THE KEG ROYALTIES INCOME FUND

THIRD QUARTER REPORT

For the three and nine months ended September 30, 2013

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 nine months ended September 30, 2013.

RESULTS

The gross sales reported by the 102 Keg restaurants in the Royalty Pool were $116,016,000 for the quarter, a decrease of $3,269,000 or 2.7% from the comparable quarter of the prior year. Year to date, gross sales were $354,771,000, a decrease of $7,405,000 or 2.0% over the comparable period of the prior year. These gross sales reflect the closure of four corporate restaurants in the current year, and same store sales decreases of 0.9% for the quarter and 0.5% year to date.

Royalty income increased by $4,000 or 0.1% from $4,772,000 in the three months ended September 30, 2012 to $4,776,000 in the three months ended September 30, 2013. Year to date, royalty income increased by $30,000 or 0.2% from $14,505,000 for the nine months ended September 30, 2012, to $14,535,000 for the nine months ended September 30, 2013.

Distributable cash before SIFT tax increased by $11,000 from $3,638,000 (32.0 cents/Fund unit) to $3,649,000 (32.1 cents/Fund unit) for the quarter and decreased by $28,000 from $11,210,000 (98.7 cents/Fund unit) to $11,182,000 (98.5 cents/Fund unit) for the nine-month period. Distributable cash available to pay distributions to public unitholders decreased by $18,000 from $2,784,000 (24.5 cents/Fund unit) to $2,766,000 (24.4 cents/Fund unit) for the quarter, and by $121,000 from $8,611,000 (75.8 cents/Fund unit) to $8,490,000 (74.8 cents/Fund unit) for the comparable nine-month period. The Fund remains financially well positioned with surplus cash on hand of $890,000 and a positive working capital balance of $2,024,000 as of September 30, 2013.

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, 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
November 14, 2013

FINANCIAL HIGHLIGHTS

($000's except per unit amounts)	Jul. 1 to Sep. 30, 2013	Jul. 1 to Sep. 30, 2012	Jan. 1 to Sep. 30, 2013	Jan. 1 to Sep. 30, 2012
Restaurants in the Royalty Pool	**102**	**102**	**102**	**102**
Gross sales reported by Keg restaurants in the Royalty Pool	**$ 116,016**	**$ 119,285**	**$ 354,771**	**$ 362,176**
Royalty income [1]	$ 4,776	$ 4,772	$ 14,535	$ 14,505
Interest income [2]	1,079	1,075	3,201	3,207
Total income	**$ 5,855**	**$ 5,847**	**$ 17,736**	**$ 17,712**
Administrative expenses [3]	(117)	(104)	(308)	(312)
Interest and financing expenses [4]	(175)	(181)	(522)	(529)
Operating income	**$ 5,563**	**$ 5,562**	**$ 16,906**	**$ 16,871**
Distributions to KRL [5]	(1,996)	(1,998)	(6,033)	(6,027)
Profit (loss) before fair value adjustment and taxes	**$ 3,567**	**$ 3,564**	**$ 10,873**	**$ 10,844**
Fair value adjustment [7]	(2,278)	(1,478)	(1,509)	(5,186)
Taxes [8]	(904)	(876)	(2,826)	(2,685)
Profit (loss)	**$ 385**	**$ 1,210**	**$ 6,538**	**$ 2,973**
Distributable cash before SIFT tax [9]	**$ 3,649**	**$ 3,638**	**$ 11,182**	**$ 11,210**
Distributable cash [10]	**$ 2,766**	**$ 2,784**	**$ 8,490**	**$ 8,611**
Distributions paid to Fund unitholders	**$ 2,725**	**$ 2,725**	**$ 8,175**	**$ 8,175**
Payout Ratio [11]	**98.5%**	**97.9%**	**96.3%**	**94.9%**
Per Fund unit information [12]				
Profit (loss) before market value adjustment and income taxes	$ .314	$ .314	$ .958	$ .955
Profit (loss)	$ .034	$ .107	$ .576	$ .262
Distributable cash before SIFT tax [9]	**$ .321**	**$ .320**	**$ .985**	**$ .987**
Distributable cash [10]	**$ .244**	**$ .245**	**$ .748**	**$ .758**
Distributions paid to Fund unitholders	**$ .240**	**$ .240**	**$ .720**	**$ .720**
SSSG [13]				
Canada	(1.5)%	(0.6)%	(0.9)%	0.8%
United States	0.8%	(0.8)%	1.9%	0.7%
Consolidated	(0.9)%	(0.5)%	(0.5)%	1.0%
Restaurant Openings/Closings [14]				
Opened	--	--	1	--
Closed	1	--	3	--
Relocated	--	--	--	--
Net Opened (Closed)	(1)	--	(2)	--

Notes:

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

(2) The Fund 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) Taxes for the quarter ended September 30, 2013, include SIFT tax expense of $883,000 (quarter ended September 30, 2012 - $854,000) and non-cash deferred taxes of $21,000 (quarter ended September 30, 2012 - $22,000). Taxes for the nine months ended September 30, 2013 include SIFT tax expense of $2,692,000 (nine months ended September 30, 2012 - $2,599,000) and non-cash deferred tax of $134,000 (nine months ended September 30, 2012 - $86,000). 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 interest and financing fees paid on the term loan, less the Partnership distributions 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 September 30, 2013 was 11,353,500 (three months ended September 30, 2012 - 11,353,500) and for the nine months ended September 30, 2013 was 11,353,500 (nine months ended September 30, 2012 - 11,353,500).

(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 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.

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

SUMMARY OF QUARTERLY RESULTS

($000's except per unit amounts)	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Restaurants in the Royalty Pool	**102**	**102**	**102**	**102**
Gross sales reported by Keg restaurants in the Royalty Pool	**$ 116,016**	**114,426**	**$ 124,329**	**$ 122,392**
Royalty income [1]	$ 4,776	$ 4,693	$ 5,066	$ 4,896
Interest income [2]	1,079	1,067	1,055	1,075
Total income	**$ 5,855**	**$ 5,760**	**$ 6,121**	**$ 5,971**
Administrative expenses [3]	(117)	(91)	(100)	(86)
Interest and financing expenses [4]	(175)	(174)	(171)	(176)
Operating income	**$ 5,563**	**$ 5,495**	**$ 5,850**	**$ 5,709**
Distributions to KRL [5]	(1,996)	(1,980)	(2,058)	(2,030)
Profit (loss) before fair value adjustment and taxes	**$ 3,567**	**$ 3,515**	**$ 3,792**	**$ 3,679**
Fair value adjustment [7]	(2,278)	3,107	(2,338)	(152)
Taxes [8]	(904)	(950)	(973)	(914)
Profit (loss)	**$ 385**	**$ 5,672**	**$ 481**	**$ 2,613**
Distributable cash before SIFT taxes [9]	**$ 3,649**	**$ 3,439**	**$ 4,094**	**$ 3,441**
Distributable cash [10]	**$ 2,766**	**$ 2,543**	**$ 3,180**	**$ 2,558**
Distributions paid to Fund unitholders	**$ 2,725**	**$ 2,725**	**$ 2,725**	**$ 2,725**
Payout Ratio [11]	**98.5%**	**107.2%**	**85.7%**	**106.5%**
Per Fund unit information [12]				
Profit (loss) before fair value adjustment and taxes	$ .314	$ .310	$ .334	$ .324
Profit (loss)	$ .034	$ .500	$ .042	$ .230
Distributable cash before SIFT tax [9]	**$ .321**	**$ .303**	**$ .361**	**$ .303**
Distributable cash [10]	**$ .244**	**$ .224**	**$ .280**	**$ .225**
Distributions paid to Fund unitholders	**$ .240**	**$ .240**	**$ .240**	**$ .240**
SSSG [13]				
Canada	(1.5)%	(2.0)%	0.3%	(1.9)%
United States	0.8%	1.4%	3.3%	0.7%
Consolidated	(0.9)%	(1.6)%	0.7%	(2.0)%
Restaurants Openings/Closings [14]				
Opened	--	1	--	4
Closed	1	--	2	--
Relocated	--	--	--	--
Net Opened (Closed)	(1)	1	(2)	4

SUMMARY OF QUARTERLY RESULTS

($000's except per unit amounts)	Q3 2012	Q2 2012	Q1 2012	Q4 2011
Restaurants in the Royalty Pool	**102**	**102**	**102**	**102**
Gross sales reported by Keg restaurants in the Royalty Pool	**$ 119,285**	**$ 118,525**	**$ 124,366**	**$ 122,135**
Royalty income [1]	$ 4,772	$ 4,741	$ 4,992	$ 4,986
Interest income [2]	1,075	1,066	1,066	1,080
Total income	**$ 5,847**	**$ 5,807**	**$ 6,058**	**$ 6,066**
Administrative expenses [3]	(104)	(104)	(104)	(96)
Interest and financing expenses [4]	(181)	(174)	(173)	(183)
Operating income	**$ 5,562**	**$ 5,529**	**$ 5,781**	**$ 5,787**
Distributions to KRL [5]	(1,998)	(1,989)	(2,041)	(2,031)
Profit (loss) before fair value adjustment and taxes	**$ 3,564**	**$ 3,540**	**$ 3,740**	**$ 3,756**
Fair value adjustment [7]	(1,478)	1,863	(5,571)	(2,057)
Taxes [8]	(876)	(862)	(947)	(990)
Profit (loss)	**$ 1,210**	**$ 4,541**	**$ (2,778)**	**$ 709**
Distributable cash before SIFT tax [9]	**$ 3,638**	**$ 3,492**	**$ 4,080**	**$ 3,455**
Distributable cash [10]	**$ 2,784**	**$ 2,643**	**$ 3,184**	**$ 2,500**
Distributions paid to Fund unitholders	**$ 2,725**	**$ 2,725**	**$ 2,725**	**$ 2,725**
Payout Ratio [11]	**97.9%**	**103.1%**	**85.6%**	**109.0%**
Per Fund unit information [12]				
Profit (loss) before fair value adjustment and taxes	$ .314	$ .312	$ .329	$ .331
Profit (loss)	$ .107	$ .400	$ (.245)	$ .062
Distributable cash before SIFT tax [9]	**$ .320**	**$ .308**	**$ .359**	**$ .304**
Distributable cash [10]	**$ .245**	**$ .233**	**$ .280**	**$ .220**
Distributions paid to Fund unitholders	**$ .240**	**$ .240**	**$ .240**	**$ .240**
SSSG [13]				
Canada	(0.6)%	1.3%	1.7%	4.8%
United States	(0.8)%	1.6%	1.5%	5.1%
Consolidated	(0.5)%	1.8%	1.8%	5.0%
Restaurant Openings/Closings [14]				
Opened	--	--	--	--
Closed	--	--	--	--
Relocated	--	--	--	--
Net Opened (Closed)	--	--	--	--

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 taxes	**$ 14,523**	**$ 14,355**	**$ (503)**
Fair value adjustment (7)	(5,338)	896	(10,542)
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 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 (14)			
Opened	4	--	1
Closed	--	1	2
Relocated	--	1	1
Net Opened (Closed)	4	(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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Nine Months Ended September 30, 2013
As of November 14, 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.

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.

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.

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

Three new corporate and two new franchised restaurants that were opened subsequent to October 2, 2012, will be added to the Royalty Pool on January 1, 2014. During the first quarter of the current fiscal year, two corporate restaurants were closed, one located in New Westminster, British Columbia, temporarily for a substantial renovation, and two in Washington State, permanently due to lease expiries. During the third quarter of the current fiscal year, one corporate restaurant was permanently closed due to an early voluntary lease termination. Although not obligated to do so, KRL has elected to make Make-whole payments on the temporarily closed restaurant until the earlier of the date upon which the restaurant re-opens for business to the public or December 31, 2013. The three permanently closed corporate restaurants will remain in the Royalty Pool until December 31, 2013, at which time the lost sales from these closed restaurants will be replaced with the gross sales from the five new Keg restaurants opened since October 3, 2012.

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 September 30, 2013. 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 TSX. The sale of the 3,200,000 Fund units increased the number of issued and outstanding Fund units from 8,153,500 at the time of the IPO to 11,353,500 as of February 8, 2011.

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. Due to 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. 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". The Fund is subject to tax at a rate of 26.5% for 2011, 25.0% for 2012, 25.75% for 2013 and 26.0% for 2014. The blended rate of 25.75% for 2013 was due to the increase in the general corporate taxation rate from 10.0% to 11.0% enacted by the British Columbia government effective April 1, 2013, which increased the SIFT tax rate from 25.0% to 26.0%, effective that date.

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").

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 ("KHT"), The Keg Rights Limited Partnership (the "Partnership"), the Fund's 90% owned subsidiary The Keg GP Ltd. ("KGP") and KRL or any third parties. KGP 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

IFRS 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. The condensed consolidated interim financial statements include the accounts of the Fund, its wholly-owned subsidiary KHT, its 90%-owned subsidiary KGP and its interest in the Partnership. 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 Partnership's earnings are largely comprised of royalty income earned from the Keg Rights less administrative and interest expenses.

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 that came into effect on January 1, 2011, 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.

DISTRIBUTIONS TO UNITHOLDERS (CONTINUED)

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**	**$ / Unit**	**Total $**	**Year-to-Date $**
December 1-31, 2012	January 31, 2013	8.00¢	$ 908,280	$ 908,280
January 1-31, 2013	February 28, 2013	8.00¢	$ 908,280	$ 1,816,560
February 1-28, 2013	March 28, 2013	8.00¢	$ 908,280	$ 2,724,840
March 1-31, 2013	April 30, 2013	8.00¢	$ 908,280	$ 3,633,120
April 1-30, 2013	May 31, 2013	8.00¢	$ 908,280	$ 4,541,400
May 1-31, 2013	June 28, 2013	8.00¢	$ 908,280	$ 5,449,680
June 1-30, 2013	July 31, 2013	8.00¢	$ 908,280	$ 6,357,960
July 1-31, 2013	August 30, 2013	8.00¢	$ 908,280	$ 7,266,240
August 1-31, 2013	September 30, 2013	8.00¢	$ 908,280	$ 8,174,520
September 1-30, 2013	October 31, 2013	8.00¢	$ 908,280*	$ 9,082,800*

**Paid subsequent to the period*

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 $121,171,000 of distributable cash and has paid cumulative distributions of $120,758,000, which resulted in a cumulative surplus of $413,000. The cumulative payout ratio (the ratio of cumulative cash distributions paid since inception to the cumulative distributable cash generated since inception) is 99.7%.

DISTRIBUTABLE CASH

Distributable cash is 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 interest and financing fees paid on the term loan, 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)	Jul. 1, to Sep. 30, 2013	Jul. 1, to Sep. 30, 2012	Jan. 1, to Sep. 30, 2013	Jan 1, to Sep. 30, 2012
Cash flow from operations (1)	$ 4,944	$ 4,896	$ 15,266	$ 11,360
SIFT tax paid on Fund units (2)	870	912	2,449	6,381
Interest and financing fees paid on term loan (3)	(169)	(172)	(500)	(504)
KRL's interest (4)	(1,996)	(1,998)	(6,033)	(6,027)
Distributable cash before current year SIFT tax	$ 3,649	$ 3,638	$ 11,182	$ 11,210
SIFT tax expense on Fund units (5)	(883)	(854)	(2,692)	(2,599)
Distributable cash (6)	$ 2,766	$ 2,784	$ 8,490	$ 8,611

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 $870,000 during the third quarter of 2013 (third quarter of 2012 - $912,000) and $2,449,000 during the nine-month period of 2013 (nine-month period of 2012 - $6,381,000 consisting of $3,646,000 with respect to 2011 and $2,735,000 on account for 2012).

(3) Represents the interest and financing fees paid on the term loan.

[4] 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.

[5] Represents the SIFT tax expense for the respective period calculated at a blended rate of 25.75% for 2013 and 25.0% for 2012.

[6] 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 change in non-cash working capital, plus SIFT tax paid (including current year instalments), less interest and financing fees paid on the term loan, less the Partnership distributions attributable to KRL, and less current year SIFT tax expense.

OWNERSHIP OF THE FUND

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

	September 30, 2013[1]		September 30, 2012	
	#	%	#	%
Fund units held by public unitholders [2]	11,353,500	79.33	11,353,500	79.34
Exchangeable Partnership units held by KRL: [3]				
Class A units [4]	905,944	6.33	905,944	6.33
Class B units [5]	176,700	1.23	176,700	1.23
Class D units [5]	1,876,057	13.11	1,874,176	13.10
Total Exchangeable Partnership units [6]	2,958,701	20.67	2,956,820	20.66
Total Fund and Exchangeable Partnership units	14,312,201	100.00	14,310,320	100.00

Notes:

[1] Information is current as of September 30, 2013.

[2] Represents the public's total effective ownership of the Fund as of September 30, 2013 and 2012. 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 September 30, 2013 (three months ended September 30, 2012 – 79.34%) and was 79.33% during the nine months ended September 30, 2013 (nine months ended September 30, 2012 – 79.34%). The weighted average number of Fund units outstanding for the three-month period ended September 30, 2013 were 11,353,500 (three-month period ended September 30, 2012 – 11,353,500) and for the nine-month period ended September 30, 2013 were 11,353,500 (nine-month period ended September 30, 2012 – 11,353,500).

[3] Exchangeable into Fund units on a one-for-one basis.

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

[5] These exchangeable Partnership units are issued to KRL in return for adding net sales to the Royalty Pool on an annual basis. Class D units are equivalent to Class B units in all material respects but began to be issued once all Class B units became fully entitled to distributions on January 1, 2008. As of September 30, 2013, KRL is the registered holder of 176,700 Class B units and 1,876,057 Class D units (June 30, 2012 – 176,700 Class B units and 1,874,176 Class D units). Also included in these figures is 80% of the Additional Entitlement estimated at the beginning of each year, pursuant to which KRL receives a proportionate increase in monthly distributions from the Partnership. The remaining 20% of KRL's Additional Entitlement to Class B and Class D units is adjusted retroactively to January 1st of each year once the actual sales performance of the new restaurants has been confirmed. KRL is not entitled to proportionate monthly distributions from the Partnership on the remaining 20% of KRL's Additional Entitlement until such time as the Additional Entitlement is adjusted retroactively at the end of each year.

[6] Represents KRL's total effective ownership of the Fund as of September 30, 2013 and 2012. 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 September 30, 2013 (three months ended September 30, 2012 – 20.66%) and was 20.67% during the nine months ended September 30, 2013 (nine months ended September 30, 2012 – 20.66%). The weighted average number of Exchangeable units held by KRL during the three-month period ended September 30, 2013 were 2,958,701 (three months ended September 30, 2012 – 2,956,820) and for the nine-month period ended September 30, 2013 were 2,958,701 (nine-month period ended September 30, 2012 – 2,956,820).

SYSTEM SALES

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

($000's)	13 weeks ended Sep. 29, 2013	13 weeks ended Sep. 30, 2012	39 weeks ended Sep. 29, 2013	39 weeks ended Sep. 30, 2012
Corporate Keg restaurants [1]	$ 58,123	$ 56,406	$ 179,986	$ 174,520
Franchised Keg restaurants [2]	64,494	62,856	193,906	187,648
Total system sales	$ 122,617	$ 119,262	$ 373,892	$ 362,168

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.

THIRD QUARTER

System sales for the 13 weeks ended September 29, 2013 were $122,617,000 compared to $119,262,000 for the 13 weeks ended September 30, 2012, an increase of $3,355,000 or 2.8%. During the 13 weeks ended September 29, 2013, one corporate restaurant was permanently closed due to a voluntary early lease termination. During the 13 weeks ended September 30, 2012, no restaurants were opened or closed. As of September 29, 2013, there were a total of 104 Keg restaurants as compared with 102 Keg restaurants at September 30, 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 1.5% in Canada and increased by 0.8% in the United States. After translating the sales of the U.S. restaurants into their Canadian dollar equivalent, consolidated same store sales for the comparable 13-week period decreased by 0.9%. The average exchange rate moved from 0.99 in KRL's quarter ended September 30, 2012 to 1.04 in KRL's quarter ended September 29, 2013, thereby increasing the Canadian dollar equivalent of the U.S. restaurant sales.

YEAR TO DATE

System sales for the 39 weeks ended September 29, 2013 were $373,892,000 compared to $362,168,000 for the 39 weeks ended September 30, 2012, an increase of $11,724,000 or 3.2%. During the 39 weeks ended September 29, 2013, one corporate restaurant was opened, three corporate restaurants were permanently closed and one corporate restaurant was temporarily closed for a substantial renovation. The two permanently closed restaurants, located in Washington State, closed due to lease expiries. One permanently closed restaurant, located in West Vancouver, British Columbia, closed due to a voluntary early lease termination. The temporarily closed restaurant, located in New Westminster, British Columbia, will re-open following a substantial renovation, the duration of which currently remains uncertain. During the 39 weeks ended September 30, 2012, no restaurants were opened or closed.

Same store sales (sales of restaurants that operated during the entire 39-week period of the current year and the 39-week period of the prior year) decreased by 0.9% in Canada and increased by 1.9% in the United States. After translating the sales of the U.S. restaurants into their Canadian dollar equivalent, consolidated same store sales for the comparable 39-week period decreased by 0.5%. The average exchange rate moved from 1.00 in KRL's 39-week period ended September 30, 2012, to 1.02 in KRL's 39-week period ended September 29, 2013, thereby increasing the Canadian dollar equivalent of the U.S. restaurant sales.

OPERATING RESULTS

THIRD QUARTER

GROSS SALES

Gross sales reported by the Keg restaurants in the Royalty Pool decreased by $3,269,000 from $119,285,000 to $116,016,000 for the comparable quarter. The decrease in gross sales was due to the net impact of the same store sales decreases at comparable restaurants during the quarter ($1,537,000 decrease in sales), the positive effect of the exchange rate increase on the translation of the US restaurant sales into their Canadian dollar equivalent ($467,000 increase in sales), sales of restaurants closed for renovation during the comparable quarter ($49,000 decrease in sales), and the loss of sales from closed restaurants that did not operate during the quarter ($2,150,000 decrease in sales).

ROYALTY INCOME

Total royalty income earned by the Partnership increased by $4,000 from $4,772,000 in the third quarter of 2012, to $4,776,000 in the third quarter of 2013. Royalty income decreased by $130,000 during the quarter as a result of the decrease in gross sales for the reasons explained previously, and Make-whole Payments increased by $134,000 due to more restaurants closed during the quarter (45 more closed weeks).

INTEREST INCOME

Interest income earned by the Fund during the third quarter of the current year was $1,079,000, comprised of interest income on the Keg Loan of $1,077,000 and other interest income of $2,000. Interest income on the Keg Loan increased by $3,000 during the quarter as it is calculated based on 92 days of a 365 day year, rather than on 92 days of a 366 day year, as in the comparable quarter of the prior year, as 2012 was a leap year. Other interest income earned by the Trust increased by $1,000 due to higher surplus cash balances on hand during the quarter.

ADMINISTRATIVE EXPENSES

Expenses incurred by the Partnership for the quarter ended September 30, 2013 were $117,000, comprised entirely of general and administrative expenses. The increase in Partnership expenses of $13,000 over the comparable quarter of the prior year was due to an increase in general and administrative expenses of $13,000, primarily as a result of increased legal costs incurred during the quarter.

INTEREST AND FINANCING EXPENSES

Interest and financing expenses incurred by the Trust were $175,000 for the three months ended September 30, 2013, and included interest on the long-term debt of $169,000, and amortization of deferred financing charges of $6,000. The average interest rate on the term loan remained at 4.75% during the comparable quarter. Therefore interest costs remained relatively the same. Amortization of deferred financing charges decreased by $2,000 and other financing costs by $5,000 during the comparable quarter.

OPERATING INCOME

The Fund’s operating income increased from $5,562,000 during the third quarter of 2012, to $5,563,000 during the third quarter of 2013. The increase of $1,000 is due to the net impact of the increase in royalty income of $4,000, the increase in interest income of $4,000, the increase in administrative expenses of $13,000, and the decrease in interest and financing expenses of $6,000.

DISTRIBUTIONS TO KRL

Distributions attributable to KRL during the three months ended September 30, 2013 were $1,996,000 which included distributions of $927,000 on the Exchangeable units and $1,069,000 on the Class C units. Distributions on the Exchangeable units decreased by $2,000 from the comparable quarter. 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 TAXES

Profit (loss) before fair value adjustment and taxes increased by $3,000 from a profit of $3,564,000 (31.4 cents/Fund unit) in the third quarter of 2012, to a profit of $3,567,000 (31.4 cents/Fund unit) in the third quarter of 2013.

FAIR VALUE ADJUSTMENT

The fair value of the Exchangeable units increased $2,278,000 during the three months ended September 30, 2013, as compared with an increase of $1,478,000 during the three months ended September 30, 2012. The market price of a Fund unit, (the basis upon which Exchangeable units are valued) increased from $14.24 to $15.01 during the third quarter of the current year; there were 2,958,701 Exchangeable units outstanding at the end of the third quarter of 2013. The market price of a Fund unit increased from $13.95 to $14.45 during the comparable quarter of the prior year; there were 2,956,820 Exchangeable units outstanding at the end of the third quarter of 2012.

TAXES

Taxes for the three-month period ended September 30, 2013, were $904,000 and included SIFT tax expense of $883,000 and non-cash deferred taxes of $21,000. SIFT tax expense increased by $29,000 primarily due to the increase in the SIFT tax rate from 25.0% to 25.75%. The increase in the SIFT tax rate was due the increase in the general corporate taxation rate from 10.0% to 11.0% enacted by the British Columbia government effective April 1, 2013, resulting in a blended SIFT tax rate of 25.75% for 2013, versus the 25.0% rate for 2012. Deferred taxes decreased by $1,000 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 (loss) decreased by $825,000 from a profit of $1,210,000 (10.7 cents/Fund unit) in the third quarter of 2012, to a profit of $385,000 (3.4 cents/Fund unit) in the third quarter of 2013, primarily 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 $11,000 from $3,638,000 (32.0 cents/Fund unit) to $3,649,000 (32.1 cents/Fund unit) during the comparable quarter. Cash available for distribution to Fund unitholders decreased by $18,000 from $2,784,000 (24.5 cents/Fund unit) to $2,766,000 (24.4 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 third quarter of 2013 and 2012.

YEAR TO DATE

GROSS SALES

Gross sales reported by the restaurants in the Royalty Pool decreased by $7,405,000 from $362,176,000 to $354,771,000 for the comparable nine-month period. The decrease in gross sales was due to the net impact of the same store sales decreases at comparable restaurants during the period ($2,347,000 decrease in sales), the positive effect of the exchange rate increase on the translation of the US restaurant sales into their Canadian dollar equivalent ($690,000 increase in sales), sales of restaurants closed for renovation during the comparable period ($190,000 increase in sales), and the loss of sales from closed restaurants that did not operate during the period ($5,938,000 decrease in sales).

ROYALTY INCOME

Total royalty income earned by the Partnership increased by $30,000 from $14,505,000 in the first nine months of 2012, to $14,535,000 in the first nine months of 2013. Royalty income decreased by $296,000 during the period as a result of the decrease in gross sales for the reasons explained previously, and Make-whole Payments increased by $326,000 due to more restaurants closed during the period (105 more closed weeks).

INTEREST INCOME

Interest income earned by the Fund during the nine-month period of the current year was $3,201,000, and was comprised of interest income on the Keg Loan of $3,198,000 and other interest income of $3,000. Interest income on the Keg Loan decreased by $3,000 during the period as it is calculated based on 273 days of a 365 day year, rather than on 274 days of a 366 year, as in the comparable period of the prior year, as 2012 was a leap year. Other interest income decreased by $3,000 due to lower surplus cash balances on hand during the period.

ADMINSTRATIVE EXPENSES

Expenses incurred by the Partnership for the nine-month period ended September 30, 2013 were $308,000, comprised of general and administrative expenses of $309,000 and other interest income of $1,000. The decrease in Partnership expenses of $4,000 over the comparable nine-month period in 2012 was due to a decrease in general and administrative expenses of $6,000 and a decrease in other interest income of $2,000. General and administrative expenses decreased as a result of reduced printing costs associated with the annual report. Other interest income decreased due to lower surplus cash balances on hand during the period.

INTEREST AND FINANCING EXPENSES

Interest and financing expenses incurred by the Trust were $522,000 for the nine months ended September 30, 2013, and included interest on the long-term debt of $499,000, and amortization of deferred financing charges of $23,000. Although the average interest rate on the term loan remained at 4.75% during the comparable period, interest costs decreased by $2,000 as 2012 was a leap year; therefore the nine-month period of the prior year included one extra day of interest expense. Amortization of deferred financing charges decreased by $2,000 and other financing costs by $5,000 during the comparable period.

OPERATING INCOME

The Fund's operating income increased from $16,871,000 during the first nine months of 2012, to $16,906,000 during the first nine months of 2013. The increase of $35,000 is due to the net impact of the increase in royalty income of $30,000, the decrease in interest income of $6,000, the decrease in administrative expenses of $4,000, and the decrease in interest and financing expenses of $7,000.

DISTRIBUTIONS TO KRL

Distributions attributable to KRL during the nine-month period ended September 30, 2013 were $6,033,000, which included distributions of $2,827,000 on the Exchangeable units and $3,206,000 on the Class C units. Distributions on the Exchangeable units increased by $6,000 from the comparable period of the prior year primarily due to the increase in operating income during the comparable period. 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 TAXES

Profit before fair value adjustment and taxes increased by $29,000 from $10,844,000 (95.5 cents/Fund unit) in the first nine months of 2012, to $10,873,000 (95.8 cents/Fund unit) in the first nine months of 2013.

FAIR VALUE ADJUSTMENT

The fair value of the Exchangeable units increased $1,509,000 during the nine months ended September 30, 2013, as compared with an increase of $5,186,000 during the nine months ended September 30, 2012. The market price of a Fund unit, (the basis upon which Exchangeable units are valued) increased from $14.50 to $15.01 during the nine months ended September 30, 2013; there were a total of 2,958,701 Exchangeable units outstanding as at September 30, 2013. The market price of a Fund unit increased from $12.70 to $14.45 during the comparable period of the prior year; there were a total of 2,956,820 Exchangeable units outstanding as at September 30, 2012.

TAXES

Taxes for the nine-month period ended September 30, 2013, were $2,826,000 and included SIFT tax expense of $2,692,000 and non-cash deferred taxes of $134,000. SIFT tax expense increased by $93,000 primarily due to the increase in the SIFT tax rate from 25.0% to 25.75%. The increase in the SIFT tax rate was due the increase in the general corporate taxation rate from 10.0% to 11.0% enacted by the British Columbia government effective April 1, 2013, resulting in blended SIFT Tax rate of 25.75% for 2013, versus the 25.0% rate for 2012. Deferred taxes increased by $48,000 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 $3,565,000 from a profit of $2,973,000 (26.2 cents/Fund unit) during the nine months ended September 30, 2012 to a profit of $6,538,000 (57.6 cents/Fund unit) during the comparable period of 2013, mostly due to the decrease in the non-cash fair value adjustment of the Exchangeable unit liability.

DISTRIBUTABLE CASH

Distributable cash before SIFT tax decreased by $28,000 from $11,210,000 (98.7 cents/Fund unit) to $11,182,000 (98.5 cents/Fund unit) during the comparable period. Cash available for distribution to Fund unitholders decreased by $121,000 from $8,611,000 (75.8 cents/Fund unit) to $8,490,000 (74.8 cents/Fund unit) during the comparable period. The difference between the Fund’s earnings and distributable cash is due to non-cash items such as amortization, fair value adjustments, and deferred income taxes included in the Fund’s net earnings, as well as changes in non-cash working capital balances.

DISTRIBUTIONS TO FUND UNITHOLDERS

Distributions of $8,175,000 (72.0 cents/Fund unit) were paid to Fund unitholders in both the first nine months of 2013 and 2012.

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 $2,766,000 in distributable cash and paid distributions of $2,725,000 to public unitholders, resulting in a surplus of $41,000. Year to date, the Fund generated $8,490,000 in distributable cash and paid distributions of $8,175,000 resulting in a surplus of $315,000. The cumulative surplus since the inception of the Fund is $413,000 as at September 30, 2013. The Fund has cash on hand of $890,000 and a positive working capital balance of $2,024,000 as at September 30, 2013.

TERM LOAN

The Trust has a $14 million non-revolving term loan facility, which bears interest at bank prime plus 1.25% 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 September 28, 2013, the Fund amended the terms of this loan with its existing banking syndicate and the maturity date was extended to July 1, 2016. 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 September 30, 2013, 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 1.25% 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 September 30, 2013, the entire $1 million facility is available for use.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer of The Keg GP Ltd., managing general partner of the Partnership and administrator to the Fund, have designed or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS and applicable securities legislation.

The control framework used to design the internal controls over financial reporting is "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. There have been no significant changes to the internal control over financial reporting for the quarter ended September 30, 2013, that have had or are reasonably likely to have a material effect on the Fund's internal controls over financial reporting.

It should be noted that a control system, including the Fund's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Fund's condensed consolidated interim 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.

There have been no significant changes in the accounting estimates from those described in the Management's Discussion and Analysis for the year ended December 31, 2012.

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 September 30, 2013.

The Fund's closing price was $15.01 per Fund unit resulting in a market capitalization of $214.8 million. KRL's 20.67% ownership of the Fund (on a fully-diluted basis) was calculated to be $44.4 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.

NEW ACCOUNTING POLICIES

Effective January 1, 2013, the following standards and amendments have been adopted by the Fund:

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.

The Fund has reviewed the impact of this new standard and determined that upon adoption of the new standard on January 1, 2013, the condensed consolidated interim financial statements will continue to include the accounts of the Fund, its wholly-owned subsidiaries KHT, its 90%-owned subsidiary KGP, and its interest in the Partnership.

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. The requirements of IFRS 12 relate to disclosures only and are applicable for the first annual period after adoption. IFRS 12 does not require the disclosures to be included for any period presented that precedes the first annual period for which IFRS 12 is applied.

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 the information required to help users of the financial statements assess both of the following: for assets and liabilities that are measured at fair value on a recurring and non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop these measurements, and for recurring fair value measurements using significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income ("OCI") for the period. The Fund has reviewed the impact of this new standard and has provided additional disclosures as required on fair value measurements noted in the condensed consolidated interim financial statements.

NEW ACCOUNTING POLICIES (CONTINUED)

IFRS 7, *Financial Instruments: Disclosures*, sets out the objective to enhance disclosures about offsetting of financial assets and financial liabilities. The Fund has reviewed the impact of this new standard and determined that it does not have an impact on the condensed consolidated interim financial statements.

IAS 1, *Presentation of Financial Statements*, was amended to change the disclosure of items presented in 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. The Fund has reviewed the impact of this new standard and determined that it does not have an impact on the condensed consolidated interim financial statements.

FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash, royalty fee receivable from KRL, interest on note receivable 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.

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 has finalized the number of restaurants that have opened prior to October 2, 2013. Management of KRL has advised that three corporate restaurants and two franchised restaurants were opened prior to that date, and as a result the total number of restaurants that will be in the Royalty Pool as of January 1, 2014, will be 104.

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.

THE RESTAURANT INDUSTRY (CONTINUED)

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 14 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.

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

Tim Kerr

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

Tim Kerr*
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

Neil Maclean

Telephone: (604) 276-0242
Facsimile: (604) 276-2681
E-mail: neilm@kegrestaurants.com
Website: www.kegincomefund.com

THE KEG ROYALTIES INCOME FUND

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2013 and 2012

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of dollars)

	Note	September 30, 2013 (unaudited)	December 31, 2012
ASSETS			
Current assets:			
Cash		$ 890	$ 429
Prepaid expenses and deposits		39	15
Royalty fee receivable from Keg Restaurants Ltd.	10	1,962	2,338
Interest on note receivable from Keg Restaurants Ltd.	10	351	362
Current income tax receivable	9	-	163
		3,242	3,307
Note receivable from Keg Restaurants Ltd.		57,000	57,000
Intangible assets, Keg Rights	6	156,493	156,493
		$ 216,735	$ 216,800
LIABILITIES AND UNITHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		$ 360	$ 437
Interest payable on term loan		55	56
Distributions payable to Fund unitholders		-	908
Distributions payable to Keg Restaurants Ltd.	10	723	780
Current income tax payable	9	80	-
		1,218	2,181
Term loan, net of deferred financing charges	12	13,939	13,956
Deferred taxes	9	1,874	1,740
Class C Partnership units		57,000	57,000
Exchangeable Partnership units	8	44,410	42,901
Unitholders' equity:			
Fund units		123,275	123,275
Accumulated deficit		(24,981)	(24,253)
		98,294	99,022
		$ 216,735	$ 216,800

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Trustees

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

"George Killy"
George Killy, Trustee

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Note	July 1 to Sept 30, 2013	July 1 to Sept 30, 2012	January 1 to Sept 30, 2013	January 1 to Sept 30, 2012
Revenue:					
Royalty income	5	$ 4,776	$ 4,772	$ 14,535	$ 14,505
Interest income		1,079	1,075	3,201	3,207
		5,855	5,847	17,736	17,712
Expenses:					
General and administrative		(117)	(104)	(308)	(312)
Interest and financing fees		(169)	(173)	(499)	(504)
Amortization of deferred financing charges		(6)	(8)	(23)	(25)
		(292)	(285)	(830)	(841)
Profit before distributions, fair value adjustment and taxes		5,563	5,562	16,906	16,871
Distributions recorded as interest:					
Class C Partnership units		(1,069)	(1,069)	(3,206)	(3,206)
Exchangeable Partnership units	8	(927)	(929)	(2,827)	(2,821)
		(1,996)	(1,998)	(6,033)	(6,027)
Profit before fair value adjustment and taxes		3,567	3,564	10,873	10,844
Increase in fair value of Exchangeable Partnership units	8	(2,278)	(1,478)	(1,509)	(5,186)
Profit before taxes		1,289	2,086	9,364	5,658
Taxes:					
Current	9	(883)	(854)	(2,692)	(2,599)
Deferred	9	(21)	(22)	(134)	(86)
		(904)	(876)	(2,826)	(2,685)
Profit and comprehensive income for the period		$ 385	$ 1,210	$ 6,538	$ 2,973
Weighted average Fund units outstanding	4	11,353,500	11,353,500	11,353,500	11,353,500
Weighted average diluted units outstanding	4	14,312,201	14,310,320	14,312,201	14,310,320
Basic and diluted earnings per Fund unit	4	$ 0.03	$ 0.11	$ 0.58	$ 0.26

See accompanying notes to consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

(Expressed in thousands of dollars - unaudited)

	Note	Fund units	Accumulated deficit	Unitholders' equity
Balance, January 1, 2012		$ 123,275	$ (18,940)	$ 104,335
Profit and comprehensive income for the period		-	2,973	2,973
Distributions declared to Fund unitholders	7	-	(7,266)	(7,266)
Balance, September 30, 2012		$ 123,275	$ (23,233)	$ 100,042
Balance, January 1, 2013		$ 123,275	$ (24,253)	$ 99,022
Profit and comprehensive income for the period		-	6,538	6,538
Distributions declared to Fund unitholders	7	-	(7,266)	(7,266)
Balance, September 30, 2013		$ 123,275	$ (24,981)	$ 98,294

See accompanying notes to consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of dollars - unaudited)

	Note	July 1 to Sept 30, 2013	July 1 to Sept 30, 2012	January 1 to Sept 30, 2013	January 1 to Sept 30, 2012
Cash provided by (used for):					
OPERATIONS:					
Profit for the period		$ 385	$ 1,210	$ 6,538	$ 2,973
Items not involving cash:					
Amortization of deferred financing charges		6	8	23	25
Deferred tax expense	9	21	22	134	86
Increase in fair value of Exchangeable Partnership units	8	2,278	1,478	1,509	5,186
Distributions recorded as interest:					
Class C Partnership units		1,069	1,069	3,206	3,206
Exchangeable Partnership units		927	929	2,827	2,281
Changes in non-cash operating working capital:					
Royalty fee receivable from Keg Restaurants Ltd.		(70)	24	376	409
Prepaid expenses and deposits		25	25	(24)	(22)
Accounts payable and accrued liabilities		122	21	(77)	(42)
Interest and financing fees		169	173	499	504
Interest income		(1,079)	(1,075)	(3,201)	(3,207)
Current taxes	9	883	854	2,692	2,599
Interest received		1,078	1,070	3,213	3,203
Income taxes paid	9	(870)	(912)	(2,449)	(6,381)
		4,944	4,896	15,266	11,360
FINANCING:					
Distributions paid to Class C unitholder		(1,069)	(1,069)	(3,206)	(3,206)
Distributions paid to Exchangeable unitholder		(913)	(930)	(2,884)	(2,926)
Distributions paid to Fund unitholders	7	(2,725)	(2,725)	(8,175)	(8,175)
Deferred financing charges		(37)	-	(40)	-
Interest and financing fees paid		(169)	(172)	(500)	(504)
		(4,913)	(4,896)	(14,805)	(14,811)
Increase (decrease) in cash		31	-	461	(3,451)
Cash, beginning of period		859	560	429	4,011
Cash, end of period		$ 890	$ 560	$ 890	$ 560
Non-cash transactions:					
Increase in intangible assets on Royalty Pool net sales roll-in		$ -	$ -	$ -	$ 401

See accompanying notes to consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts expressed in thousands of dollars - unaudited)

For the three and nine months ended September 30, 2013 and 2012

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 and bar restaurants in Canada and the United States.

2. BASIS OF PREPARATION:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). These statements represent a condensed set of financial statements, and accordingly, do not include all of the information required for annual financial statements. These statements follow the same accounting policies and methods of their application as the most recent annual financial statements, except for the policies adopted on January 1, 2013 as disclosed in note 3. These condensed consolidated interim financial statements should be read in conjunction with the Fund's consolidated financial statements for the year ended December 31, 2012.

These condensed consolidated interim financial statements were authorized for issue by the Fund's Board of Trustees on November 13, 2013.

(b) Functional and presentation currency:

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

3. NEW ACCOUNTING POLICIES:

Effective January 1, 2013, the following standards and amendments have been adopted by the Fund:

(a) 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. The Fund has reviewed the impact of this new standard and determined that upon adoption of the new standard on January 1, 2013, the condensed consolidated interim financial statements will continue to include the accounts of the Fund, its wholly-owned subsidiary The Keg Holdings Trust ("KHT"), its 90%-owned subsidiary The Keg GP Ltd. ("KGP"), and its interest in the Partnership.

(b) 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. The requirements of IFRS 12 relate to disclosures only and are applicable for the first annual period after adoption. IFRS 12 does not require the disclosures to be included for any period presented that precedes the first annual period for which IFRS 12 is applied.

(c) 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 the information required to help users of the financial statements assess both of the following: for assets and liabilities that are measured at fair value on a recurring and non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop these measurements, and for recurring fair value measurements using significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income ("OCI") for the period. The Fund has reviewed the impact of this new standard and has provided additional disclosures as required on fair value measurements noted in the condensed consolidated interim financial statements (note 11).

(d) IFRS 7, *Financial Instruments: Disclosures*, sets out the objective to enhance disclosures about offsetting of financial assets and financial liabilities. The Fund has reviewed the impact of this new standard and determined that it does not have an impact on the condensed consolidated interim financial statements.

(e) IAS 1, *Presentation of Financial Statements*, was amended to change the disclosure of items presented in 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. The Fund has reviewed the impact of this new standard and determined that it does not have an impact on the condensed consolidated interim financial statements.

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

4. 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.

The following reconciles the basic profit to the diluted profit:

	July 1 to Sept 30, 2013	July 1 to Sept 30, 2012	January 1 to Sept 30, 2013	January 1 to Sept 30, 2012
Profit for the period	$ 385	$ 1,210	$ 6,538	$ 2,973
Distributions on Exchangeable Partnership units	927	929	2,827	2,821
Increase in fair value of Exchangeable Partnership units	2,278	1,478	1,509	5,186
Increase in current tax expense	(239)	(232)	(728)	(705)
Diluted net profit for the period	$ 3,351	$ 3,385	$ 10,146	$ 10,275
Weighted average number of:				
Fund units	11,353,500	11,353,500	11,353,500	11,353,500
Exchangeable Partnership units	2,958,701	2,956,820	2,958,701	2,956,820
Weighted average number of units	14,312,201	14,310,320	14,312,201	14,310,320
Basic earnings per Fund unit	$ 0.03	$ 0.11	$ 0.58	$ 0.26
Diluted earnings per unit	$ 0.03	$ 0.11	$ 0.58	$ 0.26

For all periods above, the Exchangeable Partnership units are anti-dilutive. Accordingly, the fully diluted earnings per Fund unit equals the basic earnings per Fund unit for these periods.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts expressed in thousands of dollars - unaudited)

For the three and nine months ended September 30, 2013 and 2012

5. ROYALTY POOL:

The royalty payment from KRL to the Partnership is four percent of system sales for such period reported by Keg restaurants in the Royalty Pool plus a make-whole payment, if required by a restaurant closure, based on four percent of lost system sales. System sales for any period and for any Keg restaurant located in Canada and the United States, as defined in the Licence and Royalty Agreement, means the gross sales by such Keg restaurants for such period.

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.

The make-whole payment is based on two permanent closures and one temporary closure due to an extended restaurant renovation for the period from January 1 to September 30, 2013 (January 1 to September 30, 2012 – one temporary closure due to an extended restaurant renovation).

Three new corporate and two new franchised restaurants were opened subsequent to October 2, 2012 and will be added to the Royalty Pool on January 1, 2014. The two permanently closed corporate restaurants will remain in the Royalty Pool until December 31, 2013, at which time the lost sales from these closed restaurants will be replaced with the gross sales from the five new restaurants opened since October 3, 2012.

Royalty income was calculated as follows:

	July 1 to Sept 30, 2013	July 1 to Sept 30, 2012	January 1 to Sept 30, 2013	January 1 to Sept 30, 2012
Restaurants in Royalty Pool.	102	102	102	102
Royalty Pool system sales	$ 116,016	$ 119,285	$ 354,771	$ 362,176
Royalty income at 4% of system sales reported above	4,641	4,771	14,191	14,487
Make-whole payment, based on 4% of lost system sales	135	1	344	18
Total royalty income	$ 4,776	$ 4,772	$ 14,535	$ 14,505

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 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 5).

The Fund has adopted a policy of accounting for the Additional Entitlement of Class B and Class D units 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. The value of the Keg Rights increased by $nil as a result of the January 1, 2013 Additional Entitlement (January 1, 2012 – $401,000).

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

7. DISTRIBUTIONS ON FUND UNITS:

	July 1 to Sept 30, 2013	July 1 to Sept 30, 2012	January 1 to Sept 30, 2013	January 1 to Sept 30, 2012
Distributions declared to Fund unitholders	$ 2,725	$ 2,725	$ 7,266	$ 7,266
Weighted average Fund units outstanding	11,353,500	11,353,500	11,353,500	11,353,500
Distributions declared per unit	$ 0.24	$ 0.24	$ 0.64	$ 0.64

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.

8. EXCHANGEABLE PARTNERSHIP UNITS:

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

		September 30, 2013	Fair Value
Class A Partnership units	(i)	905,944	$ 13,598
Class B Partnership units	(ii)	176,700	2,652
Class D Partnership units	(iii)	1,876,057	28,160
		2,958,701	$ 44,410

		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 - unaudited)

8. EXCHANGEABLE PARTNERSHIP UNITS (CONTINUED):

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 in 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 Toronto Stock Exchange ("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 September 30, 2013 was $15.01 (December 31, 2012 – $14.50).

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

	Total number of Exchangeable Partnership units	Fair Value
Exchangeable Partnership units, January 1, 2013	2,958,701	$ 42,901
Fair value adjustment	-	1,509
Fair value of Exchangeable Partnership units, September 30, 2013	2,958,701	$ 44,410

	Total number of Exchangeable Partnership units	Fair Value
Exchangeable Partnership units, January 1, 2012	2,924,320	$ 37,139
January 1 initial estimate of Class D unit entitlement (80%)	32,500	401
Fair value adjustment	-	5,186
Fair value of Exchangeable Partnership units, September 30, 2012	2,956,820	$ 42,726

(Tabular amounts expressed in thousands of dollars - unaudited)

9. INCOME TAXES:

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 is subject to tax at a rate of 25.0% for the 2012 taxation year, a blended rate of 25.75% for the 2013 taxation year and 26.0% for the 2014 and later taxation years, as a result of the increase in the British Columbia general corporate taxation rate from 10.0% to 11.0%, effective April 1, 2013.

The components of tax expense are as follows:

	July 1 to Sept 30, 2013	July 1 to Sept 30, 2012	January 1 to Sept 30, 2013	January 1 to Sept 30, 2012
Current income tax expense	$ (883)	$ (854)	$ (2,692)	$ (2,599)
Deferred tax expense	(21)	(22)	(134)	(86)
	$ (904)	$ (876)	$ (2,826)	$ (2,685)

During the nine months ended September 30, 2013, the Fund made tax instalment payments of $2,449,000 (nine months ended September 30, 2012 – $2,735,000). As at September 30, 2013, the Fund has a total instalment balance of $2.612.000 with the Canada Revenue Agency as a result of the current year instalment payments of $2,499,000 and a $163,000 tax refund related to the 2012 taxation year which has been applied to the Fund’s instalment account for 2013. Management estimates the Fund’s current income tax expense for each reporting period based on actual results and adjusts current income tax expense accordingly. Instalment payments required by the Canada Revenue Agency are an estimate based on prior year’s results. As a result, the Fund has an estimated $80,000 income tax payable as at September 30, 2013.

The balance of the Fund’s deferred tax liability increased to $1,874,000 as at September 30, 2013 (December 31, 2012 – $1,740,000). The deferred tax liability arises mainly 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.

(Tabular amounts expressed in thousands of dollars - unaudited)

10. 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:

	September 30, 2013	December 31, 2012
Royalty fee receivable from Keg Restaurants Ltd., including GST/HST	$ 1,962	$ 2,338
Interest on note receivable from Keg Restaurants Ltd.	351	362
Due from Keg Restaurants Ltd.	$ 2,313	$ 2,700

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.

	September 30, 2013	December 31, 2012
Distributions payable to Keg Restaurants Ltd.	$ 723	$ 780

The above amounts were paid to KRL when due, subsequent to the end of the periods above.

11. 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.

11. FINANCIAL INSTRUMENTS (CONTINUED):

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.

  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 included 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.

- 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, royalty fee receivable from KRL, interest receivable on the note 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.

(Tabular amounts expressed in thousands of dollars - unaudited)

11. FINANCIAL INSTRUMENTS (CONTINUED):

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, and measured on a recurring basis.

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

	September 30, 2013	December 31, 2012
Financial assets at amortized costs:		
Loans and receivables:		
Cash	$ 890	$ 429
Royalty fee receivable from Keg Restaurants Ltd..	1,962	2,338
Interest on note receivable from Keg Restaurants Ltd.	351	362
Note receivable from Keg Restaurants Ltd.	57,000	57,000
	$ 60,203	$ 60,129
Financial liabilities:		
Amortized cost:		
Accounts payable and accrued liabilities	$ 360	$ 437
Interest payable on term loan	55	56
Distributions payable to Fund unitholders	-	908
Distributions payable to Keg Restaurants Ltd.	723	780
Term loan, net of deferred financing charges	13,939	13,956
Class C Partnership units	57,000	57,000
Fair value through profit and loss:		
Exchangeable Partnership units	44,410	42,901
	$ 116,487	$ 116,038

12. TERM LOAN:

On September 28, 2013, the Fund amended the terms of its $14,000,000 term loan with its existing banking syndicate and the maturity date was extended to July 1, 2016. The facility bears interest at prime plus 1.25% and is secured by a general security agreement over the assets of the Fund.

The term loan is presented net of $61,000 in deferred financing charges at September 30, 2013 (December 31, 2012 – $44,000).

In accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, the amendments were considered modifications of debt. As a result, the $40,000 in deferred financing fees incurred on the extension have been added to the $29,000 unamortized balance of deferred financing fees associated with this facility.