THE KEG ROYALTIES INCOME FUND

YEAR END REPORT

For the three and twelve months ended December 31, 2012

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, 2012.

RESULTS

The gross sales reported by the 102 Keg restaurants in the Royalty Pool were $122,392,000 for the quarter, an increase of $257,000 or 0.2% from the comparable quarter of the prior year. For the year, gross sales were $484,568,000, an increase of $12,288,000 or 2.6% over the prior year. These gross sales reflect the sales of the new Keg restaurants which opened during the period from October 3, 2010 through October 2, 2011, which were added to the Royalty Pool on January 1, 2012, and a same store sales decrease of 2.0% for the quarter and a same store increase of 0.2% for the year.

Royalty income decreased by $90,000 or 1.8% from $4,986,000 in the three months ended December 31, 2011 to $4,896,000 in the three months ended December 31, 2012, but increased by $171,000 or 0.9% from $19,230,000 for the year ended December 31, 2011, to $19,401,000 for the year ended December 31, 2012.

Distributable cash before SIFT tax decreased by $14,000 from $3,455,000 (30.4 cents/Fund unit) to $3,441,000 (30.3 cents/Fund unit) for the quarter and increased by $419,000 from $14,231,000 ($1.262/Fund unit) to $14,650,000 ($1.290/Fund unit) for the year. Distributable cash available to pay distributions to public unitholders increased from $2,500,000 (22.0 cents/Fund unit) to $2,558,000 (22.5 cents/Fund unit) for the quarter, and by $584,000 from $10,584,000 (93.9 cents/Fund unit) to $11,168,000 (98.4 cents/Fund unit) for the year. The Fund remains financially well positioned with surplus cash on hand of $429,000 and a positive working capital balance of $1,126,000 as at December 31, 2012.

OUTLOOK

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 by 3.9% in 2013, after an estimated 4.1% growth in 2012. In the United States, the National Restaurant Association expects sales in the full service segment to increase 2.9% in 2013, and has estimated that sales in this category grew by 3.1% in 2012. As such, we are optimistic that with strengthening consumer confidence, the industry has begun to see a change in momentum. Management of Keg Restaurants Ltd. ("KRL") believes that as economic conditions and consumer sentiment continue to improve in North America, 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.

COMPETITIVE STRENGTH AND GROWTH

The Keg remains an industry leader in the full-service restaurant category in Canada; a fact confirmed by an independent research report from Vision Critical in December 2011 that identified The Keg as the first choice of over 67% of Canadian diners when choosing a steak dinner. KRL's management remains committed to maintaining and improving the legendary high standards that have come to define the brand throughout North America including The Keg's high quality menu, knowledgeable service and marketing innovation. KRL has consistently demonstrated its ability to deliver growth in both system sales and same store sales growth over the long term, which has provided not only stability but also growth in distributable cash and distributions to the Fund's unitholders.

Sincerely,

C.C. Woodward
Chairman, The Keg Royalties Income Fund
on behalf of the Board of Trustees
February 21, 2013

SUMMARY OF QUARTERLY RESULTS

($000's except per unit amounts)	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Restaurants in the Royalty Pool	**102**	**102**	**102**	**102**
Gross sales reported by Keg restaurants in the Royalty Pool	**$ 122,392**	**119,285**	**$ 118,525**	**$ 124,366**
Royalty income [1]	$ 4,896	$ 4,772	$ 4,741	$ 4,992
Interest income [2]	1,075	1,075	1,066	1,066
Total income	**$ 5,971**	**$ 5,847**	**$ 5,807**	**$ 6,058**
Administrative expenses [3]	(86)	(104)	(104)	(104)
Interest and financing expenses [4]	(176)	(181)	(174)	(173)
Operating income	**$ 5,709**	**$ 5,562**	**$ 5,529**	**$ 5,781**
Distributions to KRL [5]	(2,030)	(1,998)	(1,989)	(2,041)
Distributions declared to Fund unitholders [6]	-	-	-	-
Profit (loss) before fair value adjustment and income taxes	**$ 3,679**	**$ 3,564**	**$ 3,540**	**$ 3,740**
Fair value adjustment [7]	(152)	(1,478)	1,863	(5,571)
Income taxes [8]	(914)	(876)	(862)	(947)
Profit (loss)	**$ 2,613**	**$ 1,210**	**$ 4,541**	**$ (2,778)**
Distributable cash before SIFT taxes [9]	**$ 3,441**	**$ 3,638**	**$ 3,492**	**$ 4,080**
Distributable cash [10]	**$ 2,558**	**$ 2,784**	**$ 2,643**	**$ 3,184**
Distributions paid to Fund unitholders	**$ 2,725**	**$ 2,725**	**$ 2,725**	**$ 2,725**
Payout Ratio [11]	**106.5%**	**97.9%**	**103.1%**	**85.6%**
Per Fund unit information [12]				
Profit (loss) before fair value adjustment and income taxes	$ .324	$ .314	$ .312	$ .329
Profit (loss)	$ .230	$ .107	$ .400	$ (.245)
Distributable cash before SIFT tax [9]	**$ .303**	**$ .320**	**$ .308**	**$ .359**
Distributable cash [10]	**$ .225**	**$ .245**	**$ .233**	**$ .280**
Distributions paid to Fund unitholders	**$ .240**	**$ .240**	**$ .240**	**$ .240**
SSSG [13]				
Canada	(1.9)%	(0.6)%	1.3%	1.7%
United States	0.7%	(0.8)%	1.6%	1.5%
Consolidated	(2.0)%	(0.5)%	1.8%	1.8%
Restaurants Openings/Closings				
Opened	4	--	--	--
Closed	--	--	--	--
Relocated	--	--	--	--
Net Opened (Closed)	**4**	--	--	--

SUMMARY OF QUARTERLY RESULTS

($000's except per unit amounts)	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Restaurants in the Royalty Pool	**102**	**102**	**102**	**102**
Gross sales reported by Keg restaurants in the Royalty Pool	**$ 122,135**	**$ 117,125**	**$ 112,416**	**$ 120,604**
Royalty income [1]	$ 4,986	$ 4,786	$ 4,591	$ 4,867
Interest income [2]	1,080	1,079	1,067	1,055
Total income	**$ 6,066**	**$ 5,865**	**$ 5,658**	**$ 5,922**
Administrative expenses [3]	(96)	(108)	(168)	(100)
Interest and financing expenses [4]	(183)	(174)	(174)	(174)
Operating income	**$ 5,787**	**$ 5,583**	**$ 5,316**	**$ 5,648**
Distributions to KRL [5]	(2,031)	(2,012)	(1,940)	(1,996)
Distributions declared to Fund unitholders [6]	-	-	-	-
Profit (loss) before fair value adjustment and income taxes	**$ 3,756**	**$ 3,571**	**$ 3,376**	**$ 3,652**
Fair value adjustment [7]	(2,057)	3,608	29	(684)
Income taxes [8]	(990)	(936)	(872)	(1,138)
Profit (loss)	**$ 709**	**$ 6,243**	**$ 2,533**	**$ 1,830**
Distributable cash before SIFT tax [9]	**$ 3,455**	**$ 3,483**	**$ 3,454**	**$ 3,839**
Distributable cash [10]	**$ 2,500**	**$ 2,579**	**$ 2,592**	**$ 2,913**
Distributions paid to Fund unitholders	**$ 2,725**	**$ 2,725**	**$ 2,725**	**$ 2,945**
Payout Ratio [11]	**109.0%**	**105.7%**	**105.1%**	**101.1%**
Per Fund unit information [12]				
Profit (loss) before fair value adjustment and income taxes	$ .331	$ .315	$ .297	$ .331
Profit (loss)	$ .062	$ .550	$ .223	$ .166
Distributable cash before SIFT tax [9]	**$ .304**	**$ .307**	**$ .304**	**$ .348**
Distributable cash [10]	**$ .220**	**$ .227**	**$ .228**	**$ .264**
Distributions paid to Fund unitholders	**$ .240**	**$ .240**	**$ .240**	**$ .267**
SSSG [13]				
Canada	4.8%	5.2%	1.8%	3.8%
United States	5.1%	3.6%	3.8%	3.2%
Consolidated	5.0%	4.5%	1.4%	3.1%
Restaurant Openings/Closings				
Opened	--	--	--	--
Closed	--	--	1	--
Relocated	--	--	--	1
Net Opened (Closed)	--	--	(1)	--

SELECTED ANNUAL INFORMATION

($000's except per unit amounts)	Jan. 1 to Dec. 31, 2012	Jan. 1 to Dec. 31, 2011	Jan. 1 to Dec. 31, 2010
Restaurants in the Royalty Pool	**102**	**102**	**102**
Gross sales reported by Keg restaurants in the Royalty Pool	**$ 484,568**	**$ 472,280**	**$ 452,786**
Royalty income [1]	$ 19,401	$ 19,230	$ 18,422
Interest income [2]	4,282	4,281	4,278
Total income	**$ 23,683**	**$ 23,511**	**$ 22,700**
Administrative expenses [3]	(398)	(472)	(417)
Interest and financing expenses [4]	(705)	(705)	(651)
Operating income	**$ 22,580**	**$ 22,334**	**$ 21,632**
Distributions to KRL [5]	(8,057)	(7,979)	(8,775)
Distributions declared to Fund unitholders [6]	-	-	(13,360)
Profit (loss) before fair value adjustment and income taxes	**$ 14,523**	**$ 14,355**	**$ (503)**
Fair value adjustment [7]	(5,338)	896	(10,542)
Income taxes [8]	(3,599)	(3,936)	(201)
Profit (loss)	**$ 5,586**	**$ 11,315**	**$ (11,246)**
Distributable cash before SIFT tax [9]	**$ 14,650**	**$ 14,231**	**$ 12,864**
Distributable cash [10]	**$ 11,168**	**$ 10,584**	**$ 12,864**
Distributions paid to Fund unitholders	**$ 10,899**	**$ 11,120**	**$ 13,264**
Payout Ratio [11]	**97.6%**	**105.1%**	**103.1%**
Per Fund unit information [12]			
Profit (loss) before fair value adjustment and income taxes	$ 1.279	$ 1.273	$ 1.241
Profit (loss)	$ .492	$ 1.004	$ .204
Distributable cash before SIFT tax [9]	**$ 1.290**	**$ 1.262**	**$ 1.241**
Distributable cash [10]	**$ .984**	**$ .939**	**$ 1.241**
Distributions paid to Fund unitholders	**$ .960**	**$ .986**	**$ 1.280**
SSSG [13]			
Canada	0.1%	3.9%	0.0%
United States	0.7%	3.9%	(5.8)%
Consolidated	0.2%	3.5%	(1.7)%
Restaurant Openings/Closings			
Opened	--	--	1
Closed	--	1	2
Relocated	--	1	1
Net Opened (Closed)	--	(1)	(1)

	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Total assets	$ 216,800	$ 219,893	$ 214,957
Total liabilities	117,778	115,558	121,268

Notes:

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

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

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

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

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

(6) Represents the distributions declared on the publicly traded Fund units during the period. The distributions declared to the Fund's public unitholders since January 1, 2011 have been recorded as distributions and charged to unitholder's equity whereas the distributions declared prior to December 31, 2010 were expensed as interest.

(7) Fair value adjustment is the non-cash increase or decrease in the market value of the Exchangeable units held by KRL during the respective period. Exchangeable units are classified as a financial liability under IFRS. The Fund is required to determine the fair value of that liability at the end of each reporting period and adjust for any increase or decrease, taking into consideration the sale of any Exchangeable units during the same period.

(8) Income taxes for the quarter ended December 31, 2012, include SIFT tax expense of $883,000 (quarter ended December 31, 2011 - $955,000) and non-cash deferred taxes of $31,000 (quarter ended December 31, 2011 - $35,000). Income taxes for the year ended December 31, 2012 include SIFT tax expense of $3,482,000 (year ended December 31, 2011 - $3,647,000) and non-cash deferred taxes of $117,000 (year ended December 31, 2011 - $289,000). The obligation to pay SIFT tax came into effect on January 1, 2011.

(9) Distributable cash before SIFT tax is defined as the periodic cash flows from operating activities as reported in the IFRS consolidated financial statements, including the effects of changes in non-cash working capital, plus SIFT tax paid (including current year instalments), less the earnings of the Partnership attributable to KRL through its ownership of Exchangeable units. Distributable cash before SIFT tax is a non-IFRS financial measure that does not have a standardized meaning prescribed by IFRS, and therefore may not be comparable to similar measures presented by other issuers.

(10) Distributable cash is the amount of cash available for distribution to the Fund's public unitholders and is calculated as distributable cash before SIFT tax, less current year SIFT tax expense. Distributable cash is a non-IFRS financial measure that does not have a standardized meaning prescribed by IFRS, and therefore may not be comparable to similar measures presented by other issuers. However, the Fund believes that distributable cash, both before and after SIFT tax, provides useful information regarding the amount of cash available for distribution to the Fund's public unitholders.

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

(12) All per unit amounts are calculated based on the weighted average number of Fund units outstanding, which are those units held by public unitholders during the respective period. The weighted average number of Fund units outstanding for the three months ended December 31, 2012 was 11,353,500 (three months ended December 31, 2011 - 11,353,500) and for the year ended December 31, 2012 was 11,353,500 (year ended December 31, 2011 - 11,275,418). For comparative purposes, the profit (loss) per Fund unit calculations for reporting periods prior to and including December 31, 2010 have been adjusted to exclude distributions declared to Fund unitholders, which were previously recorded as interest (prior to December 20, 2010) as a result of the adoption of IFRS.

(13) Same Store Sales Growth ("SSSG") is the overall increase or decrease in gross sales from Keg restaurants (that operated during the entire period of both the current and the prior year) as compared to gross sales for the same period of the prior year. SSSG is not an IFRS financial measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. However, the Fund believes that SSSG provides useful information regarding the increase or decrease in gross sales for comparable restaurants.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Twelve Months Ended December 31, 2012
As of February 21, 2013

OVERVIEW

KEY ATTRIBUTES OF THE FUND

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

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

Increases in gross sales are derived from both same store sales growth from existing restaurants ("SSSG") and from the addition of new Keg restaurants. SSSG is the key driver of growth in royalty income and, since the Fund's expenses are relatively fixed in nature, SSSG results in growth in distributable cash which allows for higher distributions to the Fund's unitholders. KRL has generated SSSG through a combination of increased guest counts and increased guest average cheque. SSSG has been achieved by maintaining operational excellence within each Keg restaurant, innovative marketing and promotional programs, and pricing. Over the past fourteen years, the period for which current management has been in control of KRL, SSSG has averaged 3.0% annually, a figure that compares very favourably against the restaurant industry as a whole.

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

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 ROYALTY POOL (CONTINUED)

The total number of Keg restaurants included in the Royalty Pool has increased from the 80 Keg restaurants in existence on March 31, 2002, to 102 as of December 31, 2012. Fifty new Keg restaurants that opened during the period from April 1, 2002, through October 2, 2012, with annual gross sales of $241.3 million have been added to the Royalty Pool. Twenty-eight permanently closed Keg restaurants with annual sales of $78.5 million have been removed from the Royalty Pool. This has resulted in a net increase in Royalty Pool sales of $162.8 million annually, and KRL receiving a cumulative Additional Entitlement equivalent to 5,252,757 Fund units as of December 31, 2012.

No new restaurants were opened during the period from October 3, 2011 through October 2, 2012, and hence there will be no additions to the Royalty Pool on January 1, 2013.

KRL'S INTEREST IN THE FUND

KRL's interest in the earnings of the Partnership is from its ownership of Class A, entitled Class B, Class C and Class D Partnership units. The Class A, entitled Class B and Class D Partnership units are exchangeable into Fund units on a one-for-one basis in certain circumstances ("Exchangeable units"). KRL's effective ownership of the Fund and its interest in the earnings of the Partnership has grown from 10.00% at the time of the IPO to 20.67% as of December 31, 2012. The increase in KRL's effective ownership of the Fund is due to the cumulative Additional Entitlement received by KRL equivalent to 5,252,757 Fund units, less 3,200,000 Exchangeable units exchanged by KRL for Fund units and sold through the facilities of the Toronto Stock Exchange. The sale of the 3,200,000 Fund units increased the number of issued and outstanding Fund units from 8,153,500 at the time of the IPO to 11,353,500 as of February 8, 2011.

FEDERAL GOVERNMENT TAX ON INCOME FUNDS

On January 1, 2011, legislative changes to the tax treatment of certain income trusts, as a result of the Specified Investment Flow-through Trust tax (the "SIFT tax"), came into effect. 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 is subject to tax at a rate of 26.5% for 2011 and 25.0% for 2012 and later taxation years. As a result of this taxation imposed by the Federal Government, the Fund's Trustees had to adopt a new distribution policy which reflects the Fund's obligation to make the SIFT tax payments. See "Distributions to Unitholders".

INTERNATIONAL FINANCIAL REPORTING STANDARDS

OVERVIEW

The Canadian Accounting Standards Board announced in February 2008 that publicly accountable entities would be required to adopt International Financial Reporting Standards ("IFRS") in place of Canadian Generally Accepted Accounting Principles ("GAAP") for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. As a result, the Handbook of the Canadian Institute of Chartered Accountants (the "CICA Handbook") was amended to incorporate IFRS and to require publicly accountable entities to apply such standards for fiscal years beginning on or after January 1, 2011. Accordingly, the Fund adopted IFRS on January 1, 2011 and financial results disclosed in this Management's Discussion and Analysis for all periods commencing on or after January 1, 2010 have all been prepared in accordance with IFRS 1, *First-time Adoption of IFRS* ("IFRS 1").

INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

OVERVIEW

Readers are advised that the Fund's transition to reporting its financial results in accordance with IFRS from GAAP, has had no impact, nor is it expected to have any future impact on the operations of the Fund's business, the amount of cash that is available to distribute to the Fund's unitholders or on the contractual obligations between the Fund, the Fund's wholly-owned subsidiary The Keg Holdings Trust (the "Trust"), The Keg Rights Limited Partnership (the "Partnership"), the Fund's 90% owned subsidiary The Keg GP Ltd. ("Keg GP") (collectively, the "Companies") and KRL or any third parties. Keg GP is the managing general partner of the Partnership. All residual ownership of the Companies is either directly or indirectly controlled by KRL.

The adoption of IFRS has impacted the presentation of certain key financial metrics of the Fund which will be discussed in detail below. The comparative financial results contained in this Management's Discussion and Analysis for periods in 2010 have been restated to conform to IFRS rather than GAAP.

CONSOLIDATION OF THE PARTNERSHIP

In 2005, the Partnership was determined to be a Variable Interest Entity under GAAP in accordance with the criteria established in the Canadian Institute of Chartered Accountants' Guideline 15 – *Consolidation of Variable Interest Entities* (AcG-15). As a result of that guideline, the Fund previously accounted for its investment in the Partnership on an equity basis and KRL previously consolidated the Partnership in its financial statements. The Fund's transition to reporting its financial results in accordance with IFRS from GAAP has resulted in the Fund now consolidating the accounts of the Partnership.

Under IFRS, consolidation is based on control, which is the power to govern the financial and operating policies of an entity to obtain economic benefits from its activities. Since the Fund controls the Partnership, the Fund consolidates the accounts of the Partnership rather than accounting 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 distributions payable to KRL, long-term debt, as well as the Exchangeable unit and Class C unit financial liabilities. The Fund's consolidated statements of comprehensive income under IFRS do not include equity income of the Partnership, but rather the actual income and expenses of the Partnership. The Partnership's earnings are largely comprised of royalty income earned from the Keg Rights less administrative and interest expenses. The consolidated financial statements of the Fund, therefore, now include the accounts of the Fund, the Trust, the Partnership, and Keg GP.

PARTNERSHIP UNITS AND DISTRIBUTIONS

The Exchangeable units of the Partnership held by KRL are also classified as financial liabilities under IFRS because the Partnership has a contractual obligation to distribute cash on all of the units of the Partnership on a monthly basis and because these units are exchangeable into Fund units. As such, the amounts attributable by the Partnership to KRL in respect of Exchangeable units are classified as interest expense under IFRS rather than as distributions.

The Class C units of the Partnership held by KRL are classified as a financial liability under IFRS because the Partnership has a contractual obligation to distribute $0.0625 per Class C unit per month to KRL as long as the $57.0 million loan receivable from KRL (the "Keg Loan") remains outstanding. As such, the amounts attributable to KRL in respect of the Class C units are classified as interest expense under IFRS rather than as distributions.

FAIR VALUE ADJUSTMENT

The Exchangeable units of the Partnership held by KRL are classified as a financial liability under IFRS at fair value through profit or loss. As a result, the Fund is now required to fair value that liability at the end of each reporting period and adjust for any increase or decrease as compared to the fair value of that liability at the end of the immediately preceding reporting period. The Fund estimates the fair value of the Exchangeable units using the closing market price of a Fund unit on the reporting date. The amount is calculated as the change in the market value of a Fund unit during the period, multiplied by the number of Exchangeable units held by KRL at the end of the respective period, after taking into consideration any sale of Exchangeable units during the same period. This is a non-cash adjustment which has no impact on the cash available for distribution to the Fund's unitholders.

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 $0.1065 per unit starting in the month of March 2008, an increase of 18.3%.

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

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

Year-to-date distributions paid were as follows:

		Distributions		
Period	**Payment Date**	**Per/Unit**	**Total $**	**Year-to-Date $**
December 1-31, 2011	January 31, 2012	8.00¢	$ 908,280	$ 908,280
January 1-31, 2012	February 29, 2012	8.00¢	$ 908,280	$ 1,816,560
February 1-29, 2012	March 30, 2012	8.00¢	$ 908,280	$ 2,724,840
March 1-31, 2012	April 30, 2012	8.00¢	$ 908,280	$ 3,633,120
April 1-30, 2012	May 31, 2012	8.00¢	$ 908,280	$ 4,541,400
May 1-31, 2012	June 29, 2012	8.00¢	$ 908,280	$ 5,449,680
June 1-30, 2012	July 31, 2012	8.00¢	$ 908,280	$ 6,357,960
July 1-31, 2012	August 31, 2012	8.00¢	$ 908,280	$ 7,266,240
August 1-31, 2012	September 28, 2012	8.00¢	$ 908,280	$ 8,174,520
September 1-30, 2012	October 31, 2012	8.00¢	$ 908,280	$ 9,082,800
October 1-31, 2012	November 30, 2012	8.00¢	$ 908,280	$ 9,991,080
November 1-30, 2012	December 31, 2012	8.00¢	$ 908,280	$ 10,899,360

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

Since inception, the Fund has generated $112,664,000 of distributable cash and has paid cumulative distributions of $112,583,000, which resulted in a cumulative surplus of $80,000. The cumulative payout ratio (the ratio of cumulative cash distributions paid since inception to the cumulative distributable cash generated since inception) is 99.9%.

DISTRIBUTABLE CASH

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

Distributable cash is calculated as follows:

($000's)	Oct. 1 to Dec. 31, 2012	Oct. 1 to Dec. 31, 2011	Jan. 1 to Dec. 31, 2012	Jan. 1 to Dec. 31, 2011
Cash flow from operations [(1)]	$ 4,559	$ 5,486	$ 15,415	$ 22,210
SIFT tax paid on Fund units [(2)]	912	-	7,292	-
KRL's interest [(3)]	(2,030)	(2,031)	(8,057)	(7,979)
Distributable cash before current year SIFT tax	$ 3,441	$ 3,455	$ 14,650	$ 14,231
SIFT tax expense on Fund units [(4)]	(883)	(955)	(3,482)	(3,647)
Distributable cash [(5)]	$ 2,558	$ 2,500	$ 11,168	$ 10,584

Notes:

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

(2) Includes SIFT taxes actually paid during the respective period, consisting of $912,000 during the fourth quarter and $7,292,000 during 2012 ($3,646,000 with respect to 2011, and $3,646,000 on account for 2012).

(3) Represents the distributions of the Partnership attributable to KRL during the respective periods on the Exchangeable and Class C units held by KRL. The distributions attributable to KRL will differ from the actual distributions paid to KRL during the same periods, due to the timing of the declaration of distributions.

(4) Represents the SIFT tax expense for the respective period calculated at 25.0% of taxable income for the current year and at 26.5% of taxable income for the prior year.

(5) Distributable cash is the amount of cash available for distribution to the Fund's public unitholders. It is defined as the periodic cash flows from operating activities as reported in the IFRS consolidated financial statements, including the effects of changes in non-cash working capital, plus SIFT tax paid (including current year instalments), less the earnings of the Partnership attributable to KRL, less current year SIFT tax expense.

OWNERSHIP OF THE FUND

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

	December 31, 2012 [1]		December 31, 2011	
	#	%	#	%
Fund units held by public unitholders [2]	11,353,500	79.33	11,353,500	79.52
Exchangeable Partnership units held by KRL: [3]				
Class A units [4]	905,944	6.33	905,944	6.35
Class B units [5]	176,700	1.23	176,700	1.24
Class D units [5]	1,876,057	13.11	1,841,676	12.90
Total Exchangeable Partnership units [6]	2,958,701	20.67	2,924,320	20.48
Total Fund and Exchangeable Partnership units	14,312,201	100.00	14,277,820	100.00

Notes:

(1) Information is current as of December 31, 2012.

(2) Represents the public's total effective ownership of the Fund as of December 31, 2012 and 2011. On February 8, 2011, KRL exchanged 750,000 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 11,353,500. 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 79.33% during the three months ended December 31, 2012 (three months ended December 31, 2011 – 79.52%) and was 79.33% during the year ended December 31, 2012 (year ended December 31, 2011 – 78.97%). The weighted average number of Fund units outstanding for the three-month period ended December 31, 2012 was 11,353,500 (three-month period ended December 31, 2011 – 11,353,500) and for the year ended December 31, 2012 was 11,353,500 (year ended December 31, 2011 – 11,275,417).

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

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

(5) These exchangeable Partnership units are issued to KRL in return for adding net sales to the Royalty Pool on an annual basis. Class D units are equivalent to Class B units in all material respects but began to be issued once all Class B units became fully entitled to distributions on January 1, 2008. As of December 31, 2012, KRL is the registered holder of 176,700 Class B units and 1,876,057 Class D units (December 31, 2011 – 176,700 Class B units and 1,841,676 Class D units).

(6) Represents KRL's total effective ownership of the Fund as of December 31, 2012 and 2011. On February 8, 2011, KRL exchanged 750,000 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 2,886,546. 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 20.67% during the three months ended December 31, 2012 (three months ended December 31, 2011 – 20.48%) and was 20.67% during the year ended December 31, 2012 (year ended December 31, 2011 – 21.03%). The weighted average number of Exchangeable units held by KRL during the three-month period ended December 31, 2012 was 2,958,701 (three-month period ended December 31, 2011 – 2,924,320) and for the year ended December 31, 2012 was 2,958,701 (year ended December 31, 2011 – 3,002,402).

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:

	13 weeks ended		52 weeks ended	
($000's)	Dec. 30, 2012	Jan.1, 2012	Dec. 30, 2012	Jan.1, 2012
Corporate Keg restaurants [(1)]	$ 60,596	$ 60,746	$ 235,116	$ 236,291
Franchised Keg restaurants [(2)]	64,649	63,812	252,298	244,367
Total system sales	$ 125,245	$ 124,558	$ 487,414	$ 480,658

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 December 30, 2012 were $125,245,000 compared to $124,558,000 for the 13 weeks ended January 1, 2012, an increase of $687,000 or 0.6%. During the 13 weeks ended December 30, 2012, two new corporate and two new franchised restaurants were opened, and no restaurants were closed. During the 13 weeks ended January 1, 2012, no restaurants were opened or closed. As of December 30, 2012, there were a total of 106 Keg restaurants as compared with 102 Keg restaurants at January 1, 2012.

The Keg's same store sales (sales of restaurants that operated during the entire 13-week period of the current year and the 13-week period of the prior year) decreased by 1.9% in Canada and increased by 0.7% in the United States ("US"). After translating the sales of the U.S. restaurants into their Canadian dollar equivalent, consolidated same store sales for the comparable 13-week period decreased by 2.0%. The average exchange rate moved from 1.02 in KRL's quarter ended January 1, 2012 to 0.99 in KRL's quarter ended December 30, 2012, significantly decreasing the Canadian dollar equivalent of the U.S. restaurant sales.

YEAR

System sales for the 52 weeks ended December 30, 2012 were $487,414,000 compared to $480,658,000 for the 52 weeks ended January 1, 2012, an increase of $6,756,000 or 1.4%. During the 52 weeks ended December 30, 2012, two new corporate and two new franchised restaurants were opened, and no restaurants were closed. In addition, one corporate restaurant was sold to an existing franchisee at the beginning of the current fiscal year. During the 52 weeks ended January 1, 2012, one corporate restaurant was relocated, and one corporate restaurant was closed.

Same store sales (sales of restaurants that operated during the entire 52-week period of the current year and the 52-week period of the prior year) increased by 0.1% in Canada and by 0.7% in the US. After translating the sales of the US restaurants into their Canadian dollar equivalent, consolidated same store sales for the comparable 52-week period increased by 0.2%. The average exchange rate moved from 0.99 in KRL's 52-week period ended January 1, 2012, to 1.00 in KRL's 52-week period ended December 30, 2012, slightly increasing the Canadian dollar equivalent of the US restaurant sales.

OPERATING RESULTS

FOURTH QUARTER

GROSS SALES

Gross sales reported by the Keg restaurants in the Royalty Pool increased from $122,135,000 to $122,392,000 for the comparable quarter. The increase of $257,000 or 0.2%, reflects the addition of net new sales to the Royalty Pool at the beginning of the year, net of the same store sales decrease of 2.0% for the quarter.

ROYALTY INCOME

Total royalty income earned by the Partnership decreased by $90,000 from $4,986,000 in the fourth quarter of 2011, to $4,896,000 in the fourth quarter of 2012. Royalty income increased by $10,000 during the quarter as a result of the increase in gross sales for the reasons explained previously, and Make-whole Payments decreased by $100,000 due to fewer restaurants closed during the quarter (39 less closed weeks).

INTEREST INCOME

Interest income earned by the Fund during the fourth quarter of the current year was $1,075,000, comprised entirely of interest income on the Keg Loan of $1,075,000. Interest income on the Keg Loan decreased by $3,000 during the quarter as it is calculated based on 92 days of a 366 day year, as 2012 is a leap year, rather than on 92 days of a 365 day year, as in the comparable quarter of the prior year. Other interest income earned by the Trust decreased by $2,000 due to lower surplus cash balances on hand during the quarter.

ADMINSTRATIVE EXPENSES

Expenses incurred by the Partnership for the quarter ended December 31, 2012 were $86,000, comprised entirely of general and administrative expenses. The decrease in Partnership expenses of $10,000 over the comparable quarter of the prior year was due to a decrease in general and administrative expenses of $11,000, and a decrease in other interest income of $1,000. General and administrative expenses decreased as costs incurred in the fourth quarter of 2011 included incremental audit costs and legal fees related to the implementation of IFRS for the Fund. Other interest income earned by the Partnership decreased due to lower surplus cash balances on hand during the quarter.

INTEREST AND FINANCING EXPENSES

Interest and financing expenses incurred by the Trust were $176,000 for the three months ended December 31, 2012, and included interest on the long-term debt of $168,000, and amortization of deferred financing charges of $8,000. The average interest rate on the term loan remained at 4.75% during the comparable quarter, and therefore interest costs remained the same. Amortization of deferred financing charges also remained the same during the quarter. Other financing charges decreased by $5,000 as these costs were incurred in the third quarter of the current year rather than in the fourth quarter of the prior year.

OPERATING INCOME

The Fund’s operating income decreased from $5,787,000 during the fourth quarter of 2011, to $5,709,000 during the fourth quarter of 2012. The decrease of $78,000 is due to the net impact of the decrease in royalty income of $90,000, the decrease in interest income of $5,000, the decrease in administrative expenses of $10,000, and the decrease in interest and financing expenses of $7,000.

DISTRIBUTIONS TO KRL

Distributions attributable to KRL during the three months ended December 31, 2012 were $2,030,000 which included distributions of $961,000 on the Exchangeable units and $1,069,000 on the Class C units. Distributions on the Exchangeable units decreased by $1,000 from the comparable quarter of the prior year, primarily due to the decrease in operating income during the comparable quarter, but this decrease was mostly offset by an increase in KRL's average effective ownership of the Partnership from 20.48% during the fourth quarter of 2011 to 20.67% during the fourth quarter of 2012. The distributions declared on the Class C units remained the same during the comparable quarter, which were $0.0625 per Class C unit per month.

PROFIT (LOSS) BEFORE FAIR VALUE ADJUSTMENT AND INCOME TAXES

Profit (loss) before fair value adjustment and income taxes decreased by $77,000 from a profit of $3,756,000 (33.1 cents/Fund unit) in the fourth quarter of 2011, to a profit of $3,679,000 (32.4 cents/Fund unit) in the fourth quarter of 2012.

FAIR VALUE ADJUSTMENT

The fair value of the Exchangeable units increased $152,000 during the three months ended December 31, 2012, as compared with an increase of $2,057,000 during the three months ended December 31, 2011. The market price of a Fund unit, (the basis upon which Exchangeable units are valued) increased from $14.45 to $14.50 during the fourth quarter of the current year; there were 2,958,701 Exchangeable units outstanding at the end of the fourth quarter of 2012. The market price of a Fund unit increased from $12.00 to $12.70 during the comparable quarter of the prior year; there were 2,924,320 Exchangeable units outstanding at the end of the fourth quarter of 2011.

INCOME TAXES

Income taxes for the three-month period ended December 31, 2012, were $914,000 and included SIFT tax expense of $883,000 and non-cash deferred taxes of $31,000. SIFT tax expense decreased by $72,000 as the SIFT tax rate decreased from 26.5% to 25.0% effective January 1, 2012. Deferred taxes decreased by $4,000 due to changes in the temporary differences between the accounting and tax bases of the Keg Rights owned by the Partnership.

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Profit increased by $1,904,000 from a profit of $709,000 (6.2 cents/Fund unit) in the fourth quarter of 2011, to a profit of $2,613,000 (23.0 cents/Fund unit) in the fourth quarter of 2012, primarily due to the increase in the non-cash fair value adjustment of the Exchangeable unit liability.

DISTRIBUTABLE CASH

Distributable cash before SIFT tax decreased by $14,000 from $3,455,000 (30.4 cents/Fund unit) to $3,441,000 (30.3 cents/Fund unit) during the comparable quarter. Cash available for distribution to Fund unitholders increased by $58,000 from $2,500,000 (22.0 cents/Fund unit) to $2,558,000 (22.5 cents/Fund unit) during the comparable quarter. The difference between the Fund's profit (loss) and distributable cash is due to non-cash items such as amortization, fair value adjustments, and deferred taxes included in the Fund's profit (loss), as well as changes in non-cash working capital balances.

DISTRIBUTIONS TO FUND UNITHOLDERS

Annually, two distributions are expected to be declared during the first quarter, three distributions in each of the second and third quarters and four distributions in the fourth quarter. This is done to ensure that the distribution based on the Royalty Pool sales for the month of December (which is paid the following month in January) is recorded in the period which it was earned for income tax purposes.

Distributions of $2,725,000 (24.0 cents/Fund unit) were paid to Fund unitholders in both the fourth quarter of 2012 and 2011.

YEAR

GROSS SALES

Gross sales reported by the restaurants in the Royalty Pool increased from $472,280,000 to $484,568,000 for the year. The increase of $12,288,000, or 2.6%, reflects the addition of net new sales to the Royalty Pool at the beginning of the year, and the same store sales increase of 0.2% for the year.

ROYALTY INCOME

Total royalty income earned by the Partnership increased by $171,000 from $19,230,000 in 2011, to $19,401,000 in 2012. Royalty income increased by $491,000 during the year as a result of the increase in gross sales for the reasons explained previously, and Make-whole Payments decreased by $320,000 due to fewer restaurants closed during the period (122 less closed weeks).

INTEREST INCOME

Interest income earned by the Fund during the current year was $4,282,000, and was comprised of interest income on the Keg Loan of $4,275,000 and other interest income of $7,000. Interest income on the Keg Loan remained the same during the year. Other interest income increased by $1,000 due to higher interest rates applied to the surplus cash balances on hand during the year.

ADMINSTRATIVE EXPENSES

Expenses incurred by the Partnership for the year ended December 31, 2012 were $398,000, and were comprised of general and administrative expenses of $401,000, net of other interest income of $3,000. The decrease in Partnership expenses of $74,000 from 2011 was due to a decrease in general and administrative expenses of $76,000 and a decrease in other interest income of $2,000. General and administrative expenses decreased as costs incurred during 2011 included incremental audit costs and legal fees related to the implementation of IFRS for the Fund and cumulative non-recurring fees paid to the TSX for listing the Class D exchangeable units. Other interest income decreased due to lower surplus cash balances on hand during the year.

OPERATING INCOME

The Fund’s operating income increased from $22,334,000 during the prior year, to $22,580,000 during the current year. The increase of $246,000 is due to the net impact of the increase in royalty income of $171,000, the increase in interest income of $1,000 and the decrease in administrative expenses of $74,000.

DISTRIBUTIONS TO KRL

Distributions attributable to KRL during the year ended December 31, 2012 were $8,057,000, which included distributions of $3,782,000 on the Exchangeable units and $4,275,000 on the Class C units. Distributions on the Exchangeable units increased by $78,000 from the prior year, primarily due to the increase in operating income during the year, but this increase was partly offset by a decrease in KRL’s average effective ownership of the Partnership from 21.03% in 2011 to 20.67% in 2012. The distributions declared on the Class C units remained the same during the comparable periods, which were $0.0625 per Class C unit per month.

PROFIT (LOSS) BEFORE FAIR VALUE ADJUSTMENT AND INCOME TAXES

Profit before fair value adjustment and income taxes increased by $168,000 from $14,355,000 ($1.273/Fund unit) in 2011, to $14,523,000 ($1.279/Fund unit) in 2012.

FAIR VALUE ADJUSTMENT

The fair value of the Exchangeable units increased $5,338,000 during the year ended December 31, 2012, as compared with a decrease of $896,000 during the year ended December 31, 2011. The market price of a Fund unit, (the basis upon which Exchangeable units are valued) increased from $12.70 to $14.50 during the year ended December 31, 2012; there were a total of 2,958,701 Exchangeable units outstanding as at December 31, 2012. The market price of a Fund unit decreased from $13.20 to $12.70 during the prior year; there were a total of 2,924,320 Exchangeable units outstanding as at December 31, 2011. KRL exchanged and sold 750,000 Exchangeable units during the prior year.

INCOME TAXES

Income taxes for the year ended December 31, 2012, were $3,599,000 and included SIFT tax expense of $3,482,000 and non-cash deferred taxes of $117,000. SIFT tax expense decreased by $165,000 as the SIFT tax rate decreased from 26.5% to 25.0% effective January 1, 2012. Deferred taxes decreased by $172,000 due to changes in the temporary differences between the accounting and tax bases of the Keg Rights owned by the Partnership.

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Profit decreased by $5,729,000 from a profit of $11,315,000 ($1.00/Fund unit) during the year ended December 31, 2011 to a profit of $5,586,000 (49.2 cents/Fund unit) during the year ended December 31, 2012, mostly due to the increase in the non-cash fair value adjustment of the Exchangeable unit liability.

DISTRIBUTABLE CASH

Distributable cash before SIFT tax increased by $419,000 from $14,231,000 ($1.262/Fund unit) to $14,650,000 ($1.290/Fund unit) during the year. Cash available for distribution to Fund unitholders increased by $584,000 from $10,584,000 (93.9 cents/Fund unit) to $11,168,000 (98.4 cents/Fund unit) during the year. The difference between the Fund’s profit (loss) and distributable cash is due to non-cash items such as amortization, fair value adjustments, and deferred taxes included in the Fund’s profit (loss), as well as changes in non-cash working capital balances.

DISTRIBUTIONS TO FUND UNITHOLDERS

Distributions of $10,899,000 (96.0 cents/Fund unit) were paid to Fund unitholders during the year ended December 31, 2012, as compared with $11,120,000 (98.6 cents/Fund unit) during the year ended December 31, 2011. The decrease of $221,000 was due to the distributions that were paid to Fund unitholders in January 2011 at the pre-SIFT tax rate of 10.65 cents per Fund unit per month, rather than at the post-SIFT tax rate of 8.0 cents per Fund unit per month.

LIQUIDITY & CAPITAL RESOURCES

It is the Fund's policy to distribute all available cash on a monthly basis in order to provide consistent returns to unitholders and to maximize those returns. Any increase in distributions in the future will be implemented in such a manner so as to maintain uniform monthly distributions. During the quarter, the Fund generated $2,558,000 in distributable cash and paid distributions of $2,725,000 to public unitholders, resulting in a shortfall of $167,000. During the year, the Fund generated $11,168,000 in distributable cash and paid distributions of $10,899,000, resulting in a surplus of $269,000. The Fund has cash on hand of $429,000 and a positive working capital balance of $1,126,000 as at December 31, 2012.

TERM LOAN

The Trust 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 April 12, 2011 the maturity date of the facility was extended from April 2, 2012 to April 1, 2014. The term loan held by the Trust is subject to certain financial covenants, including minimum equity amounts in both the Trust and the Partnership, and a minimum Partnership cash flow level defined as profit (loss) before interest, fair value adjustments, taxes, depreciation and amortization ("EBITDA"). As at December 31, 2012, the Trust and Partnership are in compliance with all financial covenants associated with this facility.

OPERATING LINE OF CREDIT

The Partnership, a subsidiary of the Fund, has a $1 million operating line of credit, which bears interest at bank prime plus 1.50% 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. As at December 31, 2012, the entire $1 million facility is available for use.

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, 2012, 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 consolidated financial statements for external purposes in accordance with IFRS.

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, 2012, 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, 2012. During the year ended December 31, 2012, 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 preparation of the Fund's consolidated financial statements in conformity with IFRS requires estimates and judgements to be made that affect the reported amounts of assets and liabilities, income and expenses, and related disclosures. These estimates are based on historical experience and knowledge of economics, market factors and the restaurant industry along with various other assumptions that are believed to be reasonable under the circumstances.

The Fund believes that the following selected accounting policies are critical to understanding the estimates, assumptions and uncertainties that affect the amounts reported and disclosed in the Fund's consolidated financial statements and related notes.

DEFERRED TAX EXPENSE

The Fund uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of such changes. The determination of deferred taxes requires the use of judgement and estimates. If certain judgements or estimates prove to be inaccurate, or if certain tax rates or laws change, the Fund's results of operations and financial position could be materially impacted.

CURRENT INCOME TAX EXPENSE

The Fund estimates its liability for current income taxes (SIFT tax) by determining its share of the Partnership's taxable income and applying the current SIFT tax rate. The Fund's share of the Partnership taxable income involves certain assumptions which may differ from actual results at the end of the Fund's tax year. There is also the possibility that the Fund's tax rate could change.

KEG RIGHTS

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

EXCHANGEABLE UNIT FAIR VALUE ADJUSTMENT

The Fund is required under IFRS to classify the Exchangeable units as a financial liability at fair value. This requires that the Fund uses a valuation technique to determine the fair value of the Exchangeable units at the applicable reporting dates. The Fund estimates the fair value of this financial liability using the Fund's market capitalization at the end of the applicable period and allocating KRL's entitlement based upon its percentage ownership of the Fund on a fully-diluted basis. As at December 31, 2012, the Fund's closing price was $14.50 per Fund unit resulting in a market capitalization of $207.5 million.

KRL's 20.67% ownership of the Fund (on a fully-diluted basis) was calculated to be $42.9 million. This valuation technique may not represent the actual value of the financial liability should such Exchangeable units be extinguished, and changes in the distribution rate on the Exchangeable units and the yield of the Fund's units could materially impact the Fund's financial position and results of operations.

FUTURE ACCOUNTING POLICIES

Unless otherwise noted, the following standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier adoption permitted. The Fund intends to adopt the standards and amendments when they are effective. The extent of the impact of adopting the standards and amendments is currently being reviewed and has not yet been determined.

IFRS 9 FINANCIAL INSTRUMENTS

In November 2009 the IASB issued IFRS 9, *Financial Instruments*, and in October 2010 the IASB published amendments to IFRS 9. IFRS 9 replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, on the classification and measurement of financial assets and financial liabilities. The Standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

Gains and losses on remeasurement of financial assets measured at fair value will be recognized in profit or loss.

The IASB has deferred the mandatory effective date of the existing chapters of IFRS 9 to annual periods beginning on or after January 1, 2015 and early adoption of the standard is permitted.

IFRS 10 CONSOLIDATED FINANCIAL STATEMENTS

This standard requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*. The amendment issued in June 2012 simplified the process of adopting IFRS 10 and provides additional relief from certain disclosures.

IFRS 12 DISCLOSURE OF INTERESTS IN OTHER ENTITIES

This standard establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interest in other entities.

IFRS 13 FAIR VALUE MEASUREMENT

This standard sets out a single IFRS framework for fair value measurement and establishes disclosure requirements for fair value measurements. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date.

IAS 27 SEPARATE FINANCIAL STATEMENTS AND IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

There have been amendments to existing standards, including IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10–13

IAS 32 FINANCIAL INSTRUMENTS PRESENTATION AND IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES

These standards have been amended to include additional presentation and disclosure requirements for financial assets and liabilities that can be offset in the statement of financial position. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013.

IAS 1 PRESENTATION OF FINANCIAL STATEMENTS

This standard was amended to change the disclosure of items presented in Other comprehensive income ("OCI"), including a requirement to present separately the items of OCI that may be classified to profit or loss in the future from those that would never be reclassified to profit or loss. This amendment is effective for years beginning on or after July 1, 2012.

FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash, amount due from KRL, note receivable from KRL, accounts payable and accrued liabilities, interest payable on the term loan, distributions payable to Fund unitholders, distributions payable to KRL, current income tax payable and the term loan. The requirement for the Fund to settle its note receivable from KRL in exchange for Class C Partnership units is classified as a derivative instrument. The Fund has reviewed the net impact of this potential exchange requirement on its cash flows and has determined that there is no significant value applicable to this feature. The fair values of the amount due from KRL, interest payable on the term loan and the distributions payable to Fund unitholders approximate their carrying amounts, largely due to the short-term maturities of these instruments. The fair value of the 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 EVENT

On January 7, 2013, a corporate Keg restaurant located in New Westminster, British Columbia was closed for a major renovation. Due to the uncertainty regarding the length of the closure, KRL has elected to pay the royalty for that closed restaurant until the earlier of the date upon which the restaurant reopens for business to the public or when those lost sales are replaced with gross sales from new Keg restaurants added to the Royalty Pool. On January 20, 2013, two corporate restaurants located in Washington State were closed due to lease expiries.

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 4.1% in 2012 and has projected sales to increase by 3.9% in 2013. In the US, the National Restaurant Association has estimated that sales in the full-service category increased 3.1% in 2012, and has projected sales to increase by 2.9% in 2013. Given the close historical relationship between disposable income and foodservice spending, management of KRL expects that as economic conditions continue to improve in North America, so will sales in the full-service category of the restaurant industry.

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

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

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

Corporate market expansion in the 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 forty years. Management of KRL has advised the Trustees that it currently expects to open six restaurants prior to October 2, 2013, consisting of three corporate and three franchised restaurants in Canada. The scheduled opening of these new restaurants is conditional upon the timely receipt of municipal approvals, construction permits, and ongoing evaluation of the current economic environment. 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 US, with substantially greater financial and other resources than KRL. Competitors include national and regional chains, as well as individually owned restaurants.

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

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

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

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

AVAILABILITY AND QUALITY OF RAW MATERIALS

Management of KRL continues to monitor any cases of mad cow disease found in North America. The continued widespread testing of herds confirms that these were isolated cases; the risk to human health appears to be negligible. Most importantly to The Keg, there has not been any significant negative consumer reaction to beef in North America and there has not been a material impact on its restaurant traffic. KRL has maintained an uninterrupted supply of quality beef that meets its demanding specifications despite previous border closures. Management of KRL expects the demand for beef to remain strong among consumers and its supply to continue uninterrupted.

FLUCTUATIONS IN FOREIGN EXCHANGE RATES

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

FORWARD LOOKING INFORMATION

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

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

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

The foregoing list of factors is not exhaustive and should be considered in conjunction with the risks and uncertainties set out in KRL's Management's Discussion and Analysis for the 52 weeks ended September 30, 2012, which are available on SEDAR at www.sedar.com.

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

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

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

ADDITIONAL INFORMATION

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

THE KEG ROYALTIES INCOME FUND

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

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 of The Keg GP Ltd. and the Trustees of The Keg Royalties Income Fund (the "Fund"). The consolidated financial statements have been prepared by management, in accordance with International Financial Reporting Standards 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 Fund's external 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 auditing standards. Their report following this statement expresses their opinion on the consolidated financial statements of the Fund.

(signed) C.C. Woodward

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

February 20, 2013

KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Unitholders of The Keg Royalties Income Fund

We have audited the accompanying consolidated financial statements of The Keg Royalties Income Fund, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' 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 the 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 consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity'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 consolidated 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 consolidated financial position of The Keg Royalties Income Fund as at December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

February 20, 2013
Vancouver, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of dollars)

	Note	December 31, 2012	December 31, 2011
ASSETS			
Current assets:			
Cash		$ 429	$ 4,011
Prepaid expenses and deposits		15	17
Due from Keg Restaurants Ltd.	12	2,700	2,796
Current income tax receivable		163	-
		3,307	6,824
Note receivable from Keg Restaurants Ltd.	5	57,000	57,000
Intangible assets, Keg Rights	6	156,493	156,069
		$ 216,800	$ 219,893
LIABILITIES AND UNITHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		$ 437	$ 441
Interest payable on term loan		56	56
Distributions payable to Fund unitholders	8	908	908
Distributions payable to Keg Restaurants Ltd.	12	780	821
Current income tax payable	11	-	3,647
		2,181	5,873
Term loan, net of deferred financing charges	10(a)	13,956	13,923
Deferred taxes	11	1,740	1,623
Class C Partnership units	9(a)	57,000	57,000
Exchangeable Partnership units	9(b)	42,901	37,139
Unitholders' equity:			
Fund units	7	123,275	123,275
Accumulated deficit		(24,253)	(18,940)
		99,022	104,335
		$ 216,800	$ 219,893

Subsequent event (note 16)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Trustees

"C.C. Woodward"
C.C. Woodward, Trustee

"George Tidball"
George Tidball, Trustee

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Note	January 1 to December 31, 2012	January 1 to December 31, 2011
Revenue:			
Royalty income	4	$ 19,401	$ 19,230
Interest income		4,282	4,281
		23,683	23,511
Expenses:			
General and administrative		(398)	(472)
Interest and financing fees		(672)	(672)
Amortization of deferred financing charges		(33)	(33)
		(1,103)	(1,177)
Profit before distributions, change in fair value adjustment and taxes		22,580	22,334
Distributions recorded as interest:			
Class C Partnership units	9(a)	(4,275)	(4,275)
Exchangeable Partnership units	9(b)	(3,782)	(3,704)
		(8,057)	(7,979)
Profit before change in fair value adjustment and taxes		14,523	14,355
Decrease (increase) in fair value of Exchangeable Partnership units	9(b)	(5,338)	896
Profit before taxes		9,185	15,251
Taxes:			
Current	11	(3,482)	(3,647)
Deferred	11	(117)	(289)
		(3,599)	(3,936)
Profit and comprehensive income for the year		$ 5,586	$ 11,315
Weighted average Fund units outstanding	3(k)	11,353,500	11,275,418
Basic earnings per Fund unit	3(k)	$ 0.49	$ 1.00
Fully diluted earnings per Fund unit	3(k)	$ 0.49	$ 0.92

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in thousands of dollars)

	Fund units	Accumulated deficit	Unitholders' equity
Balance, January 1, 2011	$ 113,045	$ (19,356)	$ 93,689
Profit and comprehensive income for the year	-	11,315	11,315
Class B unit exchange, February 8, 2011	10,230	-	10,230
Distributions declared to Fund unitholders	-	(10,899)	(10,899)
Balance, December 31, 2011	$ 123,275	$ (18,940)	$ 104,335
Balance, January 1, 2012	$ 123,275	$ (18,940)	$ 104,335
Profit and comprehensive income for the year	-	5,586	5,586
Distributions declared to Fund unitholders	-	(10,899)	(10,899)
Balance, December 31, 2012	$ 123,275	$ (24,253)	$ 99,022

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of dollars)

	Note	January 1 to December 31, 2012	January 1 to December 31, 2011
Cash provided by (used for):			
OPERATIONS:			
Profit for the year		$ 5,586	$ 11,315
Items not involving cash:			
Amortization of deferred financing charges		33	33
Deferred income tax expense	11	117	289
Increase (decrease) in fair value of Exchangeable Partnership units	9(b)	5,338	(896)
Distributions recorded as interest:			
Class C Partnership units	9(a)	4,275	4,275
Exchangeable Partnership units	9(b)	3,782	3,704
Changes in non-cash operating working capital:			
Due from Keg Restaurants Ltd.		96	(157)
Prepaid expenses and deposits		2	6
Accounts payable and accrued liabilities		(4)	(6)
Interest income		(4,282)	(4,281)
Interest and financing fees		672	672
Current income taxes	11	3,482	3,647
Interest received		4,282	4,281
Interest paid		(672)	(672)
Income taxes paid		(7,292)	-
		15,415	22,210
FINANCING:			
Distributions paid to Class C unitholder		(4,275)	(4,275)
Distributions paid to Exchangeable unitholder		(3,823)	(3,843)
Distributions paid to Fund unitholders		(10,899)	(11,120)
Deferred financing charges		-	(73)
		(18,997)	(19,311)
Increase (decrease) in cash		(3,582)	2,899
Cash, beginning of year		4,011	1,112
Cash, end of year		$ 429	$ 4,011
Non-cash transactions:			
Issuance of Fund units on Class B unit exchange		$ -	$ 10,230
Increase in intangible assets on Royalty Pool net sales roll-in		424	1,886

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, 2012 and 2011

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 and is governed by the Declaration of Trust signed May 31, 2002 and as amended on December 20, 2010. The Fund is registered and domiciled in Canada and its principal business office is located at 10100 Shellbridge Way, Richmond, British Columbia.

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.

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. BASIS OF PREPARATION:

(a) Statement of compliance:

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Fund's Board of Trustees on February 20, 2013.

(b) Functional and presentation currency:

These consolidated financial statements have been prepared in Canadian dollars, which is also the Fund's functional currency.

(c) Use of estimates and judgements:

The preparation of the Fund's consolidated financial statements, in conformity with IFRS, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

2. BASIS OF PREPARATION (CONTINUED):

(c) Use of estimates and judgements (continued):

Significant estimates and judgements made by management in the application of IFRS that have a significant effect on the amounts recognized in these consolidated financial statements are as follows:

(i) Intangible assets (note 6):

The Fund carries the Keg Rights at historical cost comprising the amount of consideration paid for the Keg Rights as well as the value of additional Keg restaurants and bars rolled into the Royalty Pool ("Additional Entitlement"). The fair value of the Additional Entitlement is determined on a formula basis that is designed to estimate the present value of the cash flows due to the Fund as a result of net new Keg restaurants and bars being added to the existing Keg restaurants and bars on which KRL pays a royalty to the Partnership (the "Royalty Pool"). As such, the calculation is dependent on a number of different variables including the estimated long-term sales of the new restaurants and a discount rate, and as a result, the value assigned to the Keg Rights could differ materially from actual results.

The Fund tests the Keg Rights for impairment annually, which requires that the Fund use a valuation technique to determine if impairment exists. This valuation technique is dependent on a number of different variables which requires management to exercise judgement, and as a result, the estimated net cash flows the Keg Rights are expected to generate could differ materially from actual results.

(ii) Fair value adjustment of Class A, B and D Partnership units ("Exchangeable Partnership units" or "Exchangeable units") (note 9(b)):

The Fund measures the Exchangeable Partnership units as a financial liability at fair value through profit and loss. The Fund estimates the fair value of the Exchangeable Partnership units using the closing market price of the publicly traded units of the Fund (the "Fund units") on the Toronto Stock Exchange ("TSX"). The Exchangeable Partnership units have similar distribution and voting rights as the Fund units and are exchangeable into Fund units on a one-for-one basis. Therefore, it is estimated that the fair value of an Exchangeable Partnership unit approximates the market value of a Fund unit. This valuation technique may not represent the actual liability should the distributions paid to the holders of the Exchangeable units differ significantly from that paid to Fund unitholders.

(iii) Current income taxes (note 11):

The determination of the Fund's share of the Partnership's taxable income involves certain assumptions which may differ from actual results at the end of the Fund's taxation year. There is also the possibility that the Fund's tax rate could change, consequently, actual results could differ from these estimates.

2. BASIS OF PREPARATION (CONTINUED):

(c) Use of estimates and judgements (continued):

(iv) Deferred taxes (note 11):

The determination of deferred income taxes requires the use of judgement and estimates in determining the timing when taxable differences will reverse and the appropriate tax rates to be applied. If certain judgements or estimates prove to be inaccurate, including when temporary differences reverse, or if certain tax rates or laws change, the Fund's financial position and comprehensive income could be materially impacted.

3. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of consolidation:

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") and the Partnership (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 (note 6). All significant intercompany transactions and balances have been eliminated on consolidation.

(b) Basis of measurement:

These consolidated financial statements have been prepared on the historical cost basis, except for the Exchangeable Partnership unit liability measured at fair value through profit or loss.

(c) Cash:

Cash consists of cash on hand and balances on deposit with a Canadian chartered bank.

(d) Revenue recognition:

Royalty revenue is recognized on the accrual basis and is accrued for when earned. Royalty payments 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 (note 4).

Interest income is recognized and accrued for when earned.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(e) Intangible assets (note 6):

Intangible assets consisting of the Keg Rights are recorded at their historical cost. The intangible assets are adjusted to record Class B and D units of the Partnership at their fair value at the date of determination of their respective annual entitlement. The Keg Rights are not amortized as they have an indefinite life.

(f) Distributions to Fund unitholders (note 8):

The amount of cash available to be distributed to Fund unitholders is determined with reference to the Fund's comprehensive income adjusted for non-cash items such as deferred income taxes, fair value adjustments on the Exchangeable Partnership units liability (note 9(b)), and gains or losses arising from the retirement or extinguishment of Fund unit financial liabilities. Adjustments are also made for changes in non-cash working capital, distributions and/or interest paid to Fund and Partnership unitholders, current income tax liabilities, and KRL's share of the Fund's available cash by virtue of KRL's investment in the Partnership (note 6).

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

(g) Income taxes (note 11):

Income tax comprises current and deferred tax expense and is recognized in comprehensive income.

Current tax expense is the expected tax payable on the Fund's taxable income for the year, using enacted or substantively enacted tax rates at the reporting date, adjusted for amendments to tax payable in respect of previous years.

Deferred taxes are recognized in respect of temporary differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in comprehensive income in the period that includes the enactment date. The carrying amount of deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Fund intends to settle its tax assets and liabilities on a net basis or when tax assets and liabilities will be realized simultaneously.

Deferred tax primarily arises because of temporary differences on the Keg Rights.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(h) Borrowings (note 10):

Borrowings are initially recognized at fair value net of any financing fees, and subsequently at amortized cost with any difference between the proceeds (net of financing fees) and the redemption value recognized in the comprehensive income over the period of the borrowing using the effective interest rate method. Borrowings are classified as current liabilities unless the Fund has an unconditional right to defer settlement of the liability for more than twelve months.

(i) Financial Instruments:

Financial assets and liabilities are recognized when the Fund becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Fund classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is generally classified in this category if acquired principally for the purposes of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges. The Exchangeable Partnership unit liability is classified as a financial liability due to the Partnership's contractual obligation to distribute cash on the Exchangeable Partnership units and is measured at fair value through profit or loss due to certain conversion features discussed in note 9(b).

  Financial instruments in this category are recognized initially and subsequently at fair value and transaction costs are charged to comprehensive income in the period incurred. Gains and losses arising from changes in fair value are charged in comprehensive income in the period in which they arise. These instruments are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

- Derivative financial instruments: The requirement of 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 there is no significant value applicable to this feature.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(i) Financial Instruments (continued):

- Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. Cash, interest receivable on the note receivable from KRL, royalties receivable from KRL, and the note receivable from KRL are included in this category. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized costs using the effective interest method and when material, an adjustment to discount the loans and receivables to fair value.

- Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, interest payable on term loan, distributions payable to Fund unitholders, distributions payable to KRL, Class C Partnership unit liability and the term loan. These items are initially recognized at the amount required to be paid, less a discount to reduce the payables to fair value or transactions costs incurred. Subsequently, these items are measured at amortized cost using the effective interest rate method. Financial liabilities are classified as current liabilities if payment is due within twelve months of the statement of financial position date. Otherwise, they are presented as non-current liabilities.

The carrying value of current financial assets and liabilities approximate their fair value due to their short-term nature. The term loan approximates fair value based on prevailing market interest rates in effect at the statement of financial position dates.

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 the Exchangeable Partnership unit liability is determined using Level 2 inputs.

(Tabular amounts expressed in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(i) Financial Instruments (continued):

The following table presents the carrying amounts of each category of financial assets and liabilities:

	December 31, 2012	December 31, 2011
Financial assets:		
Loans and receivables:		
Cash	$ 429	$ 4,011
Due from Keg Restaurants Ltd.	2,700	2,796
Note receivable from Keg Restaurants Ltd.	57,000	57,000
	$ 60,129	$ 63,807
Financial liabilities:		
Amortized cost:		
Accounts payable and accrued liabilities	$ 437	$ 441
Interest payable on term loan	56	56
Distributions payable to Fund unitholders	908	908
Distributions payable to Keg Restaurants Ltd.	780	821
Term loan, net of deferred financing charges	13,956	13,923
Class C Partnership units	57,000	57,000
Fair value through profit and loss:		
Exchangeable Partnership units	42,901	37,139
	$ 116,038	$ 110,288

(j) Impairment:

- Financial assets:

  A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

  An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(j) Impairment (continued):

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. The reversal is limited to an amount that does not result in the asset being valued at more than what its amortized cost would have been in the absence of impairment. The Fund has evaluated its note receivable from KRL and has determined that no indicators of impairment exist.

- Non-financial assets:

Intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized, such as the Keg Rights, are subject to an annual impairment test.

Intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGU"s). The Fund defines a CGU as the Keg Rights. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the CGU). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the intangible asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized.

(k) Earnings per unit:

Basic earnings per unit calculations are based on the weighted average number of Fund units outstanding during the period. Diluted earnings per unit calculations are based on the weighted average number of Fund units and Exchangeable Partnership units outstanding during the period.

Diluted earnings per unit includes the Exchangeable Partnership units and is calculated by adjusting the weighted average number of Fund units outstanding to assume conversion of all potentially dilutive Fund units. For the purposes of the weighted average number of units outstanding, units are determined to be outstanding from the date they are issued and adjusted to be effective January 1 of each year on December 31 when the actual full-year performance of the new restaurants is known with certainty.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(k) Earnings per unit (continued):

The following reconciles the basic profit to the diluted profit:

	January 1 to December 31, 2012	January 1 to December 31, 2011
Basic profit and comprehensive income for the year	$ 5,586	$ 11,315
Distributions on Exchangeable Partnership units	3,782	3,704
Increase in current tax expense	(946)	(982)
Increase (decrease) in fair value of Exchangeable Partnership units	5,338	(896)
Diluted net profit for the period	$ 13,760	$ 13,141
Weighted average number of Fund units	11,353,500	11,275,418
Weighted average number of Exchangeable Partnership units	2,958,702	3,002,402
Weighted average number of units	14,312,202	14,277,820
Basic earnings per Fund unit	$ 0.49	$ 1.00
Fully diluted earnings per Fund unit	$ 0.49	$ 0.92

For the year ended December 31, 2012, the Exchangeable Partnership units are anti-dilutive. Accordingly, the diluted earnings per Fund unit equals the basic earnings per Fund unit.

(l) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(m) Accounting standards and amendments issued but not yet adopted:

Unless otherwise noted, the following standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier adoption permitted. The Fund intends to adopt the standards and amendments when they are effective. The extent of the impact of adopting these standards and amendments has not yet been determined.

(i) In November 2009 the IASB issued IFRS 9, *Financial Instruments*, and in October 2010 the IASB published amendments to IFRS 9. IFRS 9 replaces the guidance in IAS 39, *Financial Instruments – Recognition and Measurement*, on the classification and measurement of financial assets and financial liabilities. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value

Gains and losses on remeasurement of financial assets measured at fair value will be recognized in profit or loss.

The IASB has deferred the mandatory effective date of the existing chapters of IFRS 9 to annual periods beginning on or after January 1, 2015 and early adoption of the standard is permitted.

(ii) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*. The amendment issued in June 2012 simplified the process of adopting IFRS 10 and provides additional relief from certain disclosures.

(iii) IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interest in other entities.

(iv) IFRS 13, *Fair Value Measurement*, sets out a single IFRS framework for fair value measurement and establishes disclosure requirements for fair value measurements. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(m) Accounting standards and amendments issued but not yet adopted (continued):

(v) There have been amendments to existing standards, including IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associated and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10–13.

(vi) IAS 32, *Financial Instruments: Presentation,* and IFRS 7, *Financial Instruments: Disclosures*¸ have been amended to include additional presentation and disclosure requirements for financial assets and financial liabilities that can be offset in the statement of financial position. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013.

(vii) IAS 1, *Presentation of Financial Statements,* was amended to change the disclosure of items presented in Other comprehensive income ("OCI"), including a requirement to present separately the items of OCI that may be classified to profit or loss in the future from those that would never be reclassified to profit or loss. This amendment is effective for years beginning on or after July 1, 2012.

4. ROYALTY POOL:

Annually, on January 1, 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 royalty payment from KRL to the Partnership is four percent of system sales for such period reported by Keg restaurants and bars 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 one temporary closure due to an extended restaurant renovation for the period from January 1 to December 31, 2012 (January 1 to December 31, 2011 – two permanent closures and one temporary closure due to an extended restaurant renovation).

(Tabular amounts expressed in thousands of dollars)

4. ROYALTY POOL (CONTINUED):

On January 1, 2012, two new Keg restaurants that opened during the period from October 3, 2010 through October 2, 2011 were added to the Royalty Pool. The gross sales of these two new restaurants were $9.21 million annually. Two permanently closed Keg restaurants with annual sales of $8.01 million were removed from the Royalty Pool, resulting in a net increase in Royalty Pool sales of $1.2 million annually. The total number of restaurants in the Royalty Pool remains at 102. The yield of the Fund units was determined to be 10.52% calculated using a weighted average unit price of $12.33.

As a result of the contribution of the additional net sales to the Royalty Pool, KRL's Additional Entitlement is equivalent to 34,381 Fund units, being 0.24% of the Fund units on a fully diluted basis. On January 1, 2012, KRL received 80% of this entitlement representing the equivalent of 32,500 Fund units, being 0.23% of the Fund units on a fully diluted basis. KRL will also receive a proportionate increase in monthly distributions from the Partnership. On December 31, 2012, the performance of the new restaurants was confirmed and the Additional Entitlement adjusted to be effective as of January 1, 2012. Including the Additional Entitlement described above, KRL has the right to exchange its units in the capital of the Partnership for 2,958,701 Fund units, representing 20.67% of the Fund units on a fully diluted basis

No new restaurants were opened during the period from October 3, 2011 through October 2, 2012 resulting in no additions to the Royalty Pool on January 1, 2013.

Royalty income for the twelve-month periods was calculated as follows:

	January 1 to December 31, 2012	January 1 to December 31, 2011
Restaurants in Royalty Pool	102	102
Royalty Pool system sales	$ 484,568	$ 472,280
Royalty income at 4% of system sales reported above	19,383	18,891
Make-whole payment, based on 4% of lost system sales	18	339
Total royalty income	$ 19,401	$ 19,230

(Tabular amounts expressed in thousands of dollars)

5. NOTE RECEIVABLE FROM KEG RESTAURANTS LTD.:

	December 31, 2012	December 31, 2011
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.

6. INTANGIBLE ASSETS:

On May 31, 2002, the Partnership acquired the Keg Rights from KRL for $113,546,820 of which $30,487,380 was paid in cash, $9,059,440 was paid by the issuance of 905,944 Class A Partnership units (“Class A units”), $17,000,000 was paid by the issuance of 3,376,700 Class B Partnership units (“Class B units”) and $57,000,000 was paid by the issuance of 5,700,000 Class C Partnership units (“Class C units”). Concurrent with the sale of the Keg Rights, the Partnership granted KRL a licence to use the Keg Rights for a period of 99 years. As consideration, KRL pays the Partnership a royalty of four percent of system sales reported by the Keg restaurants included the Royalty Pool (note 4).

As described in note 3(e), the Fund has adopted a policy of accounting for the Additional Entitlement of Class B and Class D Partnership units (“Class D units”) (note 4) based on the fair value of these units at the date of determination which results in an increase in intangible assets and in the Exchangeable Partnership unit liability.

Balance, December 31, 2011	$ 156,069
January 1, 2012 initial estimate of Additional Entitlement (80%)	401
December 31, 2012 final remaining Additional Entitlement (100%)	23
Balance, December 31, 2012	$ 156,493

Each year on December 31, the Fund tests the carrying value of the Keg Rights for impairment. Impairment exists if the present value of the net cash flows the Fund expects the Keg Rights to generate over the next fifty years (the “value in use”, or “recoverable amount”) exceeds their carrying value. A fifty year period is appropriate as the Keg Rights are registered trademarks that have an indefinite life. The Licence and Royalty agreement between the Fund and KRL expires on December 31, 2101.

6. INTANGIBLE ASSETS (CONTINUED):

The Fund determines the net cash flows it expects to receive from the licensing of the Keg Rights by taking the Fund's budgeted royalty revenue for the next year less budgeted general and administrative operating expenses. Since the Fund's operating expenses are relatively static, the key assumptions in determining the recoverable amount are budgeted royalty revenue and the discount rate used to determine the net present value of the net cash flows. The Fund bases its budgeted royalty revenue on past experience and future expectations formed using third party economic forecasts and industry publications. Using budgeted royalty revenue and operating expenses as a base, these amounts are projected to grow at an annual inflation rate of 2% (the midpoint of the Bank of Canada's inflation target range of 1% to 3%) over the following forty-nine years.

These projected cash flows are discounted at the Fund's estimated before-tax yield of approximately 9% to arrive at the recoverable amount. The Fund's estimated pre-tax yield is determined using the Fund's closing price at December 31, 2012, the annualized distribution rate of $0.96 and the SIFT tax rate of 25.0% in effect January 1, 2012.

The Fund also considers other reasonably possible scenarios where forecasted revenue is less than budget along with other reasonably possible higher discount rates to determine whether the Keg Rights would be impaired under those scenarios. As at December 31, 2012, the Fund has tested the Keg Rights for impairment in the manner described above and has determined that the recoverable amount exceeds the carrying value using budgeted royalty revenue as well as forecasted royalty revenue for other reasonably possible scenarios and discount rates. The Fund has determined that no impairment exists.

7. 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.

On February 8, 2011, the Fund completed a secondary offering of units after filing a short form prospectus 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.

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

8. DISTRIBUTIONS ON FUND UNITS:

	January 1 to December 31, 2012	January 1 to December 31, 2011
Distributions declared to Fund unitholders	$ 10,899	$ 10,899
Weighted average Fund units outstanding	11,353,500	11,275,418
Distributions declared per unit	$ 0.96	$ 0.97

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.

9. PARTNERSHIP UNIT LIABILITIES:

(a) Class C Partnership unit liability:

Class C Partnership units are those units which have been issued to and are held by KRL. These units have an obligation to pay the Class C distribution of $0.0625 per unit on a monthly basis as long as the note receivable from KRL is outstanding (note 5). Accordingly, the Class C units are classified as a financial liability and are measured at amortized cost under IFRS.

The requirement of the Fund to settle its note receivable from KRL in exchange for Class C units represents an embedded derivative. 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.

(b) Exchangeable Partnership unit liability:

KRL has the following Exchangeable Partnership units that are exchangeable into Fund units:

		December 31, 2012	Fair Value
Class A Partnership units	(i)	905,944	$ 13,136
Class B Partnership units	(ii)	176,700	2,562
Class D Partnership units	(iii)	1,876,057	27,203
		2,958,701	$ 42,901

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

9. PARTNERSHIP UNIT LIABILITIES (CONTINUED):

(b) Exchangeable Partnership unit liability (continued):

KRL has the following Exchangeable Partnership units that are exchangeable into Fund units:

		December 31, 2011	Fair Value
Class A Partnership units	(i)	905,944	$ 11,506
Class B Partnership units	(ii)	176,700	2,244
Class D Partnership units	(iii)	1,841,676	23,389
		2,924,320	$ 37,139

The Exchangeable Partnership units are presented in the Fund's financial statements as a financial liability and measured at fair value. Changes in fair value are recognized in profit or loss in the period they occur. The fair value of the Exchangeable Partnership units is determined by using Level 2 inputs being the closing market price of the Fund units on the TSX at the respective reporting date as Exchangeable Partnership units have similar distribution and voting rights as the Fund units. The closing unit price as at December 31, 2012 was $14.50 (December 31, 2011 – $12.70).

The components of the change in balances in the Exchangeable Partnership unit liability for the year are as follows:

	Total number of Exchangeable Partnership units	January 1 to December 31, 2012
Exchangeable Partnership units, beginning of period	2,924,320	$ 37,139
January 1 initial estimate of Class D unit entitlement (80%)	32,500	401
December 31 final Class D unit entitlement (20%)	1,881	23
Fair value adjustment	-	5,338
Fair value of Exchangeable Partnership units, end of period	2,958,701	$ 42,901

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

9. PARTNERSHIP UNIT LIABILITIES (CONTINUED):

(b) Exchangeable Partnership unit liability (continued):

	Total number of Exchangeable Partnership units	January 1 to December 31, 2011
Exchangeable Partnership units, beginning of period	3,513,556	$ 46,378
January 1 initial estimate of Class D unit entitlement (80%)	122,990	1,444
Exchange of Class B units for Fund units	(750,000)	(10,230)
December 31 final Class D unit entitlement (20%)	37,774	443
Fair value adjustment	-	(896)
Fair value of Exchangeable Partnership units, end of period	2,924,320	$ 37,139

Pursuant to the declaration of trust, the holders (other than the Fund or its subsidiaries) of the Class A units, Class B units and 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.

(i) The Class A units are entitled to a preferential proportionate distribution equal to the distribution on the Class C units, multiplied by the number of Class A units divided by the number of LP Partnership units ("LP units") issued and outstanding. KHT holds all of the 8,153,500 LP units issued and outstanding at December 31, 2012. 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 Class A unit for one Fund unit and represent KRL's initial 10% effective ownership of the Fund prior to the entitlement of Class B and Class D units.

(ii) 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 Class B unit for one Fund unit and a total of 750,000 Class B units were exchanged for 750,000 Fund units on February 8, 2011. Class B units held by KRL receive a distribution entitlement.

9. PARTNERSHIP UNIT LIABILITIES (CONTINUED):

(b) Exchangeable Partnership unit liability (continued):

(iii) 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 Class D unit for one Fund unit and receive the same distribution entitlement as the Class B units.

10. BORROWINGS:

(a) 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 3, 2011 to April 2, 2012 and further extended on April 12, 2011 to April 1, 2014. The amendment was considered a modification of debt. As a result, the deferred financing charges incurred on the modification have been added to the existing unamortized balance of deferred financing charges associated with the previous facility.

The term loan is presented net of $44,000 in deferred financing charges at December 31, 2012 (December 31, 2011 – $77,000).

(b) Operating line of credit:

On August 12, 2009, the Partnership renegotiated the terms of its existing $1,000,000 demand operating facility with KRL's banking syndicate. This facility bears interest at prime plus 1.50% and is secured by a general security agreement over the assets of the Partnership, an assignment of the royalty earned under the Licence and Royalty Agreement and a guarantee from KRL. As at December 31, 2012, the entire $1,000,000 remains available for use.

(Tabular amounts expressed in thousands of dollars)

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 deferred 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 deferred income tax assets and liabilities that are expected to reverse subsequent to December 31, 2012. Deferred 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 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 are therefore 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.

The components of tax expense are as follows:

	January 1 to December 31, 2012	January 1 to December 31, 2011
Current income tax expense	$ (3,482)	$ (3,647)
Deferred tax expense	(117)	(289)
	$ (3,599)	$ (3,936)

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 profit before taxes. The reason for the difference is as follows:

	January 1 to December 31, 2012	January 1 to December 31, 2011
Profit before taxes	$ 9,185	$ 15,251
Combined Canadian federal and provincial rates	25.0%	26.5%
Computed “expected” tax expense	2,296	4,042
Increased (reduced) by:		
Permanent and other differences	1,300	(278)
Change in tax base of the Keg Rights	4	181
Differences between current and future tax rates and other items	(1)	(9)
Total income tax expense per the statement of comprehensive income	$ 3,599	$ 3,936

(Tabular amounts expressed in thousands of dollars)

11. INCOME TAXES (CONTINUED):

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

	December 31, 2012	December 31, 2011
Temporary difference related to the Keg Rights	$ 1,740	$ 1,623
Deferred tax liability	$ 1,740	$ 1,623

The balance of the Fund's deferred tax liability increased to $1,740,000 as at December 31, 2012 (December 31, 2011 – $1,623,000). The deferred tax liability arises as a result of the Fund recording, in the current period, its cumulative share of the temporary differences between the accounting and tax bases of the Keg Rights, owned by the Partnership, generated since inception of the Fund.

12. RELATED PARTY TRANSACTIONS AND BALANCES:

KRL is considered to be a related party of the Fund by virtue of common directors of KRL and KGP, the General Partner of the Partnership and administrator of the Fund. 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. KRL provided these services at no cost to the Partnership or the Fund.

The following is a summary of the balances due to and due from KRL:

	December 31, 2012	December 31, 2011
Royalty fee, including GST/HST	$ 2,338	$ 2,433
Interest on note receivable from Keg Restaurants Ltd.	362	363
Due from Keg Restaurants Ltd.	$ 2,700	$ 2,796

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

	December 31, 2012	December 31, 2011
Distribution payable to Keg Restaurants Ltd.	$ 780	$ 821

The above amount was paid to KRL when due, subsequent to the end of the periods above.

(Tabular amounts expressed in thousands of dollars)

13. COMPENSATION OF KEY MANAGEMENT:

Key management personnel are the Trustees of the Fund. Aggregate details of their remuneration are set out in the table below with further information about individual trustee remuneration provided in the Fund's Annual Information Form.

	January 1 to December 31, 2012	January 1 to December 31, 2011
Remuneration of the Fund's Trustees, included in general and administrative expenses	$ 65	$ 54

14. FINANCIAL RISK MANAGEMENT:

The Fund is primarily exposed to the following financial risks as they relate to the Fund's identified financial instruments:

(a) Credit risk:

Credit risk is defined as the risk of financial loss to the Fund if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Fund's amounts due from KRL and the note receivable from KRL. The Fund monitors this risk through its regular review of the operating and financing activities of KRL. The Fund's maximum exposure to credit risk is the combined value of its royalty fee receivable from KRL and note receivable from KRL of $59,700,000 (December 31, 2011 – $59,796,000). Since its inception, the Fund has never failed to collect its receivables on a timely basis and as at December 31, 2012 there are no past-due accounts.

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 note receivable may be impacted.

Credit risk also arises from cash balances on deposit with financial institutions of $429,000 at December 31, 2012 (December 31, 2011 – $4,011,000). The Fund has placed its cash balances on deposit with a Canadian chartered bank of high creditworthiness.

(Tabular amounts expressed in thousands of dollars)

14. FINANCIAL RISK MANAGEMENT (CONTINUED):

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

	Value	Maturity
Account payable and accrued liabilities	$ 437	< 1 year
Interest payable on term loan	56	< 1 year
Distributions payable to Fund unitholders	908	< 1 year
Distributions payable to Keg Restaurants Ltd.	780	< 1 year
Term loan	14,000	2014

The Fund is subject to certain guarantor covenants and reporting requirements arising from the Partnership's undrawn $1,000,000 operating line of credit and KHT's $14,000,000 term loan. As at December 31, 2012, the Fund is in compliance with all covenants.

(c) Interest rate risk:

The Fund's interest rate risk exposure is mainly related to an interest-bearing note receivable from KRL and the $14,000,000 term loan. As the note receivable from KRL has a fixed interest 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 profit or loss 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 restaurant 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, 2012, a 100 basis point change in the US dollar exchange rate would result in an approximate $478,000 and $19,000 change in Royalty Pool sales and royalty revenue, respectively.

(Tabular amounts expressed in thousands of dollars)

15. 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.

The following summarizes the Fund's managed capital:

	Note	December 31, 2012	December 31, 2011
Term loan	10(a)	$ 14,000	$ 14,000
Fund units	7	$ 123,275	$ 123,275
Accumulated deficit		(24,253)	(18,940)
Unitholders' equity		$ 99,022	$ 104,335

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 profit (loss) before interest, change in fair value adjustment, taxes, depreciation and amortization ("EBITDA"). As at December 31, 2012, the Fund was in compliance with all financial covenants associated with this facility.

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 9).

16. SUBSEQUENT EVENT:

On January 7, 2013, a corporate Keg restaurant located in New Westminster, British Columbia was closed for a major renovation. Due to the uncertainty regarding the length of the closure, KRL has elected to pay the royalty for that closed restaurant until the earlier of the date upon which the restaurant reopens for business to the public or when those lost sales are replaced with gross sales from new Keg restaurants added to the Royalty Pool. On January 20, 2013, two corporate restaurants located in Washington State were closed due to lease expiries.

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

Director of Marketing

Telephone:	(416) 646-4960
Facsimile:	(416) 695-2401
E-mail:	karynb@kegrestaurants.com
Website:	www.kegincomefund.com