAL RESOURCES

It is the Fund's policy to distribute all available cash on a monthly basis in order to provide consistent returns to unitholders and to maximize those returns. Any increase in distributions in the future will be implemented in such a manner so as to maintain uniform monthly distributions. The Fund generated $3,125,000 in distributable cash during the quarter and $12,818,000 during the year and paid distributions of $3,388,000 and $13,264,000 during the respective periods. The shortfall of $263,000 during the quarter and $446,000 during the year was funded with surplus cash on hand from previous periods. The Fund has cash on hand of $933,000 and a positive working capital balance of $1,200,000 as at December 31, 2010.

TERM LOAN

The Keg Holdings Trust ("KHT"), a subsidiary of the Fund, has a $14 million non-revolving term loan facility, which bears interest at bank prime plus 1.75% per annum. The facility was originally arranged during the IPO to partially finance the purchase of the Keg Rights from KRL, and to provide term debt as part of the capital structure. On March 9, 2011, the maturity date of the facility was extended from October 31, 2011 to April 2, 2012. The term loan held by KHT is subject to certain financial covenants, including minimum equity amounts in both KHT and the Partnership, and a minimum Partnership cash flow level defined as earnings before interest, taxes, depreciation and amortization ("EBITDA"). As at December 31, 2010, the KHT and Partnership equity amounts are approximately $17.3 million and $16.8 million in excess of the required minimum equity covenants, respectively. The Partnership EBITDA for year ended December 31, 2010 (last four financial quarters) is approximately $3.1 million greater than the required minimum amount.

OPERATING LINE OF CREDIT

The Partnership, a subsidiary of the Fund, has a $1 million operating line of credit, which bears interest at bank prime plus 1.50% per annum. This facility is used primarily to bridge timing differences between the receipt of the royalty payments and distributions on the Partnership securities. This operating line is also available for general working capital purposes or, if required, to help finance periodic differences between receipt of the royalty payment, (which may vary due to small seasonal variations in the gross sales of those restaurants in the Royalty Pool), and distributions to unitholders.

CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS

Disclosure controls and procedures are designed to provide reasonable assurance that relevant information is gathered and reported to Senior Management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of The Keg GP Ltd., managing general partner of the Partnership and administrator of the Fund, on a timely basis so that the appropriate decisions can be made regarding public disclosure. As of December 31, 2010, an evaluation of the effectiveness of the Fund's disclosure controls and procedures, as defined under Multilateral Instrument 52-109 ("MI 52-109") issued by the Canadian Securities Administrators ("CSA"), was carried out under the supervision of and with the participation of management including the CEO and CFO. Based on the evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Keg GP Ltd., as administrator of the Fund, is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined by the CSA. The CEO and CFO of The Keg GP Ltd. have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Fund's financial reporting and the preparation of its financial statements for external purposes in accordance with GAAP.

The Fund's internal control over financial reporting may not prevent or detect all misstatements because of inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The administrator of the Fund assessed the effectiveness of the Fund's internal control over financial reporting as of December 31, 2010, based on the framework established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, the administrator concluded that the Fund maintained effective internal control over financial reporting as of December 31, 2010. During the year ended December 31, 2010, there has been no change in the Fund's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

The Fund's only critical accounting estimate is the valuation of its investment in the Partnership. As the Partnership's only significant assets are intangible assets consisting of the Keg Rights, the valuation of the Fund's investment is based primarily upon the valuation of intangible assets in the Partnership. The Keg Rights are not amortized as they have an indefinite life. The Keg GP Ltd., as the general partner of the Partnership and administrator of the Fund, reviews the carrying values of the intangible assets in the Partnership and the Fund's investment at least annually, taking into consideration any events or circumstances which may have impaired the carrying values of these items. If permanent declines in the carrying amounts are determined, these items are written down to their estimated net recoverable amount. The Keg GP Ltd. believes that there have been no declines in either the carrying value of the intangible assets in the Partnership or in the carrying value of the Fund's investment in the Partnership as of December 31, 2010.

FUTURE CHANGES IN ACCOUNTING POLICY

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board announced in February 2008 that publicly accountable enterprises will be required to adopt IFRS in place of GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The Fund's transition from GAAP to IFRS will take place in the first quarter of 2011 at which time the Fund will report both the current and comparative financial information using IFRS. The Fund's IFRS transition project consists of three phases:

PRELIMINARY DIAGNOSTIC REVIEW

In 2009, the Fund, with the assistance of its external consultant, completed the preliminary diagnostic review, which involved a high level review of the major differences between current GAAP and IFRS. The major differences identified were:

Basis of consolidation of the Fund's interest in the Partnership – under GAAP, the Partnership was determined to be a Variable Interest Entity and is currently consolidated with KRL. Under IFRS, consolidation is based on "control" which is the power to govern the financial and operating policies of an entity to obtain benefits from its activities.

Classification of Unitholders' equity – currently the Fund units are classified as equity under GAAP. However under IFRS, an instrument is classified as a financial liability if it contains a contractual obligation to transfer cash or other financial assets. See the Detailed Assessment section for a further analysis.

PRELIMINARY DIAGNOSTIC REVIEW (CONTINUED)

Impairment of assets – the Fund accounts for its investment in the Partnership using the equity method. Under GAAP, an impairment test is conducted when a trigger is identified that may indicate impairment and at least annually for indefinite life assets. Under IFRS, an impairment test of the investment is also required if a trigger is identified that may indicate impairment. The value is determined under IFRS as the greater of value in use or fair value less costs to sell, which is different than GAAP. If an indicator of impairment exists, an analysis under IFRS will need to be completed. An impairment test of the investment is also required under IFRS at the transition date with any impairment recorded in retained earnings. Under IFRS, impairment losses may be reversed and any impairments reversed or recorded require significant additional disclosure.

Method of calculation for future income taxes – there are future income tax assets and liabilities that are accounted for under IFRS but not recognized under GAAP and vice versa. The Fund is currently investigating how these differences will impact its future tax calculations.

DETAILED ASSESSMENT

In 2010, the Fund worked with its external consultant on a detailed assessment of IFRS with the aim of resolving issues and making appropriate accounting policy choices. This detailed assessment involved an analysis of the differences between IFRS and GAAP and the associated impacts on the Fund's financial reporting and accounting policies, internal controls over financial reporting and disclosure, and information technology and systems. The following is a summary of the key issues resulting from the detailed analysis:

Basis of consolidation of the Fund's interest in the Partnership – It has been determined that under IFRS, the Fund will consolidate the accounts of the Partnership rather than account for the Fund's investment in the Partnership using the equity method. The Partnership's significant liabilities include cash, royalties receivable from KRL and the Keg Rights, while its significant liabilities include accounts payable and accrued liabilities, distributions payable to Partner companies, and the term loan. See note 4 of the Fund's consolidated financial statements for the year ended December 31, 2010 for a summarized balance sheet of the Partnership. The Fund's consolidated statements of earnings and comprehensive income under IFRS will no longer include equity income from the Partnership but rather the actual income and expenses of the Partnership, adjusted for any minority interest in the Partnership's earnings. The Partnership's earnings are largely comprised of royalty revenue earned from Keg Rights less administrative expenses.

Classification of Fund unitholders's equity – As noted above, under IFRS, an instrument is classified as a financial liability if it contains a contractual obligation to transfer cash or other financial assets. During the year, the Trustees of the Fund determined that the Fund units likely would be classified as a financial liability under IFRS as the Fund's declaration of trust contained a mandatory requirement to distribute to Fund unitholders no less than all of its taxable income and net realized capital gains in each year. The Trustees of the Fund further determined that it would be undesirable for Fund units to be classified as a financial liability under IFRS. As a result, the Fund convened the Special Meeting on December 20, 2010 at which Fund unitholders approved, among other things, an amendment to the Fund's declaration of trust to remove the Fund's mandatory requirement to distribute to Fund unitholders no less than all of its taxable income and net realized capital gains in each year. More detailed particulars of this amendment are set forth in the notice of meeting and information circular for the Special Meeting, a copy of which is available on www.sedar.com and www.kegincomefund.com. As a result of this amendment, the Fund units and distribution paid will, under IFRS, be presented as equity from and after December 20, 2010; however, comparative figures for the periods prior to December 20, 2010 will present the Fund units distribution paid on Fund units as a financial liability and interest expense, respectively. At the Special Meeting, Fund unitholders also approved an amendment to the Fund's declaration of trust that permits the Trustees of the Fund to make future amendments to the Fund's declaration of trust without Fund unitholder approval that are, in opinion of the Trustees, necessary of desirable as a result of changes in accounting standards.

DETAILED ASSESSMENT (CONTINUED)

Impairment of assets – Under IFRS, the carrying value the Fund's assets will need to be assessed on each reporting date to determine if there are any indicators of impairment. Under IFRS, the Fund's assets, on a consolidated basis, will included the Partnership's Keg Rights. Impairment exists if the carrying value of an asset exceeds its recoverable amount. If there are any indicators of impairment, the Fund will be required to make a formal estimate of the recoverable amount and the carrying value of the asset will be reduced to the determined amount with the loss recognized in the statement of profit of loss. Impairment losses may be reversed under IFRS and any impairment adjustments require significant disclosure.

POLICY DESIGN AND IMPLEMENTATION

The Fund is currently in the policy design and implementation phase if its transition to IFRS. The Fund is in the final stages of completing a draft set of IFRS compliant financial statements and notes for presentation to the Fund's Trustees. With the assistance of the Fund's external consultant, these statements are being prepared based on the IFRS accounting standards in place at the time, however, there are minor issues outstanding that may impact the Fund's IFRS financial statements.

As the IFRS transition project nears completion, the Fund will continue to report on the status of its plan including further information on accounting policy changes, if any, and any impacts on the Fund's IFRS financial statements. The transition to IFRS is not expected to have any impact on the Fund's operations or cash flows and the Fund's goal is to make policy choices that are IFRS compliant and also provide the most meaningful information to the Fund's financial statement readers. There is also not expected to be any significant impact on information technology systems, internal control over financial reporting or disclosure controls or procedures as a result of the Fund's transition to IFRS.

FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash, amounts due from KRL and the Partnership, note receivable from KRL, interest payable on the term loan, distributions payable to Fund unitholders, and the term loan. The requirement for the Fund to settle its note receivable from KRL in exchange for Class C Partnership units is classified as a derivative instrument. The Fund has reviewed the net impact of this potential exchange requirement on its cash flows and has determined that there is no significant value applicable to this feature. The fair values of the amounts due from KRL and the Partnership, interest payable on the term loan and the distributions payable to Fund unitholders approximate their carrying amounts, largely due to the short-term maturities of these instruments. The fair value of the term loan is not materially different from its carrying value as the variable rate of interest on the facility would not be significantly different from the current market rate of interest due to the considerable security held by the banking syndicate.

SUBSEQUENT EVENTS

ADJUSTMENTS TO THE ROYALTY POOL

On January 1, 2011 three new Keg restaurants that opened during the period from October 3, 2009 through October 2, 2010 were added to the Royalty Pool. The gross sales of these three new restaurants have been estimated at $15.7 million annually. Three permanently closed Keg restaurants with annual sales of $10.4 million were removed from the Royalty Pool, resulting in an estimated net increase in Royalty Pool sales of $5.3 million annually. The total number of restaurants in the Royalty Pool remains at 102. The yield of the Fund units was determined to be 10.90% calculated using a weighted average unit price of $11.73.

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 153,737 Fund units, being 1.08% of the Fund units on a fully diluted basis.

ADJUSTMENTS TO THE ROYALTY POOL (CONTINUED)

On January 1, 2011, KRL received 80% of this entitlement representing the equivalent of 122,990 Fund units, being 0.86% of the Fund units on a fully diluted basis. KRL will also receive a proportionate increase in monthly distributions from the Partnership. Including the initial portion of the Additional Entitlement described above, KRL will have the right to exchange its units in the capital of the Partnership for 3,636,546 Fund units representing 25.54% of the Fund units on a fully diluted basis.

The balance of the Additional Entitlement will be adjusted to be effective January 1, 2011 once the actual performance of the new restaurants has been confirmed. If KRL were to receive 100% of the estimated Additional Entitlement for 2011, it would have the right to exchange its Partnership units for 3,667,293 Fund units representing 25.70% of the Fund units on a fully diluted basis.

FEDERAL GOVERNMENT TAX ON INCOME FUNDS

On January 1, 2011, legislative changes to the tax treatment of certain income trusts, as a result of the SIFT tax, came into effect. As a result of these changes, income trusts will not be entitled to deduct distributions of certain types of income for tax purposes, and will therefore be subject to taxation similar to corporations. Accordingly, the Fund will be subject to tax at a rate of 26.5% for 2011 and 25% for the 2012 and later taxation years.

As a result of this taxation imposed by the Federal Government, the Fund's trustees have had to adopt a new distribution policy which reflects the Funds obligation to make the SIFT tax payments. Beginning with the distribution for the month January 2011 (payable to Unitholders on February 28th 2011), distributions will be set at $0.08 per unit per month. This amounts to a distribution of $0.96 per unit annually. At this level, the eligible dividend portion of the Fund's distribution, combined with the return of capital component of the distribution, will provide taxable Canadian individuals with an effective after-tax cash return very closely comparable to the return that existed before the imposition of the SIFT tax.

ISSUANCE OF FUND UNITS

On February 8, 2011 the Fund completed a secondary offering of units after filing a short form prospectus with the British Columbia Securities Commission to qualify the distribution by KRL of 750,000 units of the Fund at a price of $13.65 per unit, for gross proceeds of $10,237,500. The Fund did not receive any proceeds pursuant to this offering. As a result of the transaction, the number of Fund units outstanding increased from 10,603,000 as at December 31, 2010 to 11,353,500 on February 8, 2011 and the public's effective ownership of the Fund increased from 74.76% as at January 1, 2011 to 79.73% on February 8, 2011.

OUTLOOK

In Canada, The Canadian Restaurant and Foodservice Association has estimated that sales in the full-service category, the category in which The Keg operates, increased by 1.3% in 2010 and has projected sales to increase by 2.6% in 2011. In the United States, the National Restaurant Association has projected sales in the full-service category to increase by 3.1% in 2011, after three consecutive years of real sales declines. Given the close historical relationship between disposable income and foodservice spending, management of KRL expect that as economic conditions continue to improve in North America, so will sales in the full-service category of the restaurant industry. While management of KRL does not expect a significant improvement in economic conditions in the near term, management believes that the Keg will continue to outperform the full-service restaurant category with respect to same store sales growth. Management of KRL continues to monitor the global economy and evaluate its potential impact on the North American business environment, particularly the effect on consumer confidence and discretionary spending.

OUTLOOK (CONTINUED)

Management of KRL has advised the Trustees that it intends to continue to focus on growing same store sales and to continue to expand the number of corporate and franchised restaurants in Canada and the United States. KRL management has also advised the Trustees that it believes that the strong same store sales growth KRL has delivered in the past will continue to be realized over the long term through a combination of increased guest counts and increased guest average cheque. Advertising and promotions programs will continue to focus on food taste, quality and excellent service in a friendly atmosphere. Management of KRL has further advised the Trustees that it believes that continued Canadian market expansion will be leveraged by KRL's leading market position and national presence.

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

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 thirty-nine years. Management of KRL has advised the Trustees that it expects to open five restaurants prior to October 2, 2011, consisting of three corporate and one franchised restaurant in Canada, as well as one corporate restaurant in the United States. The scheduled opening of these new restaurants is conditional upon the timely receipt of municipal approvals, construction permits, and ongoing evaluation of the current economic environment. Management of KRL continues to monitor economic conditions and intends to regularly review the timing of its scheduled restaurant openings and adjust these as necessary.

RISKS AND UNCERTAINTIES

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

THE RESTAURANT INDUSTRY

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

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

In addition, factors such as inflation; increased food; labour and benefits costs; government regulations; smoking by-laws; and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and therefore potentially KRL and its franchisees. Changing consumer preferences, discretionary spending patterns and factors affecting the availability of beef could force KRL to modify its restaurant content and menu, and could result in a reduction of restaurant sales. Accordingly, this could impact the amount of the royalty and financial condition of KRL. Consumer preferences could be affected by health concerns about the consumption of beef, the primary item served at Keg restaurants, and specific events such as the outbreak of "mad cow disease" could reduce the available supply of beef or significantly raise the price of beef.

THE RESTAURANT INDUSTRY (CONTINUED)

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

AVAILABILITY AND QUALITY OF RAW MATERIALS

Management of KRL has advised the Trustees that it continues to monitor the situation regarding the cases of BSE found in North America during the past several years. The widespread testing of herds confirms these are isolated cases; the risk to human health appears to be negligible. Most importantly to The Keg, there has been no significant negative consumer reaction to beef in North America and there has not been a material impact on its restaurant traffic. KRL management has further advised the Trustees that KRL has maintained an uninterrupted supply of quality beef that meets its demanding specifications despite the border closures and the unfortunate impact on cattle producers. Management of KRL has advised the Trustees that it expects the demand for beef to remain strong among consumers and its supply to continue uninterrupted.

FLUCTUATIONS IN FOREIGN EXCHANGE RATES

KRL presently has 16 restaurants located in the United States, all of which are corporately owned through its wholly owned subsidiaries. Keg restaurants located in the United States generate sales in United States dollars, which must be translated into their Canadian dollar equivalent for Fund reporting purposes. Fluctuations in foreign exchange rates will affect the Canadian dollar equivalent of the sales of the restaurants located in the United States, which will affect the amount of the royalty.

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, except as required by law.

THE KEG ROYALTIES INCOME FUND

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

MANAGEMENT'S STATEMENT OF RESPONSIBILITIES

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Directors and the Trustees. The consolidated financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements.

The Fund maintains appropriate systems of internal control, policies and procedures, which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors and the Trustees ensure that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. The committee reviews the consolidated financial statements and reports to the Trustees. The auditors have full and direct access to the Audit Committee.

The consolidated financial statements have been independently audited by KPMG LLP, in accordance with Canadian generally accepted accounting standards. Their report following this statement expresses their opinion on the consolidated financial statements of the Fund.

C.C. Woodward

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

March 22, 2011

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Keg Royalties Income Fund

We have audited the accompanying consolidated financial statements of Keg Royalties Income Fund ("the Fund"), which comprise the balance sheets as at December 31, 2010 and December 31, 2009 and the statements of earnings and comprehensive income, statements of deficit, and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

March 22, 2011

CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of dollars)

	December 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash	$ 933	$ 1,379
Due from Keg Restaurants Ltd. (note 7)	363	363
Due from The Keg Rights Limited Partnership (note 8)	1,089	1,036
	2,385	2,778
Note receivable from Keg Restaurants Ltd. (note 9)	57,000	57,000
Investment in The Keg Rights Limited Partnership (note 4)	67,488	56,586
	$ 126,873	$ 116,364
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Interest payable on term loan	$ 56	$ 48
Distributions payable to Fund unitholders	1,129	1,033
	1,185	1,081
Term loan, net of deferred financing charges (note 10)	13,963	13,924
Future income taxes (note 11)	1,875	1,875
Unitholders' equity:		
Capital contributions (note 12)	110,895	100,014
Deficit	(1,045)	(530)
	109,850	99,484
	$ 126,873	$ 116,364

See accompanying notes to consolidated financial statements.

Subsequent events (notes 10 and 19)

Approved on behalf of the Board of Trustees

C.C. Woodward, Trustee

George Tidball, Trustee

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

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

	Year ended December 31, 2010	Year ended December 31, 2009
Revenue:		
Equity income (note 4)	$ 9,218	$ 8,702
Interest income	4,278	4,280
	13,496	12,982
Expenses:		
Interest and financing fees	(612)	(484)
Amortization of deferred financing charges	(39)	(25)
	(651)	(509)
Earnings before income taxes	12,845	12,473
Future income tax expense (note 11)	-	(75)
Net earnings and comprehensive income for the year	$ 12,845	$ 12,398
Weighted average units outstanding (note 12)	10,361,856	9,703,500
Basic and diluted earnings per unit	$ 1.24	$ 1.28

CONSOLIDATED STATEMENTS OF DEFICIT

(Expressed in thousands of dollars)

	Year ended December 31, 2010	Year ended December 31, 2009
Deficit, beginning of year	$ (530)	$ (527)
Net earnings	12,845	12,398
Distributions declared to Fund unitholders	(13,360)	(12,401)
Deficit, end of year	$ (1,045)	$ (530)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of dollars)

	Year ended December 31, 2010	Year ended December 31, 2009
Cash provided by (used for):		
OPERATIONS:		
Net earnings for the year	$ 12,845	$ 12,398
Items not involving cash:		
Amortization of deferred financing charges	39	25
Equity income (note 4)	(9,218)	(8,702)
Future income tax expense (note 11)	-	75
Distributions from The Keg Rights Limited Partnership (note 4)	9,197	8,668
Change in non-cash operating working capital (note 18(a))	(45)	37
	12,818	12,501
FINANCING:		
Distributions paid to Fund unitholders	(13,264)	(12,401)
Deferred financing charges	-	(58)
	(13,264)	(12,459)
Increase (decrease) in cash	(446)	42
Cash, beginning of year	1,379	1,337
Cash, end of year	$ 933	$ 1,379

See note 18(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)

For the years ended December 31, 2010 and 2009

1. ORGANIZATION AND NATURE OF BUSINESS:

The Keg Royalties Income Fund (the "Fund") is an unincorporated open-ended limited purpose trust established under the laws of Ontario with the authority to issue an unlimited number of trust units. The Fund was established to invest in The Keg Rights Limited Partnership (the "Partnership"), which owns the trademarks, trade names, operating procedures and systems and other intellectual property (collectively, the "Keg Rights") used in connection with the operation of Keg steakhouse restaurants and bars. Pursuant to the declaration of trust of the Fund, an amount equal to all income of the Fund, together with the non-taxable portion of any net capital gain realized by the Fund, will be distributed by the Fund to its unitholders each year. As a result, the Fund is not currently liable for income taxes (note 11). Income tax obligations related to the distributions by the Fund are currently obligations of the unitholders.

The business of the Partnership is the ownership of the Keg Rights and through a Licence and Royalty Agreement (the "Licence and Royalty Agreement") with Keg Restaurants Ltd. ("KRL") to exploit the use of the Keg Rights and the collection of the royalty payable under the Licence and Royalty Agreement. KRL's principal activity is the operation and franchising of Keg steakhouse restaurants and bars in Canada and the United States.

2. NEW ACCOUNTING STANDARDS AND ACCOUNTING POLICIES:

International Financial Reporting Standards:

The Canadian Institute of Chartered Accountants ("CICA") is converging Canadian generally accepted accounting principles ("GAAP") for public companies with International Financial Reporting Standards ("IFRS") commencing with fiscal years beginning on or after January 1, 2011. This will result in the Fund having to prepare its interim and annual consolidated financial statements in accordance with IFRS commencing with periods beginning on or after January 1, 2011. It has been determined that under IFRS, the Fund will consolidate the accounts of the Partnership rather than account for the Fund's investment in the Partnership using the equity method. The Partnership's significant assets include cash, royalties receivable from KRL and the Keg Rights, while its significant liabilities include accounts payable and accrued liabilities and distributions payable to partner companies. A summarized balance sheet of the Partnership is presented in note 4. The Fund's consolidated statements of earnings and comprehensive income will no longer include equity income from the Partnership but instead the actual income and expenses of the Partnership adjusted for any minority interest in the Partnership's earnings. The Partnership's earnings are largely comprised of royalty revenue earned from the Keg Rights, less administrative expenses. It has also been determined that the Fund units will be classified as a financial liability under IFRS, with distributions classified as interest expense, due to a requirement in the Fund's declaration of trust to pay out all of its taxable income and net realized capital gains each year. The declaration of trust was amended (the "Amendment") on December 20, 2010 to remove this requirement. As a result, the Fund units and distributions will be classified as equity as of December 20, 2010. However, financial statements for periods before the Amendment will present Fund units and distributions as a financial liability and interest expense, respectively.

3. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

These consolidated financial statements include the accounts of the Fund, its wholly-owned subsidiary The Keg Holdings Trust (“KHT”) and its 90% owned subsidiary The Keg GP Ltd. (“KGP”) (collectively, the “Companies”). KGP is the managing general partner of the Partnership. All residual ownership of the Companies is either directly or indirectly controlled by KRL.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

All significant intercompany transactions have been eliminated.

(b) Revenue recognition:

Interest income is recognized and accrued for when earned.

(c) Investment in The Keg Rights Limited Partnership:

The investment in the Partnership is accounted for using the equity method. Under the equity method, the original cost of the investment is adjusted for KHT’s share of post-acquisition earnings or losses and is reduced for distributions or advances received. The statement of earnings includes the Fund’s share of the Partnership’s earnings or losses for the year. The investment in the Partnership is also adjusted to record the entitled Class B and Class D units exchanged by KRL for Fund units. These Fund units are recorded at their fair value at the date they are issued.

(d) Distributions to Fund unitholders:

The amount of cash to be distributed to Fund unitholders is determined with reference to net earnings adjusted for amortization, other non-cash items and repayment of principal on term loans, if required.

Distributions to Fund unitholders are made monthly, based upon available cash less cash redemptions of Fund units, and are subject to the Fund retaining such reasonable working capital reserves as may be considered appropriate by the Trustees of the Fund.

(e) Income taxes:

KRL uses the asset and liability method of accounting for future tax assets and liabilities and recognizes the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Future 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 future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Where it is considered to be more likely than not that the future income tax assets will not be realized, a valuation allowance is provided for the difference.

(Tabular amounts expressed in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(f) Earnings per unit:

The earnings per unit calculations are based on the weighted average number of Fund and exchangeable units outstanding during the period (note 12).

(g) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the valuation of the Fund's investment in the Partnership. Actual results could differ from those estimates.

(h) Economic dependence:

The Fund is entirely dependent upon the operations and assets of KRL to pay the royalty and make-whole payments to the Partnership and the interest payments to the Fund. Accordingly, it is subject to the risks encountered by KRL in the operation of its business.

4. EQUITY INVESTMENT:

The Partnership owns the Keg Rights used in connection with the operation of Keg steakhouse restaurants and bars.

The Fund, through its ownership of The Keg Holdings Trust ("KHT"), holds all of the issued and outstanding Limited Partnership units ("LP units"), 2,450,000 Class B units and 99% of the General Partnership units ("GP units") of the Partnership through its 90% interest in The Keg GP Ltd.

	December 31, 2010	December 31, 2009
Investment in the Partnership, at cost	$ 67,550	$ 56,669
Accumulated equity earnings less distributions received, beginning of period	(83)	(117)
Equity income in the Partnership	9,218	8,702
Distributions from the Partnership	(9,197)	(8,668)
Equity investment in the Partnership	$ 67,488	$ 56,586

Summarized financial information of the Partnership is as follows:

	December 31, 2010	December 31, 2009
Current assets	$ 2,477	$ 2,360
Long-term assets, being Keg Rights	154,183	151,198
Total assets	$ 156,660	$ 153,558
Current liabilities	$ 2,494	$ 2,410
Partners' equity	154,166	151,148
Total liabilities and equity	$ 156,660	$ 153,558

(Tabular amounts expressed in thousands of dollars)

4. EQUITY INVESTMENT (CONTINUED):

	Year ended December 31, 2010	Year ended December 31, 2009
System sales reported by Keg restaurants in the Royalty Pool	$ 452,786	$ 454,898
Royalty income at 4% of system sales reported above	$ 18,111	$ 18,196
Make-whole payment, based on 4% of lost system sales	311	449
Total royalty income	18,422	18,645
Expenses	(417)	(397)
Net earnings of the Partnership for the period	18,005	18,248
KRL's interest in the net earnings of the Partnership	(8,787)	(9,546)
Equity income for the period	$ 9,218	$ 8,702

5. ROYALTY POOL:

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

The gross sales reported by the 102 Keg restaurants in the Royalty Pool are from January 1 to December 31, 2010 (January 1 to December 31, 2009 – 102 Keg restaurants).

The royalty payment from KRL to 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. The make-whole payment is based on three restaurant closures for the period from January 1 to December 31, 2010 (January 1 to December 31, 2009 – five restaurant closures).

On January 1, 2010, six new Keg restaurants that opened during the period from October 3, 2008 to October 2, 2009 were added to the Royalty Pool. The gross sales of these six new restaurants were $28.4 million. Six permanently closed Keg restaurants with annual sales of $17.1 million have been removed from the Royalty Pool, resulting in a net increase in Royalty Pool sales of $11.3 million. The yield of the Fund Units was determined to be 13.97% calculated using a weighted average unit price of $9.15.

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

5. ROYALTY POOL (CONTINUED):

As a result of the contribution of the additional net sales to the Royalty Pool, KRL's Additional Entitlement is equivalent to 326,319 Fund units, being 2.31% of the Fund units on a fully diluted basis. On January 1, 2010, KRL received the initial estimated 80% of this entitlement representing the equivalent of 193,656 Fund units, being 1.38% of the Fund units on a fully diluted basis. On December 31, 2010, the performance of the new restaurants was confirmed and the Additional Entitlement adjusted to be effective as of January 1, 2010. 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 3,513,555 Fund units, representing 24.89% of the Fund units on a fully diluted basis.

6. UNITHOLDER DISTRIBUTIONS:

	Year ended December 31, 2010	Year ended December 31, 2009
Distributions declared to Fund unitholders	$ 13,360	$ 12,401
Weighted average Fund units outstanding (note 12)	10,361,856	9,703,500
Distributions declared per unit	$ 1.29	$ 1.28

Annually, two distributions are expected to be declared during the first quarter, three distributions in each of the second and third quarters and four distributions in the fourth quarter. This is done to ensure that the distribution based on December KRL Royalty Pool system sales, which is paid the following month in January, is recorded in the period it was earned for income tax purposes. The determination to declare and make payable distributions from the Fund are at the discretion of the board of Trustees of the Fund and until declared payable, the Fund has no requirement to pay cash distributions to Fund unitholders.

7. DUE FROM KEG RESTAURANTS LTD.:

	December 31, 2010	December 31, 2009
Interest on note receivable from Keg Restaurants Ltd.	$ 363	$ 363

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.

(Tabular amounts expressed in thousands of dollars)

8. DUE FROM THE KEG RIGHTS LIMITED PARTNERSHIP:

The amounts due from the Partnership are working capital items owing to the Fund or its subsidiaries and are in the normal course of operations. Included in the amount due from the Partnership at December 31, 2010 is $1,089,000 in distributions declared to KHT which are payable in January 2011 (December 31, 2009 – $1,022,000).

9. NOTE RECEIVABLE FROM KEG RESTAURANTS LTD.:

	December 31, 2010	December 31, 2009
Note receivable with interest payable monthly at 7.5% per annum and principal amount due May 31, 2042	$ 57,000	$ 57,000

The note is secured by a general security agreement and may not be assigned without the prior consent of KRL.

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. The Class C units are entitled to a preferential monthly distribution equal to $0.0625 per Class C unit issued and outstanding.

10. TERM LOAN:

On August 12, 2009, the Fund amended the terms of its $14,000,000 term loan with its existing banking syndicate. The facility bears interest at prime plus 1.75% and is secured by a general security agreement over the assets of the Fund. On March 9, 2011, the maturity date of the facility was extended from October 31, 2011 to April 2, 2012. Accordingly, the term loan has been presented as a long-term liability.

The amendment was considered a modification of debt. As a result, the $58,443 in deferred financing fees incurred on the amendment were added to the $29,678 unamortized balance of deferred financing fees associated with the previous facility. The term loan is presented net of $37,050 in deferred financing charges at December 31, 2010 (December 31, 2009 – $75,657).

11. INCOME TAXES:

On June 12, 2007, the Canadian federal government's legislation to tax publicly traded income trusts passed third reading in the House of Commons and thus the associated income tax became substantively enacted for accounting purposes. Historically, the Fund had been exempt from recognizing future income tax assets and liabilities associated with temporary differences arising in the Fund and its equity accounted investment, the Partnership. As a result of the substantive enactment of the new tax legislation, the Fund has recognized future income tax assets and liabilities that are expected to reverse subsequent to January 1, 2011. Future income tax expense is a non-cash item that does not affect cash flow.

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

11. INCOME TAXES (CONTINUED):

On January 1, 2011, legislative changes to the tax treatment of certain income trusts, as a result of the Specific Investment Flow-through Trust tax (the "SIFT tax"), came into effect. As a result of these changes, income trusts will not be entitled to deduct distributions of certain types of income for tax purposes, and will therefore be subject to taxation similar to corporations. Accordingly, the Fund will be subject to tax at a rate of 26.5% for 2011 and 25.0% for the 2012 and later taxation years. As a result of this taxation imposed by the Federal Government, the Fund's Trustees have had to adopt a new distribution policy which reflects the Fund's obligation to make the SIFT tax payments (note 19(b)).

Income tax expense as reported differs from the amount that would be computed by applying the combined Federal and Provincial statutory income tax rates to the earnings before income taxes. The reason for the difference is as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Earnings before income taxes	$ 12,845	$ 12,473
Combined Canadian federal and provincial rates	28.50%	32.00%
Computed "expected" tax expense	3,661	3,991
Increased (reduced) by:		
Current year's earnings not taxable	(3,661)	(3,991)
Recognition of future tax liability for enacted changes in tax laws and rates	-	75
Total income tax expense per the statement of operations	$ -	$ 75

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

	December 31, 2010	December 31, 2009
Future tax liabilities:		
Investment in The Keg Rights Limited Partnership	$ (1,875)	$ (1,875)
Net future tax liability	$ (1,875)	$ (1,875)

12. UNITHOLDERS' EQUITY:

	Year ended December 31, 2010	Year ended December 31, 2009
Fund units issued and outstanding, opening balance	9,703,500	9,703,500
Issuance of Fund units in exchange for additional interest in the Partnership (note 13(b))	900,000	-
Fund units issued and outstanding, ending balance	10,603,500	9,703,500
Weighted average Fund units issued and outstanding	10,361,856	9,703,500

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

For the years ended December 31, 2010 and 2009

12. UNITHOLDERS' EQUITY (CONTINUED):

On April 9, 2010, the Fund completed a secondary offering of 900,000 Fund units after filing a short form prospectus with the British Columbia Securities Commission to qualify the distribution by KRL of 900,000 units of the Fund at a price of $12.15 per unit, for gross proceeds of $10,935,000. The Fund increased its interest in the Partnership as a result of issuing these Fund units, however no cash proceeds were received pursuant to this offering. As a result of this transaction, the number of Fund units outstanding increased from 9,703,500 as at December 31, 2009 to 10,603,500 on April 9, 2010, upon completion of this transaction. The Fund's ownership of the Partnership has also increased from 70.36% as at December 31, 2009 to 75.11% on December 31, 2010 due to KRL's exchange of Class B Partnership units for Fund units.

The declaration of trust of the Fund provides that an unlimited number of Fund units may be issued. Each Fund unit is transferable and represents an equal undivided beneficial interest in any distributions of the Fund and in the net assets of the Fund. All units have equal rights and privileges. Each Fund unit entitles the holder thereof to participate equally in the allocations and distributions and to one vote at all meetings of Fund unitholders for each whole Fund unit held. The Fund units issued are not subject to future calls or assessments.

Fund units are redeemable at any time at the option of the holder at a price based on market value as defined in the trust agreement, subject to a maximum of $50,000 in cash redemptions by the Fund in any one month. The limitation may be waived at the discretion of the Trustees of the Fund. Redemption in excess of these amounts, assuming no waiving of the limitation, shall be paid by way of a pro-rata distribution of Partnership securities held by the Fund.

13. EXCHANGEABLE UNITS:

In return for adding net sales to the Royalty Pool, KRL has received the following Partnership units that are exchangeable into Fund units:

	December 31, 2010	December 31, 2009
Class A Partnership units (a)	905,944	905,944
Class B Partnership units (b)	926,700	1,826,700
Class D Partnership units (c)	1,680,911	1,354,591
	3,513,555	4,087,235

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

13. EXCHANGEABLE UNITS (CONTINUED):

(a) The Class A units are entitled to a preferential proportionate distribution equal to the distribution on the Class C Partnership units ("Class C units"), multiplied by the number of Class A units divided by the number of LP Partnership units ("LP units") issued and outstanding. KHT holds all of the 8,153,500 LP units issued and outstanding at December 31, 2010. In addition, the Class A units receive a residual distribution proportionately with the Class B units, Class D units, LP units and GP units relative to the aggregate number of each class issued and outstanding (or in the case of the Class B units and Class D units, the number issued and outstanding multiplied by the Class B and Class D current distribution entitlement, respectively). Class A units are exchangeable for Fund units on the basis of one Fund unit for one Class A unit and represent KRL's initial 10% effective ownership of the Fund prior to the entitlement of Class B and Class D units.

(b) The Class B units were issued to KRL in return for adding net sales from new Keg restaurants to the Royalty Pool and are entitled to a preferential proportionate distribution and a residual distribution based on the incremental royalty paid to the Partnership. The distribution entitlements of the Class B units were adjusted annually on January 1 until the January 1, 2008 roll-in when the Class B Termination Date was reached and the last of the Class B units became entitled. Class B units held by KRL are exchangeable for Fund units on the basis of one Fund unit for one Class B unit and a total of 900,000 Class B units were exchanged for 900,000 Fund units on April 9, 2010. As at December 31, 2010, 926,700 (December 31, 2009 – 1,826,700) Class B units held by KRL receive a distribution entitlement.

(c) The Class D units were issued to KRL in return for adding net sales from new Keg restaurants to the Royalty Pool and are entitled to a preferential proportionate distribution and a residual distribution based on the incremental royalty paid to the Partnership. The distribution entitlements of the Class D units are adjusted annually on January 1. Class D units held by KRL are exchangeable for Fund units on the basis of one Fund unit for one Class D unit. As at December 31, 2010, 1,680,911 (December 31, 2009 – 1,354,591) Class D units held by KRL receive a distribution entitlement. Class D units are issued subsequent to the Class B Termination Date and are identical to Class B units except that the Trustees of KHT can require KRL to surrender any or all of the issued Class D units for a price that is equal to the one originally used in the formula to calculate the number of units issued.

14. CAPITAL DISCLOSURES:

The Fund's objectives in managing its capital, which it defines as unitholders' equity and the term loan, are:

- To safeguard the Fund's ability to continue as a going concern;
- To provide financial capacity and flexibility to meet its strategic objectives;
- To provide adequate return to unitholders commensurate with the level of risk; and
- To distribute excess cash through distributions.

The Fund maintains financial policies and manages its liquidity and capital structure and makes adjustments to it in light of changes to economic conditions, the underlying risks inherent in its operations and capital requirement to maintain and grow its operations.

14. CAPITAL DISCLOSURES (CONTINUED):

The term loan held by KHT is subject to certain financial covenants, including minimum equity amounts in both KHT and the Partnership and a minimum Partnership cash flow level, defined as earnings before interest, taxes, depreciation and amortization ("EBITDA"). As at December 31, 2010, the KHT and Partnership equity amounts are approximately $17.3 million and $16.8 million in excess of the required minimum equity covenants, respectively. The Partnership's EBITDA for the year ended December 31, 2010 is approximately $3.1 million greater than the required minimum amount.

The Fund is not subject to any statutory capital requirements and has no commitments to sell or otherwise issue units, other than the commitment to exchange Class A, Class B and Class D units held by KRL for Fund units (note 13).

15. FINANCIAL INSTRUMENTS:

The Fund classified its financial instruments as follows:

- Cash as *held-for-trading,* which is measured at fair value.
- Amounts due from KRL and the Partnership and the note receivable from KRL as *loans and receivables,* which are initially measured at fair value and subsequently at amortized cost.
- Interest payable on term loan, distributions payable to Fund unitholders and the term loan as *other financial liabilities,* which are measured at amortized cost.

The requirement for the Fund to settle its note receivable from KRL in exchange for Class C units is considered to be a separate embedded derivative (classified as a *derivative instrument).* The Fund has reviewed the net impact of this potential exchange requirement on its cash flows and has determined there is no significant value applicable to this feature at this time.

Under requirements of the CICA Handbook Section 3862, *Financial Instruments – Disclosures,* the Fund must classify fair value measurements according to a hierarchy that reflects the significance of the inputs used in performing such measurements. The Fund's fair value hierarchy comprises the following levels:

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

The fair value of cash was determined using Level 1 inputs.

15. FINANCIAL INSTRUMENTS (CONTINUED):

The fair values of the amounts due from KRL and the Partnership, interest payable on term loan and the distributions payable to Fund unitholders approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair value of the term loan is not materially different from its carrying value as the variable rate of interest on the facility would not be significantly different from the current market rate due to the considerable security held by the banking syndicate.

16. FINANCIAL RISK MANAGEMENT:

The Fund is exposed to credit risk, liquidity risk, interest rate risk and foreign currency exchange rate risk as they relate to the Fund's identified financial instruments.

(a) Credit risk:

Credit risk is defined by the Fund as an unexpected loss in cash and earnings if the other party is unable to pay its obligations in due time. The Fund's exposure to credit risk arises from its amounts due from KRL and the Partnership and the note receivable from KRL, which are consolidated in KRL's financial statements. The Fund monitors this risk through its regular review of the operating and financing activities of KRL. Since its inception, the Fund has never failed to collect its receivables on a timely basis.

The performance of the Fund is directly dependent upon the royalty and interest payments received from KRL. The amount of the royalty received from KRL is dependent on various factors that may affect the casual dining sector of the restaurant industry. The restaurant industry generally, and in particular the casual dining sector, is intensely competitive with respect to price, service, location and food quality. If KRL and the Keg franchisees are unable to successfully compete in the casual dining sector, sales may be adversely affected, the amount of royalty reduced and the ability of KRL to pay the royalty or interest on the loan from KRL to the Fund may be impacted.

(b) Liquidity risk:

Liquidity risk results from the Fund's potential inability to meet its financial liabilities. Beyond effective net working capital and cash management, the Fund constantly monitors the operations and cash flows of the Partnership to ensure that current and future distributions to unitholders will be met.

The Fund's capital resources are compromised of cash and cash flow from operating activities. The maturities of the Fund's financial liabilities are as follows:

	Value	Maturity
Interest payable on term loan	$ 56	< 1 year
Distributions payable to Fund unitholders	1,129	< 1 year
Term loan	14,000	2012

The Fund is subject to certain guarantor covenants and reporting requirements arising from the Partnership's undrawn $1 million operating line of credit and KHT's $14 million term loan.

(Tabular amounts expressed in thousands of dollars)

16. FINANCIAL RISK MANAGEMENT (CONTINUED):

(c) Interest rate risk:

The Fund's interest rate risk exposure is mainly related to an interest-bearing note receivable from KRL and the $14 million term loan. As the note receivable from KRL has a fixed rate of 7.5%, is from a related party and is due on May 31, 2042, the Fund does not perform interest rate risk management to minimize the overall financial interest rate risk on this financial instrument. The term loan requires interest payments at bank prime plus 1.75% and net earnings would change by approximately $140,000 annually if the prime rate changed by 1.0%.

(d) Foreign currency exchange rate risk:

The Fund is exposed to foreign currency exchange rate risk as a result of the translation of KRL's US dollar sales into Canadian dollars for the purposes of calculating the monthly royalty. Based on the US dollar sales of Keg restaurants included in the Royalty Pool for the year ended December 31, 2010, a 100 basis point change in the US dollar exchange rate would result in an approximate $441,000 and $17,500 change in Royalty Pool sales and royalty revenue, respectively. This would translate into an approximate $9,000 change in equity income reported by the Fund.

17. ADMINISTRATION AGREEMENT:

The Fund has entered into an administrative agreement with its subsidiary, the Partnership, whereby the Partnership will provide, or arrange for the provision of, services required in the administration of the Fund. In turn, the Partnership has arranged for certain of these services to be provided by KRL in its capacity as a partner of the Partnership. For the period from January 1 to December 31, 2010, KRL provided these services at no cost to the Partnership or the Fund (January 1 to December 31, 2009 – $nil).

18. SUPPLEMENTARY CASH FLOW INFORMATION:

	Year ended December 31, 2010	Year ended December 31, 2009
(a) Change in non-cash operating working capital:		
Due from Keg Restaurants Ltd. (note 7)	$ -	$ (1)
Due from The Keg Rights Limited Partnership (note 8)	(53)	39
Interest payable on term loan	8	(1)
	$ (45)	$ 37
(b) Supplementary information:		
Interest received	$ 4,278	$ 4,279
Interest paid	604	485
Non-cash transactions:		
Issuance of Fund units to acquire additional interest in The Keg Rights Limited Partnership	10,935	-

19. SUBSEQUENT EVENTS:

(a) On January 1, 2011, three new Keg restaurants that opened during the period from October 3, 2009 to October 2, 2010 were added to the Royalty Pool. The gross sales of these three new restaurants have been estimated at $15.7 million annually. Three permanently closed Keg restaurants with annual sales of $10.4 million have been removed from the Royalty Pool, resulting in an estimated net increase in Royalty Pool sales of $5.3 million annually. The total number of restaurants in the Royalty Pool remains at 102. The yield of the Fund Units was determined to be 10.90% calculated using a weighted average unit price of $11.73.

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 153,737 Fund units, being 1.08% of the Fund units on a fully diluted basis. On January 1, 2011, KRL received 80% of this entitlement representing the equivalent of 122,990 Fund units, being 0.86% 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 Additional Entitlement described above, KRL has the right to exchange its units in the capital of the Partnership for 3,636,546 Fund units, representing 25.54% of the Fund units on a fully diluted basis. The balance of the Additional Entitlement will be adjusted to be effective January 1, 2011 once the actual performance of the new restaurants have been confirmed. If KRL were to receive 100% of the estimated Additional Entitlement for 2011, it would have the right to exchange its Partnership Units for 3,667,293 Fund units, representing 25.70% of the Fund units on a fully diluted basis.

(b) On January 1, 2011, legislative changes to the tax treatment of certain income trusts, as a result of the SIFT tax, came into effect. As a result of these changes, income trusts will not be entitled to deduct distributions of certain types of income for tax purposes, and will therefore be subject to taxation similar to corporations. Accordingly, the Fund will be subject to tax at a rate of 26.5% for 2011 and 25.0% for the 2012 and later taxation years.

As a result of this taxation imposed by the Federal Government, the Fund's trustees have had to adopt a new distribution policy which reflects the Funds obligation to make the SIFT tax payments. Beginning with the distribution for the month January 2011 (payable to Unitholders on February 28th 2011), distributions will be set at $0.08 per unit per month. This amounts to a distribution of $0.96 per unit annually. At this level, the eligible dividend portion of the Fund's distribution, combined with the return of capital component of the distribution, will provide taxable Canadian individuals with an effective after-tax cash return very closely comparable to the return that existed before the imposition of the SIFT tax.

(c) On February 8, 2011, the Fund completed a secondary offering of units after filing a short form prospectus with the British Columbia Securities Commission to qualify the distribution by KRL of 750,000 units of the Fund at a price of $13.65 per unit, for gross proceeds of $10,237,500. The Fund did not receive any proceeds pursuant to this offering. As a result of this transaction, the number of Fund units outstanding increased from 10,603,500 as at December 31, 2010 to 11,353,500 on February 8, 2011 and the public's effective ownership of the Fund increased from 74.46% as at January 1, 2011 to 79.73% on February 8, 2011.

ADDITIONAL INFORMATION

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

UNITHOLDER INFORMATION

CORPORATE HEAD OFFICE

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

BOARD OF TRUSTEES

C. C. Woodward

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

Karyn Byrne

Investor Relations Manager

Telephone: (416) 646-4960

Facsimile: (416) 695-2401

E-mail: karynb@kegrestaurants.com

Website: www.kegincomefund.com