

THE KEG ROYALTIES INCOME FUND

ANNUAL INFORMATION FORM

March 28, 2019

TABLE OF CONTENTS

GENERAL	1
THE KEG ROYALTIES INCOME FUND	1
The Fund	1
The Keg Holdings Trust.....	1
The Keg Rights Limited Partnership.....	1
The Keg GP Ltd.....	2
Keg Restaurants Ltd.....	2
Business of the Partnership	2
GENERAL DEVELOPMENT OF THE FUND	3
Initial Public Offering and the Funding and Acquisition of the Keg Rights and the Keg Loan	3
Distributions.....	4
THE RESTAURANT INDUSTRY	7
The Commercial Foodservice Industry.....	7
The Casual Dining Restaurant Segment.....	8
BUSINESS OF KRL	9
General.....	9
History of the Business.....	9
The Keg Concept.....	11
The Keg Operating Strategies.....	11
Keg Restaurant Locations	13
Corporate Keg Restaurants and Franchised Keg Restaurants.....	14
System Sales.....	14
Average Sales Per Keg Restaurant	16
Advertising and Marketing.....	16
Management Information Systems.....	17
Purchasing.....	17
Human Resources.....	17
Franchise Operations	18
Growth Strategy.....	19
Management of KRL.....	20
Government Regulation.....	21
Competition	22
LICENCE AND ROYALTY	23
The Licence	23
The Royalty	23
Operating Covenants of KRL in the Licence and Royalty Agreement	24
Adjustment of the Royalty	25
INFORMATION CONCERNING THE FUND	29
Declaration of Trust	29
Activities of the Fund	29
Units.....	30
Issuance of Units	30
Trustees.....	31
Cash Distributions	32
Redemption Right.....	32
Trust Units	33
Notes	34
Meetings of Unitholders.....	35
Limitation on Non-Resident Ownership.....	36
Amendments to the Declaration of Trust.....	37
Term of the Fund.....	37
Takeover Bids.....	37
Exercise of Certain Voting Rights Attached to Securities of the Partnership.....	38
Information and Reports.....	38
Book Entry Only System.....	39

Administration	39
Partnership Units	40
RISK FACTORS	42
Risks Related to the Casual Dining Restaurant Industry	42
Risks Related to the Structure of the Fund	45
MARKET FOR SECURITIES.....	48
TRUSTEES, DIRECTORS AND MANAGEMENT.....	49
Trustees and Directors	49
Conflicts of Interest.....	49
Compensation of Trustees and Directors.....	49
Trustees', Directors' and Officers' Liability Insurance	50
Functions and Powers of Keg GP and KRL	51
Governance of Keg GP	52
AUDIT COMMITTEE.....	56
Audit Services.....	57
Audit-Related Services	57
Tax Services.....	57
Other Services	57
LEGAL PROCEEDINGS	57
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	57
TRANSFER AGENT AND REGISTRAR.....	57
MATERIAL CONTRACTS.....	57
EXPERTS.....	58
ADDITIONAL INFORMATION.....	58
GLOSSARY	59

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Information Form may constitute “forward-looking” statements or information that involve known and unknown risks, uncertainties, future expectations and other factors which may cause the actual results, performance or achievements of the Fund, the Trust, the Partnership, KRL, the Keg Restaurants, Keg GP or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements include, but are not limited to, statements made in “The Keg Operating Strategies” and “Growth Strategy”. When used in this Annual Information Form, such statements use such words as “may”, “will”, “expect”, “believe”, “plan” and other similar terminology. These forward-looking statements reflect current expectations regarding future events and operating performance and speak only as of the date of this Annual Information Form. Forward-looking statements include, without limitation, those with respect to: the anticipated performance of the Fund and KRL; the ability of KRL to pay the Royalty and the ability of the Fund to pay its distributions; estimates of the number of restaurant openings and renovations; current expectations of and changes in the casual dining segment of the restaurant food industry; availability of beef; legislation and governmental regulation; KRL’s ability to continue to realize historical same store sales growth; changes in market and existing competition; new competitive developments; the stability of currency exchange rates as it relates to the conversion of U.S. dollar sales from the 10 wholly-owned Keg Restaurants located in the United States into a Canadian dollar equivalent for reporting purposes; and potential downturns in national and local economic conditions generally. These forward-looking statements involve a number of risks, uncertainties and future expectations. The foregoing list of factors is not exhaustive. Forward-looking statements are made as of the date hereof and except as required by law, we assume no obligation to update or revise them to reflect new events or circumstances. See “Risk Factors”.

GENERAL

All information contained in this Annual Information Form is as at December 31, 2018 unless otherwise specified. Reference is made to the glossary for the meaning of certain defined terms.

THE KEG ROYALTIES INCOME FUND

The Fund

The Keg Royalties Income Fund (the “Fund”) is an unincorporated open-ended limited purpose trust established under the laws of the Province of Ontario and is governed by a declaration of trust dated April 12, 2002, as amended, supplemented and restated from time to time (the “Declaration of Trust”). The principal and head office of the Fund is located at 10100 Shellbridge Way, Richmond, British Columbia, V6X 2W7.

The Fund is administered by its trustees (the “Trustees”) and by the Keg Rights Limited Partnership (the “Partnership”) pursuant to an administration agreement entered into by the Fund and the Partnership on May 31, 2002 (the “Administration Agreement”).

The Fund holds, indirectly through the Partnership and The Keg Holdings Trust (the “Trust”), the trademarks, trade names, operating procedures and systems and other intellectual property used in connection with the operation of casual dining steakhouse restaurants operated by Keg Restaurants Ltd. (“KRL”), its subsidiaries or franchisees (“Keg restaurants”), and all goodwill associated therewith (the “Keg Rights”). The Fund is the lender to KRL of a loan in the aggregate amount of \$57 million (the “Keg Loan”) with interest on all amounts outstanding accruing at 7.5% per annum, payable monthly. The Fund receives directly from KRL interest payments on the Keg Loan and, indirectly through the Trust and the Partnership, royalty and other amounts payable by KRL (the “Royalty”) under a licence and royalty agreement entered into by the Partnership and KRL on May 31, 2002 as amended (the “Licence and Royalty Agreement”) for the exclusive and unlimited licence (the “Licence”) to use the Keg Rights for 99 years. As at December 31, 2018, the Fund held all of the Trust’s 1,800,000 issued and outstanding units (the “Trust Units”) and \$33,994,056 principal amount of subordinate notes of the Trust (the “Notes”), representing all of the issued and outstanding Notes. The Fund guarantees amounts due and payable under a term loan (the “Term Loan”) made by a syndicate of Canadian banks to the Trust in a maximum aggregate principal amount of \$14 million and an operating loan (the “Operating Loan”) made by a Canadian chartered bank (the “Bank”) to the Partnership in the principal amount of up to \$1 Million. On September 15, 2017, the Term Loan was amended and restated to extend the maturity date to July 2, 2020.

To the maximum extent possible, the Fund makes cash distributions to its unitholders (the “Unitholders”) of amounts received by the Fund pursuant to interest paid on the Keg Loan and the Notes and pursuant to distributions on the Trust Units, less estimated amounts required for the payment of expenses, any cash redemptions of Units and reasonable reserves (which are currently nominal).

The Keg Holdings Trust

The Trust is an unincorporated limited purpose trust established under the laws of the Province of Ontario by a declaration of trust dated April 12, 2002, as amended, supplemented and restated from time to time (the “Holdings Declaration of Trust”). The Trust owns all of the ordinary limited partnership units of the Partnership (the “LP Units”). The principal and head office of the Trust is located 10100 Shellbridge Way, Richmond, British Columbia, V6X 2W7. The Trust is administered by its trustees (the “Holding Trustees”) and by the Partnership pursuant to an administration agreement entered into by the Trust and the Partnership on May 31, 2002 (the “Holdings Administration Agreement”).

The Keg Rights Limited Partnership

The Partnership is a limited partnership formed under the laws of the Province of British Columbia pursuant to an amended and restated limited partnership agreement dated May 31, 2002, as amended and as the same may be further amended or restated from time to time (the “Limited Partnership Agreement”). The

principal and head office of the Partnership is located at 10100 Shellbridge Way, Richmond, British Columbia, V6X 2W7. The Partnership owns the Keg Rights. The Keg GP Ltd. ("Keg GP") is the managing general partner of the Partnership. KRL is a general partner of the Partnership. The Trust is the sole limited partner of the Partnership.

The Keg GP Ltd.

Keg GP is a corporation incorporated under the laws of Canada. The principal and head office of Keg GP is located at 10100 Shellbridge Way, Richmond, British Columbia, V6X 2W7. Keg GP is the managing general partner of the Partnership with authority to manage and control the business and affairs of the Partnership. The Fund owns 90% of Keg GP's common shares and KRL owns the remaining 10% of such shares.

Keg Restaurants Ltd.

KRL was incorporated under the laws of the Province of British Columbia pursuant to a Memorandum and Articles of Incorporation dated March 20, 1972 under the name "Westward Restaurant Concepts Ltd.". On May 4, 1972, it changed its name to "Westward Leisure Concepts Ltd." and on June 29, 1973, it changed its name to "Keg Restaurants Ltd." KRL was amalgamated with Whitbread Restaurants (B.C.) Inc. under the laws of the Province of British Columbia on September 28, 1987. On September 21, 2000, KRL was continued into the Province of Ontario by Articles of Continuance and on October 2, 2000 was amalgamated under the laws of the Province of Ontario by Articles of Amalgamation with related parties to form the current Keg Restaurants Ltd. On February 4, 2014, Fairfax Financial Holdings Limited, by its subsidiaries and affiliates, completed the transaction to acquire a 51% interest in KRL from David Aisenstat, the sole shareholder prior to the transaction (the "Fairfax Acquisition"). On February 22, 2018, Recipe Unlimited Corporation (formerly, Cara Operations Limited) (hereinafter "Recipe") completed the transaction to acquire 100% interest in KRL (51% from its parent company, Fairfax Financial Holdings Limited and its subsidiaries and affiliates, and 49% interest from David Aisenstat) (the "Recipe Merger"). Mr. Aisenstat along with the rest of the management team that was in place immediately prior to the Recipe merger remain in operational control of KRL.

The registered office of KRL is located at 333 Bay Street, Suite 3400, Toronto, Ontario M5H 2S7. The principal office of KRL is located at 10100 Shellbridge Way, Richmond, British Columbia, V6X 2W7. KRL operates only in Canada and, through various subsidiaries, in select markets in the United States.

Business of the Partnership

The business of the Partnership is the ownership of the Keg Rights, the taking of actions consistent with the Licence and Royalty Agreement to exploit, to the fullest extent possible, the use of the Keg Rights by KRL, the collection of the Royalty payable to the Partnership under the Licence and Royalty Agreement, and the administration of the Fund and the Trust pursuant to the Administration Agreement and the Holdings Administration Agreement, respectively.

Under the Licence and Royalty Agreement, the Partnership has the contractual right to control the character and quality of the wares produced or services delivered by KRL and its franchisees or sublicensees, and to require that the Keg Rights be used by KRL and its franchisees or sublicensees in a manner that enhances the reputation of the Keg Rights. Under the Licence and Royalty Agreement, the Partnership is entitled to:

- contract with KRL for the inspection by KRL of the use of the Keg Rights by its franchisees or sublicensees to ensure that KRL and its franchisees or sublicensees are protecting and enhancing the reputation associated with the Keg Rights;
- obtain, on a quarterly basis, a certificate from an officer of KRL to the effect that KRL is using the Keg Rights in accordance with the Licence and Royalty Agreement and indicating the steps and processes implemented and undertaken to ensure compliance with such agreement;

- require KRL to submit a report, on a quarterly basis, detailing the use of the Keg Rights by KRL and its franchisees or sublicensees in the quarter, including details of all sublicensees of the Keg Rights granted by KRL to its franchisees or sublicensees during the quarter; and
- establish the standards governing the character and quality of the wares produced or services delivered, and the manner of use of the Keg Rights, by KRL and its franchisees and sublicensees.

KRL is required to submit to the Partnership for prior written approval any proposed use of the Keg Rights with any wares or services for which KRL or its franchisees or sublicensees intend to use the Keg Rights, and for which any of KRL or its franchisees or sublicensees are not expressly permitted to use the Keg Rights at the time the Licence and Royalty Agreement is entered into.

GENERAL DEVELOPMENT OF THE FUND

Initial Public Offering and the Funding and Acquisition of the Keg Rights and the Keg Loan

Prior to May 31, 2002, the date the Fund completed its initial public offering (the "Closing"), it did not hold any material assets. Immediately following the Closing, the following transactions took place:

- The Charles F. White Corporation, a British Columbia corporation, the sole shareholder of which is David Aisenstat, who was then also the sole shareholder and a director and officer of KRL, acquired 1,063,500 Units.
- The Fund used the net proceeds of the initial public offering (including the proceeds of the subscription referenced in the immediately preceding clause), after deducting fees payable to the underwriters and certain expenses of the offering, to subscribe for Notes in the aggregate principal amount of \$18,385,000, 400,000 Trust Units for \$4,000,000 and 89 common shares in the capital of Keg GP for \$89.00. Prior to May 31, 2002, the Fund held one common share in the capital of Keg GP.
- The Fund used the balance of such net proceeds of \$57,000,000 to acquire the Keg Loan from the Bank.
- The Trust used the proceeds from the issuance of the Notes and Trust Units to the Fund, together with the proceeds of the Term Loan in the amount of \$13,655,000 (after deducting fees paid to the Bank), to subscribe for LP Units for \$36,040,000.
- The Partnership used the net proceeds from the issuance of the LP Units (after deducting certain fees and expenses incurred by the Partnership) to acquire pursuant to an acquisition agreement among the Fund, KRL and the Partnership (the "Acquisition Agreement") the Keg Rights from KRL for a total purchase price of \$113,546,820. The purchase price was paid (i) as to \$30,487,380, by a cash payment; and (ii) as to \$83,059,440, by the issue of 905,944 Class A general partner units of the Partnership ("Class A Units"), 3,376,700 Class B general partner units of the Partnership ("Class B Units") and 5,700,000 Class C general partner units of the Partnership ("Class C Units").
- KRL subscribed for and was issued 10 common shares in the capital of Keg GP for \$10.00 and entered into a governance agreement, as the same may be amended or restated from time to time (the "Governance Agreement") with the Fund, the Trust, the Partnership, Keg GP and David Aisenstat relating to, among other things, the governance of Keg GP and a registration rights agreement (the "Registration Rights Agreement") with the Fund pursuant to which KRL was granted demand and "piggy back" registration rights by the Fund.
- KRL subscribed for and was issued 1 ordinary general partner unit of the Partnership ("GP Unit") and Keg GP subscribed for and was issued 99 GP Units for \$1.00 per GP Unit.
- Concurrently with the transfer of the Keg Rights to the Partnership, the Partnership granted KRL the Licence for which KRL agreed to pay the Royalty to the Partnership.
- On June 25, 2002, the underwriters of the Fund's initial public offering exercised in part their over-allotment option to acquire 696,200 Units at \$10.00 per Unit. In accordance with the terms of the underwriting agreement dated May 17, 2002 among KRL, the Fund and the underwriters (the "Underwriting Agreement"), the Fund, using the proceeds of the exercise of the over-allotment option, purchased for cancellation from The Charles F. White Corporation 696,200 Units at \$10.00 per Unit.

As of the date hereof there have been no significant changes to the structure that existed immediately after the closing.

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 fulfil that objective. The Fund pays distributions on a monthly basis to Unitholders. Distributions in respect of each month are paid on the last business day of the immediately following month to Unitholders of record on the 21st day of the following month (except distributions in respect of the month of December in each calendar year, for which the record date is the last day of December).

Distribution Increases

The Fund made its initial cash distribution of \$0.0900 on July 31, 2002 to Unitholders of record on July 21, 2002. Since that time, the Fund has raised distributions fourteen times as set out in the following table.

Date Announced	Effective Date	% Increase	Previous Distribution	New Distribution	Annualized Distribution
August 23, 2005	September 2005	2.0%	\$0.0900	\$0.0918	\$1.102
February 23, 2006	April 2006	2.1%	\$0.0918	\$0.0937	\$1.124
August 4, 2006	September 2006	2.0%	\$0.0937	\$0.0956	\$1.147
February 6, 2007	March 2007	2.5%	\$0.0956	\$0.0980	\$1.176
May 14, 2007	June 2007	2.9%	\$0.0980	\$0.1009	\$1.211
November 15, 2007	December 2007	2.6%	\$0.1009	\$0.1035	\$1.242
February 5, 2008	March 2008	2.9%	\$0.1035	\$0.1065	\$1.278
January 12, 2011	February 2011	2.2%	\$0.1065	\$0.0800*	\$0.960*
February 23, 2015	March 2015	2.5%	\$0.0800	\$0.0820	\$0.984
June 22, 2015	July 2015	2.4%	\$0.0820	\$0.0845	\$1.014
November 12, 2015	November 2015	3.6%	\$0.0845	\$0.0875	\$1.050
May 4, 2016	May 2016	2.9%	\$0.8750	\$0.0900	\$1.080
August 10, 2016	August 2016	2.0%	\$0.0900	\$0.0918	\$1.102
November 2, 2017	November 2017	3.1%	\$0.0918	\$0.0946	\$1.135

(*The distribution of \$0.08 per Unit per month was approximately equal to a pre-tax distribution of \$0.1088 per Unit per month. See tax impact below)

Revised Distribution Policy

On January 1, 2011, legislative changes to the tax treatment of certain income trusts, as a result of the specified investment flow-through trust tax (the "SIFT" tax), came into effect. As a result of these changes, income trusts are not entitled to deduct distributions of certain types of income for tax purposes, and are therefore subject to taxation similar to corporations. Accordingly, the Fund was subject to a tax rate of 26.5% for 2011, 25% for 2012, a blended rate of 25.75% for 2013, and a rate of 26% for the 2014 and later taxation years. Effective January 1, 2018, the British Columbia general corporate income tax rate increased from 11% to 12%, resulting in the Fund being subject to an income tax rate of 27% for the 2018 and later taxation years.

As a result of the SIFT tax imposed by the Federal Government, the Fund's Trustees adopted a new distribution policy which reflects the Fund's obligation to make these tax payments. Beginning with the distribution for the month of January 2011 (payable to Unitholders on February 28th, 2011), distributions 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.

Distributions Paid

The following is a summary of the amount of regular monthly cash distributions paid per Unit for the fiscal years ended December 31st, 2011 – 2018:

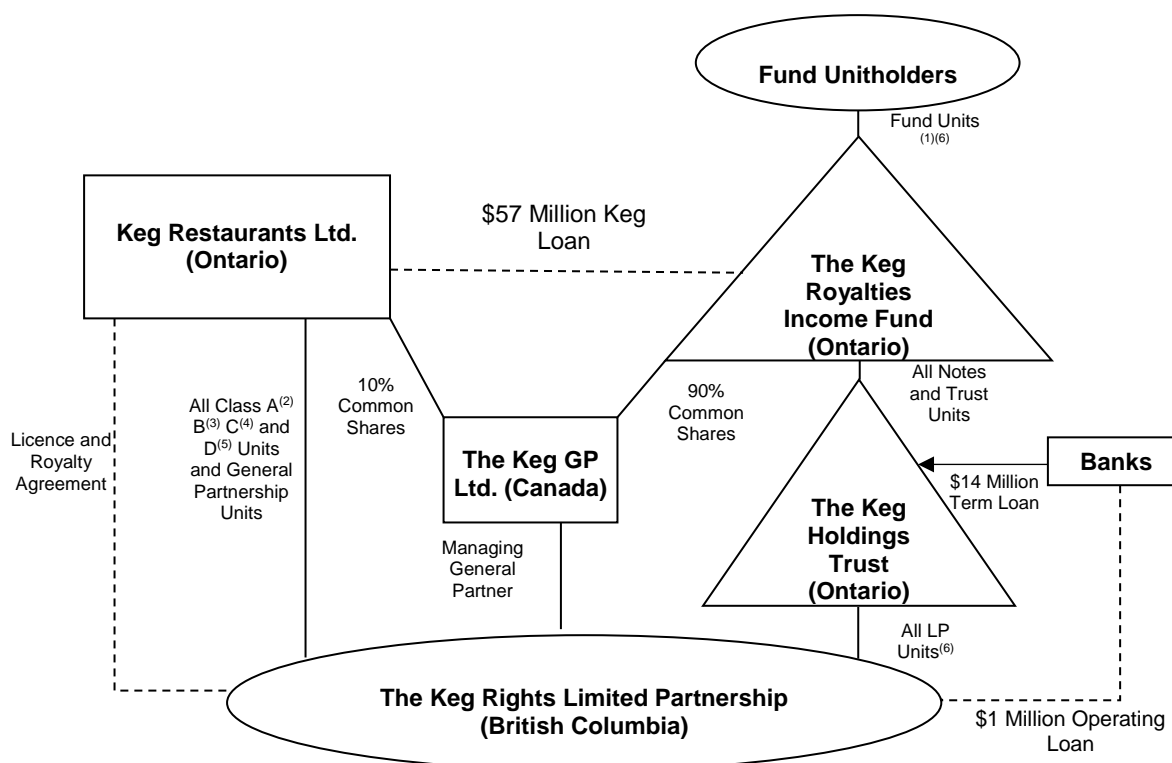
2018 Distributions		2017 Distributions		2016 Distributions		2015 Distributions	
\$0.0946	31-Jan-18	\$0.0918	31-Jan-17	\$0.0875	29-Jan-16	\$0.0800	30-Jan-15
\$0.0946	28-Feb-18	\$0.0918	28-Feb-17	\$0.0875	29-Feb-16	\$0.0800	27-Feb-15
\$0.0946	30-Mar-18	\$0.0918	31-Mar-17	\$0.0875	31-Mar-16	\$0.0820	31-Mar-15
\$0.0946	30-Apr-18	\$0.0918	28-Apr-17	\$0.0875	29-Apr-16	\$0.0820	30-Apr-15
\$0.0946	31-May-18	\$0.0918	31-May-17	\$0.0900	31-May-16	\$0.0820	29-May-15
\$0.0946	29-Jun-18	\$0.0918	30-Jun-17	\$0.0900	30-Jun-16	\$0.0820	30-Jun-15
\$0.0946	31-Jul-18	\$0.0918	31-Jul-17	\$0.0900	29-Jul-16	\$0.0845	31-Jul-15
\$0.0946	31-Aug-18	\$0.0918	31-Aug-17	\$0.0918	31-Aug-16	\$0.0845	31-Aug-15
\$0.0946	28-Sep-18	\$0.0918	29-Sep-17	\$0.0918	30-Sep-16	\$0.0845	30-Sep-15
\$0.0946	31-Oct-18	\$0.0918	31-Oct-17	\$0.0918	31-Oct-16	\$0.0845	30-Oct-15
\$0.0946	30-Nov-18	\$0.0946	30-Nov-17	\$0.0918	30-Nov-16	\$0.0875	30-Nov-15
\$0.0946	31-Dec-18	\$0.0946	29-Dec-17	\$0.0918	30-Dec-16	\$0.0875	31-Dec-15
2014 Distributions		2013 Distributions		2012 Distributions		2011 Distributions	
\$0.0800	31-Jan-14	\$0.0800	31-Jan-13	\$0.0800	31-Jan-12	\$0.1065	31-Jan-11
\$0.0800	28-Feb-14	\$0.0800	29-Feb-13	\$0.0800	29-Feb-12	\$0.0800	28-Feb-11
\$0.0800	31-Mar-14	\$0.0800	30-Mar-13	\$0.0800	30-Mar-12	\$0.0800	31-Mar-11
\$0.0800	30-Apr-14	\$0.0800	30-Apr-13	\$0.0800	30-Apr-12	\$0.0800	29-Apr-11
\$0.0800	30-May-14	\$0.0800	31-May-13	\$0.0800	31-May-12	\$0.0800	31-May-11
\$0.0800	30-Jun-14	\$0.0800	29-Jun-13	\$0.0800	29-Jun-12	\$0.0800	30-Jun-11
\$0.0800	31-Jul-14	\$0.0800	31-Jul-13	\$0.0800	31-Jul-12	\$0.0800	29-Jul-11
\$0.0800	29-Aug-14	\$0.0800	31-Aug-13	\$0.0800	31-Aug-12	\$0.0800	31-Aug-11
\$0.0800	30-Sep-14	\$0.0800	28-Sep-13	\$0.0800	28-Sep-12	\$0.0800	30-Sep-11
\$0.0800	31-Oct-14	\$0.0800	31-Oct-13	\$0.1065	31-Oct-12	\$0.0800	31-Oct-11
\$0.0800	29-Nov-14	\$0.0800	30-Nov-13	\$0.1065	30-Nov-12	\$0.0800	30-Nov-11
\$0.0800	31-Dec-14	\$0.0800	3-Dec-13	\$0.1065	3-Dec-12	\$0.0800	30-Dec-11

In addition, special distributions of 7.0 cents/Fund Unit were declared in December 2015, 3.0 cents/Fund Unit in December 2016, 3.0 cents/Fund Unit in December 2017 and 3.0 cents/Fund Unit in December 2018. For Fund reporting purposes these special distributions were treated as distributions in the year in which they were declared.

Since inception, the Fund has generated \$186,471,000 of distributable cash, paid cumulative distributions of \$184,932,000, and declared a special distribution in December 2018 of \$341,000, which has resulted in a cumulative surplus of \$1,198,000. The cumulative payout ratio (the ratio of cumulative cash distributions paid plus any special distributions declared since inception to the cumulative distributable cash generated since inception) is 99.4%.

Distributions paid since inception have been funded entirely by cash flow from operations and no debt has been incurred at any point to fund any distributions.

Structure of the Fund



Notes:

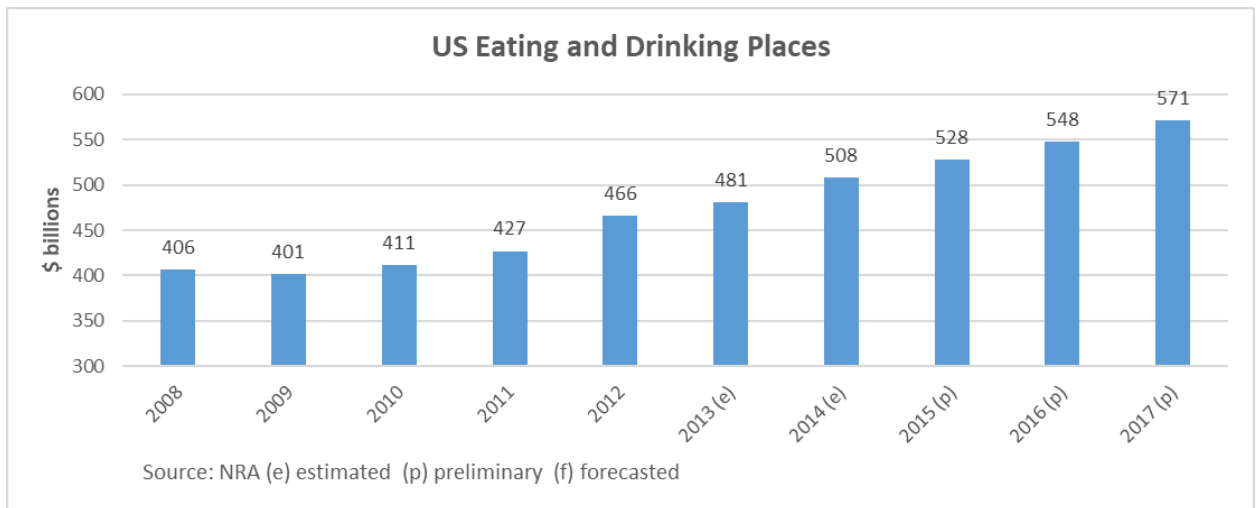
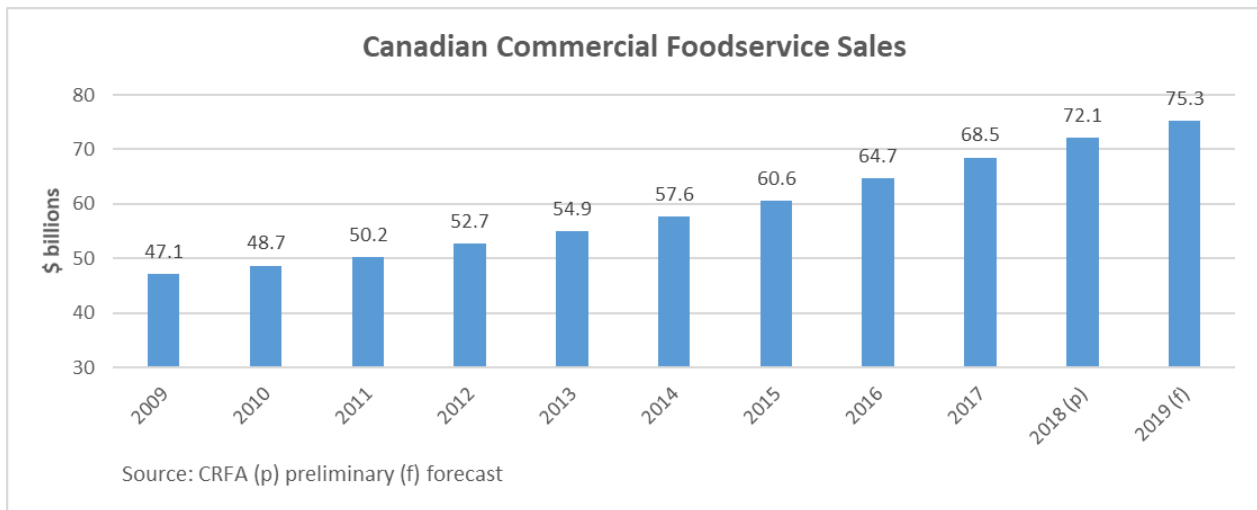
- (1) 11,353,500 Fund Units have been issued to Unitholders.
- (2) 905,944 Class A Units have been issued to KRL. KRL has the right to exchange, pursuant to the Exchange Rights, Class A Units for Units on the basis of one Class A Unit for each Unit. See "Information Concerning the Fund – Partnership Units – The Exchange Rights".
- (3) 176,700 Class B Units have been issued to KRL, all of which, as of January 1, 2008, are entitled to proportionate distributions from the Partnership. This cumulative entitlement is a result of adding net gross revenues of Additional Restaurants to the Royalty Pool on an annual basis. See "Adjustment of the Royalty". KRL has the right to exchange, pursuant to the Exchange Rights, Class B Units for Units on the basis of one Class B Unit for each Unit, provided that the maximum number of Class B Units which may be exchanged at any time is equal to the Cumulative Amount, at such time, divided by \$10.00, less the aggregate number of Class B Units previously exchanged. See "Information Concerning the Fund – Partnership Units – The Exchange Rights".
- (4) 5,700,000 Class C Units have been issued to KRL. KRL has the right to transfer each such Class C Unit to the Trust in exchange for proceeds equal to \$10.00, which will be satisfied by the assumption by the Trust of (and release of KRL from its obligations with respect to) an amount outstanding under the Keg Loan. See "Information Concerning the Fund – Partnership Units – The Exchange Rights".
- (5) 3,000,420 Class D Units have been issued to KRL, all of which are entitled to proportionate distributions of the Fund. Class D Units may only be issued to KRL following the Class B Termination Date (which occurred on January 1, 2008) and as a result of adding net gross revenues of Additional Restaurants to the Royalty Pool on an annual basis. KRL has the right to exchange, pursuant to the Exchange Rights, Class D Units for Units on the basis of one Class D Unit for each Unit.
- (6) 8,153,500 limited partnership units and 3,200,000 Class B limited partnership units have been issued to the Trust.
- (7) Information is current as of December 31, 2018. On January 1, 2019, KRL became entitled to the initial 80% of the Additional Entitlement for 2019, which became satisfied by the issuance of 235,793 Class D Units. See "Information Concerning the Fund – Partnership Units – The Exchange Rights".

THE RESTAURANT INDUSTRY

Canadian industry data in this section and the section entitled “Business of KRL” is derived from publicly available information provided by Statistics Canada, Restaurants Canada and research conducted by VisionCritical (formerly Angus Reid) for KRL. The data for the United States industry is derived from publicly available information provided by The United States Census Bureau, the National Restaurant Association (“NRA”) and Technomic Inc.

The Commercial Foodservice Industry

The commercial foodservice industry encompasses all businesses that sell fully prepared food to consumers for immediate consumption, on or off the premises. In Canada, the total preliminary projected revenues in 2018 for the commercial foodservice industry were \$72.1 billion, representing a compound annual growth rate of 4.0% since 2000. In the United States, 2017 preliminary projected revenues for eating and drinking places were US\$571.5 billion, representing a compound annual growth rate of 4.5% since 2000. The NRA (US) has not yet published updated data for 2016-2018, nor projected revenues for 2019.



The commercial foodservice industry in the United States has experienced positive growth since 1971, with an average growth rate of 6.3% during the period (2.0% on an inflation adjusted basis). Commercial foodservice industry sales, while not immune to changes in economic conditions, have been primarily driven by demographic and lifestyle changes rather than economic cycles. See “The Restaurant Industry — The Casual Dining Restaurant Segment — Casual Dining: Demographic and Lifestyle Driven”. While there have been seven years in which the United States economy has been in recession since 1971, sales (in real terms (on an inflation adjusted basis) in the commercial foodservice industry in the United States only declined in five years during that period, the most severe being a drop of an estimated 3.0% in 2009. Management believes that the Canadian commercial food service industry has exhibited similar characteristics.

The Casual Dining Restaurant Segment

There are four major restaurant segments in the commercial foodservice industry: quick service, family dining, casual dining and fine dining. Keg restaurants are in the casual dining restaurant segment. The table below summarizes the key characteristics of each restaurant segment:

Full Service Restaurants

	Quick Service Restaurants (QSR)	Full Service Restaurants		
		Family Dining	Casual Dining	Fine Dining
Characteristics:	Lowest Cheque No Table Service Plastic Seats No Alcohol	Value-oriented Table Service Buffet Limited Alcohol	Moderate Cheque Table Service Social Atmosphere Alcohol Served	Highest Cheque Fine Cuisine White Table Cloth Alcohol Served
Examples:	McDonald's Kentucky Fried Chicken Tim Hortons	Denny's Swiss Chalet Pizza Hut	The Keg Earl's Boston Pizza	Ruth's Chris Morton's Independents
Typical Expenditure Per Customer:	Less than \$8	\$8 – \$16	\$16 – \$50	More than \$50

Casual Dining: Demographic and Lifestyle Driven

Casual dining restaurants are distinguished by:

- *Selection and Quality of Food.* The typical casual dining restaurant provides a full menu, including appetizers, meals and desserts. The food served is of high quality, and alcoholic beverages are usually available. Casual dining restaurants may offer either a broad range of menu choices or focus on a single type of cuisine, such as steak, Italian or seafood.
- *Quality of Service.* Table service is provided by trained waiting staff.
- *Price Range.* The average expenditure for an individual meal at a casual dining restaurant is typically between \$16 and \$50, depending largely upon the type of cuisine and décor package. Upscale casual dining restaurants, which are characterized by an adult-focus and contemporary décor, generally have an average cheque in the \$20-\$50 range.
- *Mix of Chain and Independent.* The casual dining restaurant segment is less dominated by restaurant chains than the QSR segment. While independent operators will remain a significant part of the casual dining restaurant segment, Management believes restaurant chains will continue to gain a greater share of the casual dining restaurant segment resulting from competitive advantages such as purchasing power, developed back office infrastructure, site selection, expertise and greater brand power.

The significant growth in the casual dining restaurant segment has been a result of demographic and

lifestyle changes. Continuing trends that Management believes will result in further growth in sales by the casual dining segment include:

- *Increasingly affluent baby boomers are of casual dining age.* “Baby boomers”, those people born between 1947 and 1966, represent the largest segment of the population in Canada and the United States. An aging and affluent population are forecasted to make full service restaurants the fastest growing segment of the commercial food service industry over the next five years.
- *Frequency of casual dining visits driven by demographic and lifestyle changes rather than economic cycles.* Management believes the frequency of visits in the casual dining restaurant segment has been driven by demographic and lifestyle changes rather than economic cycles.
- *Increased desire for convenience.* Management believes Canadians and Americans are generally leading faster-pace lifestyles, leaving them with less time and desire to prepare meals at home, and, as a result of their busy schedules, convenience is becoming a more important criterion in their food purchasing decisions. Management believes restaurant services will become increasingly treated as a consumer staple rather than a consumer luxury.
- *Increased use of casual dining restaurants as social meeting places.* Management believes groups are increasingly using casual dining restaurants, such as The Keg, as social meeting locations to see family and friends in casual, dynamic environments.

Full-Service Restaurant Segment Outlook

In Canada, *Restaurants Canada* has estimated that sales in the full-service category, the category in which The Keg operates, increased by 5.7% in 2018, and has projected sales to increase by 4.5% in 2019. *Restaurants Canada* has also forecasted sales in the full-service category to increase by an average of 4.6% per year between 2018 and 2022 (1.6% per year on an inflation adjusted basis). In the United States, the NRA has estimated that sales in the full-service category increased by 4.8% in 2016 (2017 data not available at time publication), and has projected sales to increase by 3.5% in 2017. The NRA has not yet released a long term forecast. Given the close historical relationship between disposable income and foodservice spending, Management believes that as economic conditions continue to improve in North America, so will sales in the full-service category of the restaurant industry.

BUSINESS OF KRL

General

KRL is a premier operator and franchisor of casual dining steakhouse restaurants in Canada and, through its wholly-owned subsidiaries, in select markets in the United States. Over its 47-year history, The Keg has established a strong brand name and excellent reputation in the casual dining industry. The Keg menu features steak and prime rib and includes appetizers, seafood, salads, desserts, beer, wine, cocktails and hiballs. Each Keg restaurant offers a full bar that attracts a broader range of clientele and creates a more dynamic atmosphere than is generally available in a restaurant offering dining only. In the bar area, a more casual dining experience is also available to guests.

At December 31, 2018, there were 105 Keg restaurants in operation, of which 95 are in Canada and 10 are in the United States. KRL owns and operates 39 Keg restaurants in Canada and, through its wholly-owned subsidiaries, all of the 10 Keg restaurants in the United States. The remaining 56 Keg restaurants all of which are located in Canada are independently owned and are operated under franchise agreements with KRL or its subsidiaries. The Keg has approximately 10,400 full and part time employees, referred to as “Keggery”, of which approximately 4,800 are employed by KRL and its subsidiaries and approximately 5,600 are employed by Keg franchisees.

History of the Business

The Keg’s evolution may be described in three broad stages:

Stage One: Start up and Growth

The Keg was founded in 1971 by the late George Tidball when he opened the first Keg restaurant in North Vancouver, British Columbia. This restaurant was Canada's first "California style" steak and lobster house — in Mr. Tidball's words "a blue jean revolution eatery" — a place where you could come as you are anytime and enjoy a lively and casual dining experience with high quality food at attractive prices.

The Keg concept was enthusiastically accepted by a population just beginning to fuel the casual dining industry. During the 1970s, The Keg expanded rapidly throughout British Columbia, the Prairies and Ontario and by 1977 had expanded into the Pacific Northwest region of the United States. By the end of the 1970s, there were approximately 35 Keg restaurants and The Keg stood out as a pioneer and a leader in the Canadian restaurant industry.

During the 1980s, The Keg continued to be one of Canada's leading casual dining restaurant brands. In 1987, The Keg was acquired by Whitbread Plc ("Whitbread"), a large brewing and leisure conglomerate based in the United Kingdom.

Stage Two: The Whitbread Years

Following Whitbread's acquisition of The Keg, operating control was moved to the United Kingdom. Whitbread immediately commenced a renovation program for corporate Keg restaurants, while simultaneously investing in new locations and advertising. However, Whitbread also embarked on a strategic redirection of The Keg's menu, adding to the non-steak food items while de-emphasizing the bar component of the restaurants. As a result of these actions, The Keg suffered a decline in customer counts and profitability. Management believes that such declines were attributable to the change in focus away from The Keg's core concept as a steakhouse and bar, resulting in a loss of identity with consumers.

In 1994, Whitbread undertook a strategic renewal of The Keg by returning to The Keg's core strength as a steakhouse and bar. Results at The Keg began to improve steadily. However, in late 1996, Whitbread decided to exit the North American market and began a process to find a purchaser for The Keg operations.

Stage Three: Competitive Strength and Growth

In 1997, KRL was acquired from Whitbread by Raleigh Corporation, a company controlled by David Aisenstat and a financial partner. In June 2000, Mr. Aisenstat purchased the interest of his financial partner to become the sole beneficial owner of KRL. Mr. Aisenstat had a previous association with KRL, having served as a member of its Board of Directors and Executive Committee from 1982 until The Keg was acquired by Whitbread. Mr. Aisenstat has significant additional experience in the restaurant industry and was an executive and principal of Hy's of Canada Ltd., a chain of fine dining steakhouse restaurants operating in Canada since 1955.

Mr. Aisenstat and the management team of KRL have continued with many of the elements of the strategic renewal initiated by Whitbread which emphasized a focus on The Keg as a steakhouse and bar, consistent and frequent advertising messages, consistent updating and upgrading of the restaurant premises, and industry-leading training and human resource programs. The following additional key initiatives have also been undertaken, including:

- A major organizational restructuring that reduced administrative staff and expenses, introduced profit-based bonus incentives to all levels of management and returned operational control to Canada. These steps returned The Keg to its entrepreneurial roots and, Management believes, revitalized the long term Keggery who remained in senior management.
- The sale of corporate Keg restaurants in smaller markets to Keg franchisees. A total of fourteen Keg restaurants were converted to franchises which, in every case, resulted in increased sales and profitability. Management believes this is due to the hands-on, entrepreneurial management of a dedicated local operator.
- The development and implementation of an expansion strategy in the United States. This strategy, which has been implemented in three select markets in the United States, relies

primarily on The Keg's existing infrastructure and management experience in both Canada and the United States.

- Most importantly, an unwavering focus on achieving operational excellence — great food, great service, great attention to detail — which Management believes has been critical to The Keg attaining a leading competitive position in the casual dining restaurant segment.

The Keg Concept

The Keg is uniquely positioned towards the higher end of the casual dining restaurant segment, focusing on customers looking for high quality steak and prime rib at a reasonable price. Great steaks, a casual atmosphere and friendly, very knowledgeable service have become signatures of The Keg since the first Keg restaurant opened in 1971. The essential elements of The Keg concept are:

High Quality Steakhouse Menu — The Keg's menu has evolved during the last 45 years, but continues to attract guests with the basics that built the success of The Keg - great steaks, slow-roasted prime rib, appetizers, salads and desserts.

The Keg menu features Canada AAA or USDA Choice steaks of various sizes and cuts, including, sirloin, New Yorks, rib steaks and filets, as well as slow-roasted prime rib. The menu also offers chicken, seafood and a wide variety of traditional and contemporary appetizers, salads and desserts. Keg restaurants also offer a full bar selection, including draught and bottled beer, cocktails and hiballs, an extensive wine list and an assortment of speciality coffees and liqueurs.

The Keg Bar — Further enhancing each guest's dining experience is an integrated, yet separate, bar designed to provide a relaxing environment for guests to enjoy a sociable eating and drinking experience. Apart from serving as the entry point for many guests who intend to spend their evening in the dining room, the bar also serves as an important vehicle for drawing youthful patrons seeking The Keg experience but without the dining budget of typical guests. This group represents a key source of future growth as its members become more affluent with age.

Friendly, Knowledgeable Service — The Keg complements the dining occasion by providing friendly, efficient and knowledgeable service to guests. The servers are experts on the subject of red meat, being referred to by The Keg as "steakologists", and are prepared to discuss the finer points of quality, standards, specifications and preparation. The Keg spirit, which is unmistakable in the staff, ensures that guests feel the enthusiasm and energy The Keg's staff bring to work each day.

Comfortable and Lively Atmosphere — The Keg offers comfortable and attractive restaurants combined with a bar that is a fun, inviting destination of its own. The interior design of Keg restaurants features fresh colours with contemporary art. Popular music throughout each Keg restaurant contributes to an informal, casual environment.

Strong Casual Steakhouse Brand — The Keg has earned the loyalty of its guests by avoiding themes, gimmicks and fads. Management believes a focused approach to being a great steakhouse has brought dependability and integrity to the Keg brand. Each Keg restaurant offers an atmosphere that encourages people to relax and be themselves.

The Keg defines its core guest segment as "Steak Lovers". They are people who dine out regularly and genuinely enjoy the experience. They want a dependable, safe choice that suits the taste of their party and will tend to choose a restaurant that is familiar to them. This consumer wants friendly, helpful service, great steak and wants to feel like a regular guest.

The Keg Operating Strategies

In order to maintain and strengthen its unique position at the high end of the casual dining restaurant segment, Management continues to pursue the following operating strategies:

Ensure Superior Quality Food — A primary element of The Keg’s appeal is the use of high quality ingredients consistently prepared fresh. In order to ensure the quality and freshness of the food, The Keg purchases meat, produce and other supplies from a limited number of carefully screened suppliers whose products meet The Keg’s standards. These suppliers are continuously monitored by The Keg to ensure these standards are met or exceeded. Similarly, KRL undertakes ongoing reviews and audits of each Keg restaurant to ensure The Keg’s standards and quality requirements are maintained.

Attract and Retain Quality Employees and Build Employee Morale — A key reason for The Keg’s success is the quality of its employees. The Keg empowers employees with expertise through training programs and presents employees with opportunities to grow both professionally and personally. The Keg delivers highly attentive, friendly guest service by closely supervising restaurant operations and by providing ongoing employee training and support. The Keg focuses on hiring highly motivated restaurant management and staff. The Keg retains its staff by providing a supportive environment and performance incentives.

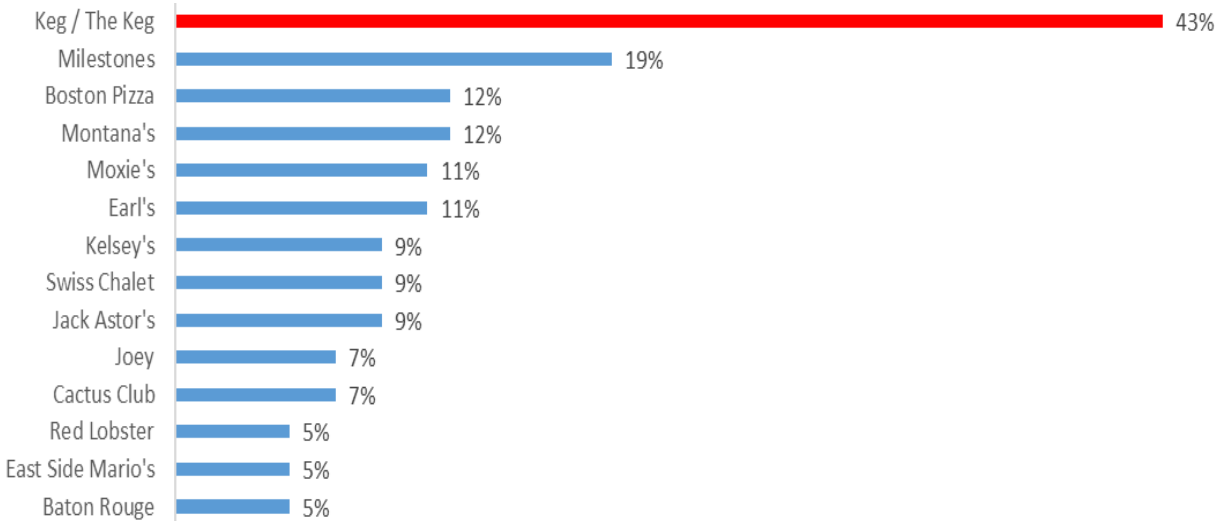
Create Comfortable Restaurant Ambiance — Management believes that the distinctive interior décor and unique restaurant/bar layout of each Keg restaurant results in a casual, relaxed and dynamic dining experience not found in most other restaurants. The Keg spends considerable time on the design and architecture of each Keg restaurant to achieve these goals. A typical Keg restaurant measures 7,500 to 8,500 square feet with seating for 180 in the dining room and 90 in the bar.

Keg restaurants have similar, but not identical, layouts and décor, as Management feels it is important that each Keg restaurant have a customized feel rather than the “cookie cutter” appearance common to many chain restaurants. This has allowed The Keg to locate in some particularly unique buildings, such as a former train station, an historic mansion and even an old winery.

Focus on Prominent Locations — Management considers the location of each Keg restaurant to be critical to its long-term success and devotes significant effort to the investigation and evaluation of potential sites. The Keg’s restaurant format, however, is flexible and adaptable to various types of facilities. KRL performs a detailed analysis of every corporate and franchised Keg restaurant location to ensure that each site meets the requirements for a Keg restaurant.

Capitalize on Brand Awareness and Customer Satisfaction — The Keg is the only national casual dining steakhouse restaurant chain in Canada. The Keg uses a combination of national advertising and regional programs. Management believes that its advertising campaigns have significantly enhanced public awareness of Keg restaurants. The following table shows the results of a national on-line study conducted in November 2018 by Maru (formerly Vision Critical), a leading international marketing research firm. A part of the study asked 1,200 people, unaided, to name the restaurant they would visit for a sit-down, full-service dinner, where the bill would likely be at least \$15 per person.

Top-of-mind Awareness – 12 months



Provide Strong Management Support — KRL is committed to providing strong management support from KRL’s senior management team which has over 500 years of collective experience with The Keg. This team provides support for all aspects of operations, site selection, systems implementation, staff hiring and training, and administration.

Pursue Disciplined Restaurant Growth — Management believes KRL’s growth will come from three areas: Same Store Sales Growth, Canadian market expansion and market expansion in the United States.

Same Store Sales Growth has averaged 3.0% over the past twenty-one Fiscal Years and Management is focused on continuing this trend. Management believes Canadian market expansion will be leveraged by The Keg’s leading market position and national presence. Market expansion in the United States will initially focus on specific target markets and will emphasize The Keg’s unique position between lower priced themed steakhouse chains and higher priced fine dining steakhouses.

Keg Restaurant Locations

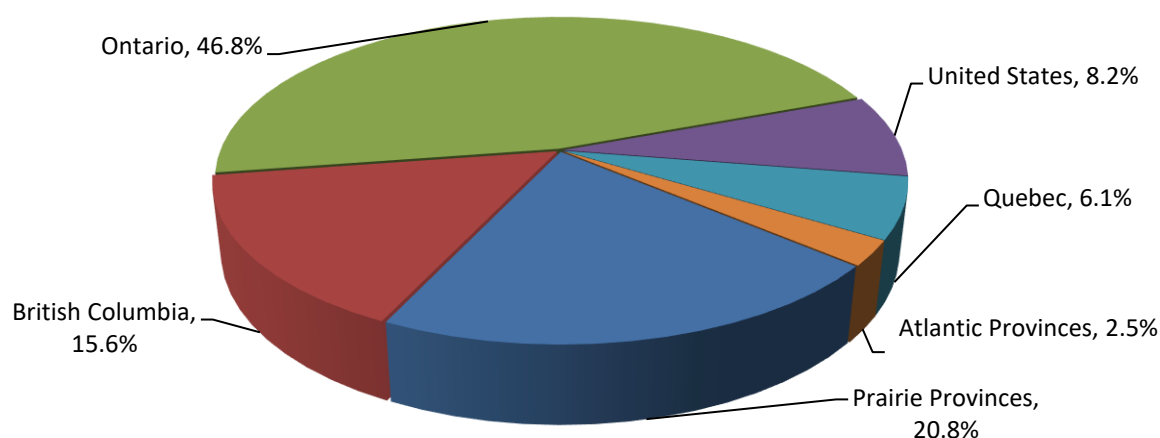
The following table sets forth the number of Keg restaurants, by geographic region, at December 30, 2018. Management believes that the geographic spread of Keg restaurants reduces the risk of any single region’s economic fluctuations having a material impact on results.

	British Columbia	Prairie Provinces ⁽¹⁾	Ontario	Quebec	Atlantic Provinces ⁽²⁾	United States ⁽³⁾	Total
Corporate	9	8	17	5	-	10	49
Franchise	10	16	27	-	3	-	56
Total	19	24	44	5	3	10	105

Notes:

- (1) The corporate Keg restaurants are all located in Alberta (8). The franchised Keg restaurants are located as follows: Alberta (9), Saskatchewan (3), and Manitoba (4).
- (2) Includes one franchised Keg restaurant in each of Nova Scotia, Newfoundland, and New Brunswick.
- (3) These corporate Keg restaurants are located in select markets in the United States as follows: Washington (1), Texas (3), Colorado (1), and Arizona (5).

The following chart shows the percentage breakdown of System Sales by region for the 52 weeks ended December 30, 2018.



Corporate Keg restaurants are owned and operated by KRL or a wholly owned subsidiary of KRL. Franchise Keg restaurants are owned and operated by independent Keg franchisees under a franchise agreement with KRL.

Nearly all corporate and franchised Keg restaurants are operated from leased premises. These leases typically range in term from 10 to 20 years, usually with options to renew for additional five-year terms. KRL historically has been successful in negotiating extensions to the leases for corporate Keg restaurants at the end of their terms.

Corporate Keg Restaurants and Franchised Keg Restaurants

In 1997, KRL undertook a strategy to increase the proportion of franchised Keg restaurants, initially by selling a number of corporate Keg restaurants in certain smaller markets. Management believes that the focus of an independent “hands-on” entrepreneurial operator in these markets has resulted in improved sales and profitability. The following table identifies the change in the number of corporate and franchised Keg restaurants between September 28, 1997 and December 30, 2018.

	Number of Keg Restaurants as at	
	Sept. 28, 1997	Dec. 30, 2018
Corporate Keg restaurants.....	62	49
Franchised Keg restaurants.....	18	56
Total.....	80	105

System Sales

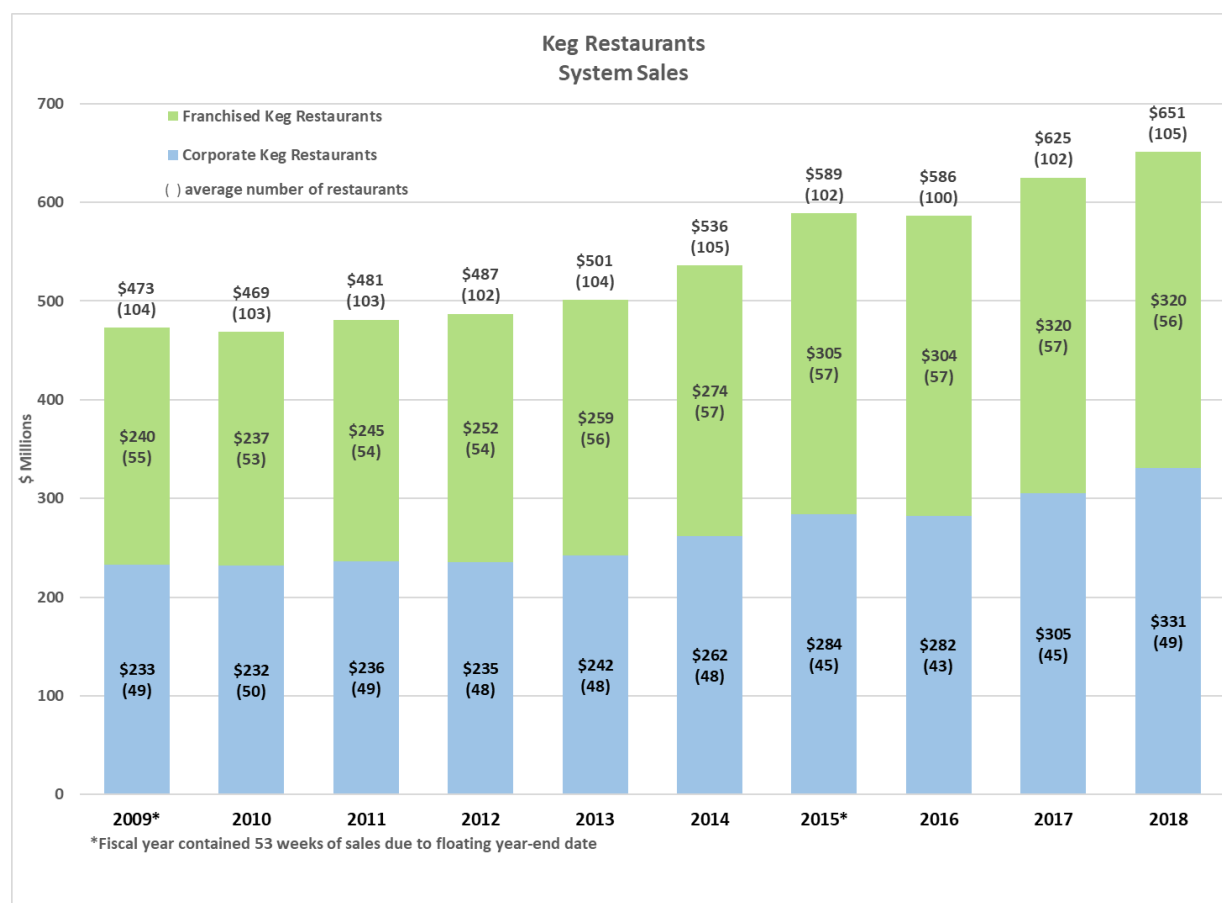
System sales have increased in each of the previous twenty-one fiscal years (the period during which the current management team has been in place for KRL), by the addition of twenty-five net new restaurants during that period and strong Same Store Sales Growth. System sales have increased at a compound annual growth rate of 6.0% from \$193.0 Million during the fiscal year ended September 28, 1997 to \$650.5 Million for the fiscal year ended December 30, 2018.

KRL’s year-end historically fell on the Sunday closest to September 30th, in any year. As a result of the floating year-end date, approximately every fifth fiscal year contained 53 trading weeks of operation. KRL’s fiscal years ended October 3, 2004, October 3, 2010 and October 2, 2016 contained 53 weeks of sales and related costs. The Fund’s fiscal years ended December 31, 2004, 2010 and 2016 therefore contained 53 weeks of sales.

On September 18, 2018, KRL filed notice it was changing its year-end from the Sunday closest to September 30th in any year, to the last Sunday in December in any year. The change was implemented to align KRL’s financial year-end with the financial year-end of its parent company, Recipe.

As a result of the change noted above and in order to provide a more meaningful basis for comparison of sales results, system sales presented on the following page are now for the 52 or 53 week periods closest to December 31st in any year. The period ended January 3, 2010, fiscal 2009, and January 3, 2016, fiscal 2015, contain 53 weeks operation and related sales.

The following chart shows total System Sales in Fiscal Years 2009 to 2018.



Same Store Sales

Over the past twenty years (the period in which the current management team has been in control of KRL), KRL's objective has been to enhance the profitability of Keg restaurants. The largest driver of this increased profitability has been Same Store Sales Growth which has averaged 3.0% over that twenty-one year period.

The following table shows the Same Store Sales Growth of Keg restaurants for the Fiscal Years between 2009 and 2018.

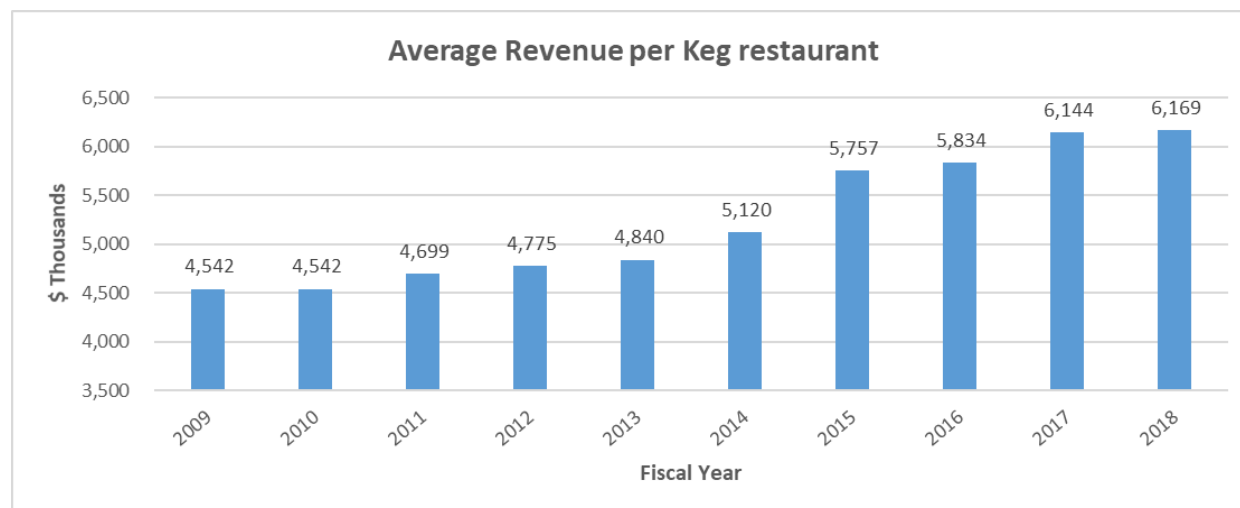
	2009 vs. 2008	2010 vs. 2009	2011 vs. 2010	2012 vs. 2011	2013 vs. 2012	2014 vs. 2013	2015 vs. 2014	2016 vs. 2015	2017 vs. 2016	2018 vs. 2017
Same Store Sales Growth	3.4%	1.7%	3.5%	0.2%	<0.3%>	5.8%	8.0%	1.5%	4.7%	1.5%

Same Store Sales Growth for the comparable 52 week period ended December 30, 2018, increased by 1.2% in Canada and by 4.5% in the United States. After translating the sales of the U.S. restaurants into their Canadian dollar equivalent, consolidated Same Store Sales Growth increased by 1.5% for the comparable 52-week period.

Average Sales per Keg Restaurant

As a result of Same Store Sales Growth as well as the replacement of lower revenue, less profitable Keg restaurants with better locations capable of achieving higher sales, average revenue per Keg restaurant has increased in each Fiscal Year since 1997, with the exception of Fiscal 2009 which Management attributes solely due to the weak economic conditions that existed in both Canada and the United States at that time.

The following table shows the average revenue per Keg restaurant in the Fiscal Years 2009 to 2018.



Advertising and Marketing

The Keg's marketing strategy is to enhance the strong national brand name in Canada that The Keg has developed over the past 45 years. In the United States, the strategy is to focus on the regional market where Keg restaurants are being opened to highlight The Keg's unique market position between the lower priced, themed steakhouse chains and the higher priced, fine dining steakhouses. The Keg's advertising program targets middle to upper-middle income men and women most typically of the baby boomer generation.

In the 2018 Fiscal Year, The Keg spent \$15.8 million on advertising, representing approximately 2.4% of sales. In addition to those funds, each Keg restaurant has a local promotions budget of approximately 2% of sales, bringing the total dollars spent on marketing to approximately \$30.2 million.

KRL's marketing and advertising program is primarily focused on television and digital advertising. Approximately 37% of KRL's media budget is spent on television and digital advertising. The Keg is the only national casual dining steakhouse restaurant chain in Canada. Consequently, The Keg is able to utilize national television to efficiently reach its target markets. For example, The Keg advertises 52 weeks per year on The Sports Network and is the title sponsor of Off The Record, a weekday program aired during primetime nationwide. The Keg reinforces its message through other media, including internet, digital, radio, outdoor and print

In recent years, content consumption has changed dramatically: moving away from traditional TV watching to consuming content through mobile, web streaming, and online websites. The change in how consumers view content has had an influence on how brands communicate to consumers, and The Keg has been no exception. With the rise in mobile, digital and social usage, The Keg has increased its spend in all three categories to approximately 11% of the total advertising spend. All three channels have allowed The Keg to deliver specific messages relevant to hyper-targeted markets – be it geographic, age, demographic or interest-based.

In addition to traditional advertising and marketing, The Keg builds brand awareness through other related initiatives including Keg brand consumer products, such as salad dressings and seasonings, and

community initiatives through The Keg Spirit Foundation. This charitable organization was founded as part of The Keg's 30th anniversary celebrations to highlight The Keg's history of community involvement and to encourage Keggers to become active contributors to their communities.

Management Information Systems

KRL utilizes point of sale systems in each of the Keg restaurants, as well as central information technology. These systems provide Management with prompt, complete and accurate information at both the individual restaurant level and the regional and corporate levels. Restaurant management prepares daily cash reports which are input into the system. For corporate Keg restaurants, this information, together with other reports on sales, sales mix, customer counts, average cheque and labour, is electronically transmitted to the corporate office on a daily basis. Sales for all franchised Keg restaurants are typically reported to the corporate office on a weekly basis but can be monitored on a daily basis, if warranted.

Each Keg restaurant utilizes a standardized food and beverage inventory system which allows restaurant management to monitor and control food and beverage costs as well as inventory levels. The system identifies and compares actual usage by inventory item to standard Keg usage by item. Quantity variance reports are produced by the system for meat and seafood items on a daily basis, and on all food and beverage items on a period-end basis. Detailed restaurant profit and loss statements for each Payment Period are available within six working days of each period end.

Purchasing

Management believes that purchasing is an important factor in the ability of KRL to maintain its high standards of quality and service. Considerable attention is devoted to ensuring that KRL's exacting specifications for all food products are met at all times by its suppliers. KRL typically has close, long-term relationships with a limited number of key suppliers in order to ensure consistency and high levels of service and responsiveness. KRL does not have a reliance on any single supplier that could result in the interruption of The Keg's supply of product.

While the primary emphasis of KRL's purchasing activities is ensuring a consistent supply of high quality products, considerable attention is also devoted to cost controls and pricing. Management believes that purchasing power is best leveraged through the use of a limited number of suppliers as KRL is, in most cases, one of the largest customers of each of its suppliers.

Human Resources

The Keg has defined specific profiles for all staff positions and has used these in developing sophisticated recruitment practices. Internal and external candidates for restaurant management positions are initially screened by assessment centres, which interview and identify top candidates. Partly as a result of these techniques, The Keg has earned a reputation for attracting and retaining some of the best talent in the restaurant industry.

All new employees undergo comprehensive training appropriate for their positions. These programs are supported by internally developed instruction materials and combine both on-the-job and classroom training. Training and development are ongoing for employees, and include periodic testing of knowledge and skills. Management development also includes a phased course in leadership and interpersonal skills, which was developed specifically for The Keg by a leading firm of management development consultants.

KRL's recruitment, training and development programs, combined with a competitive remuneration package, underpin a very positive working climate. KRL's positive labour relations are reflected in its historically low management and staff turnover ratios relative to others in the commercial food service industry. Neither KRL nor its subsidiaries' offices or restaurants are unionized.

Management believes that profit-based bonus incentives are an important tool to attract, motivate and retain management. KRL's bonus program encompasses all levels of restaurant, regional and corporate management.

Franchise Operations

The 57 franchised Keg restaurants in operation on December 30, 2018 are owned by a total of 25 different Keg franchisees. Of these, 13 Keg franchisees own more than one Keg restaurant. A total investment of as little as \$1.5 million, in the case of the conversion of an existing restaurant into a Keg restaurant, and up to \$5.5 million, in the case of the construction of a new Keg restaurant, is currently required to open a Keg restaurant and become a Keg franchisee.

Relationship with Franchisees — The alignment of franchised Keg restaurants and corporate Keg restaurants into a family of casual dining steakhouse restaurants is one of the most important and most basic objectives of KRL. Franchising has been treated as a top priority by Management over the past fifteen years and the revenue from franchised Keg restaurants has more than quadrupled over that period. See “Business of KRL — System Sales”.

The success of KRL’s franchising strategy is a result of the good relationship between KRL and Keg franchisees. Improved support programs, a focus on receiving and acting upon franchisee feedback and a resulting common vision with franchisees of The Keg concept have been responsible for the building of a relationship based on trust and mutual respect. Management is committed to maintaining this collaborative relationship with Keg franchisees as Management believes that the continued development of The Keg’s franchise system is critical to The Keg’s growth in both Canada and the United States.

The Keg Franchise Agreement — The relationship between KRL and Keg franchisees is governed by a franchise agreement. Each franchised Keg restaurant is owned and operated as an independent business which is licensed to use the Keg Rights pursuant to the franchise agreement.

Maintaining high standards of operation is fundamental to the success of a franchise business system. In order to preserve the reputation, goodwill, uniform high standards of quality of product, customer service, appearance and proven methods of The Keg’s system, KRL’s franchise agreement requires a Keg franchisee to operate the franchise under The Keg name in accordance with such methods, standards, specifications and procedures as KRL prescribes.

A screening process has been developed for the selection of qualified Keg franchisees. Only persons with appropriate levels of funding, professional competence, experience, reputation, ability and financial responsibility are awarded Keg franchises.

The initial term of a Keg franchise agreement is typically ten years with an option to renew for an additional ten-year term, provided the Keg franchisee is in compliance with the terms and conditions of the franchise agreement.

An initial franchise fee of \$75,000 is payable to KRL. This amount is largely spent by KRL in providing pre-opening assistance in areas such as site selection, restaurant design and construction, training, recruitment and grand opening festivities.

On an ongoing basis, a Keg franchisee is required to make only two types of regular payments to KRL. First, a franchise fee in the amount of up to 5% of gross sales (6% for new franchises after January 1, 2013) is payable to KRL. In addition, each Keg franchisee is required to spend at least 2.5% of sales (2.0% for new franchises after January 1, 2013) on advertising, an amount which, in most cases, is administrated directly by KRL’s marketing department. In all cases, the marketing budget of a Keg franchisee is subject to the review and approval of KRL.

The rights and obligations of both KRL and the Keg franchisee are defined in the franchise agreement. The franchise agreement may not be assigned by the Keg franchisee, and may be terminated by KRL if the Keg franchisee is not in compliance with the terms thereof. Only products approved by KRL may be sold in a Keg restaurant and, pursuant to the franchise agreement, each Keg franchisee agrees to purchase ingredients, supplies and inventory solely from suppliers designated by KRL.

Franchise Support Programs — KRL recognizes that the success of each Keg franchisee directly affects the success of KRL and other Keg franchisees. As a result, KRL provides strong and comprehensive support programs to Keg franchisees both before and after a franchised Keg restaurant opens. Using regional managers as liaisons, this support is provided by the same experienced Keggers who oversee the corporate Keg restaurants. This not only ensures that the best possible resources are available to Keg franchisees, but also helps make The Keg experience seamless for guests between franchised and corporate Keg restaurants.

The support programs include:

- *Keg Franchisee Training Program.* A mandatory training program for new Keg franchisees is conducted by KRL, which includes instruction in all aspects of successful management of a Keg restaurant, including staff recruitment, labour management, operating systems, cost control, local trade area marketing, kitchen procedures, customer service and general business management.
- *On-Going Training.* KRL provides continuous training for Keg franchisees through its regional managers and the holding of periodic seminars, workshops and meetings.
- *Operational Support.* On an ongoing basis, KRL also provides operational support to Keg franchisees through a regional manager on all aspects of operating a Keg restaurant, which includes the production and preparation of all approved products, consulting services regarding marketing and merchandising, and advisory services relating to the administrative and financial aspects of the operation of the business. The purpose of this support is to assist Keg franchisees in the sound operation of their Keg restaurants.
- *Restaurant Performance Reports.* Regional managers annually undertake a comprehensive review (called a “Keg Operation Review”) of each Keg restaurant. The report examines and assesses all aspects of the operation of the Keg restaurant and ensures conformity with the standards of operation that are prescribed by KRL.

Growth Strategy

The Keg is a proven concept with a 47 year history in the casual dining restaurant segment. Management believes that the strength of The Keg brand, Management’s depth and experience, The Keg’s leading market position in Canada, and its unique steakhouse niche in the United States all position it well for growth. This growth is expected to come from three principal areas:

- *Growth in Same Store Sales:* Increases in Same Store Sales and average restaurant sales have generally been the main contributors to the growth in revenue and profit which KRL has experienced over the past fifteen Fiscal Years. These factors are extremely important to the profitability of each Keg restaurant and are an ongoing focus of Management.
- *Canadian Expansion of Keg Restaurants:* The Keg is one of the largest casual dining restaurant brands in Canada. Management believes the opportunity exists to build an additional 20 Keg restaurants in Canada over the next decade. Some of these opportunities exist in KRL’s corporate markets, but many more exist in unexploited franchise markets. Management believes that the success of existing Keg franchisees, together with The Keg’s leading brand position in Canada, make the establishment of a Keg franchise an attractive opportunity in many additional Canadian communities.
- *United States Expansion of Keg Restaurants:* KRL has successfully competed against the leading United States restaurant companies, including Outback Steakhouses and numerous independent steakhouses in Washington State for over 30 years. Management has developed and implemented a strategy to further penetrate select markets in the United States. KRL undertook an extensive study of the top markets in the United States and chose three markets which KRL continues to believe represents the best current opportunities for expansion of corporate restaurants: Dallas, Texas; Denver, Colorado; and Phoenix, Arizona. KRL believes that its unique market positioning between the lower priced, themed operators (such as Outback Steakhouses, Lone Star and Saltgrass) and the higher priced, fine dining steakhouses (such as Morton’s, Ruth’s Chris and Sullivan’s) provides a unique opportunity to appeal to baby boomers who represent a large and growing segment of the casual dining restaurant market.

Management estimates that 20 Keg restaurants could be built in the metropolitan and surrounding areas of Dallas, Denver and Phoenix alone, with much greater growth opportunities in many other markets in the United States which KRL has identified as attractive for The Keg concept. In keeping with this strategy, KRL opened four restaurants in Dallas/Fort Worth, Texas, two restaurants in Denver, Colorado, four restaurants in Phoenix, Arizona, and one restaurant in Tucson, Arizona. KRL has opened these initial restaurants as corporate Keg restaurants, but, as expansion continues in the United States, plans to use this base to open franchised Keg restaurants in both individual locations and larger territories.

KRL has currently targeted opening approximately 10 new Keg restaurants by 2023.

Management of KRL

KRL has a motivated and skilled senior management team with decades of experience in the casual dining restaurant segment. On February 22, 2018 concurrent with the Recipe Merger, the number of board of directors of KRL was reduced to four, with current directors being Messrs. David Aisenstat, Neil Maclean, William Gregson, and Ken Grondin. The operation of KRL is overseen by a four person executive committee, supported by a group of senior corporate Managers and several regional Operational Directors.

Executive Committee

The names, municipalities of residence and positions of the four members of the executive committee of KRL, are as follows:

Name and Municipality of Residence	Position with KRL
DAVID AISENSTAT..... Vancouver, British Columbia	President, Chief Executive Officer and Director
NEIL MACLEAN..... Delta, British Columbia	Executive Vice President, Chief Financial Officer, Officer and Director
DOUG SMITH..... Vancouver, British Columbia	Executive Vice President, Chief Operating Officer
JAMES HENDERSON..... White Rock, British Columbia	Executive Vice President, Business Development

The following is a summary biography of each member of the executive committee:

DAVID AISENSTAT — President, Chief Executive Officer and Director. Mr. Aisenstat has held his current position with The Keg since June 1997. Mr. Aisenstat previously served on the Board of Directors and Executive Committee of KRL from 1982 to 1987 when The Keg was acquired by Whitbread. Mr. Aisenstat has also served as President of Hy's of Canada Ltd., a fine dining steakhouse restaurant chain, and owns other fine dining restaurants such as Ki Modern Japanese & Bar, The Shore Club and Joe Fortes Seafood & Chop House. However, Mr. Aisenstat devotes substantially all of his working time to KRL.

NEIL MACLEAN — Executive Vice President, Chief Financial Officer, is an Officer and Director of KRL. Mr. Maclean has been employed by The Keg for 40 years, primarily in a financial capacity, but has also held a number of operational positions during his tenure with The Keg. Mr. Maclean became Vice President of Finance and Administration in 1986 and was appointed to his current role in June 1997. Mr. Maclean is a Chartered Professional Accountant, Certified General Accountant.

DOUG SMITH — Executive Vice President, Chief Operating Officer. Mr. Smith has been involved with The Keg for 33 years. Prior to his appointment to his current position in June 2011, Mr. Smith was Vice President of Operations for KRL's US operations for five years. And prior to that from 1995 to 2005, Mr. Smith was the operations director for Keg restaurants in various regions: Prairies, Ontario and United States.

JAMES HENDERSON — Executive Vice President, Business Development. Mr. Henderson has been involved with The Keg for 45 years. Mr. Henderson became Director of Franchising in June 1997 and was appointed to his current position in March 2007. Mr. Henderson has been involved in many areas of the business including operations, human resources, franchising and development. Mr. Henderson was also a joint venture partner of several Keg Restaurants in Vancouver and Toronto from 1979 to 1989. Mr. Henderson holds a Bachelor of International Relations degree from the University of British Columbia.

Employment Contracts

On the closing of the Recipe Merger, Mr. Aisenstat entered into new management agreement, and Messrs. Maclean, Henderson and Smith employment agreements with KRL remained unchanged. These agreements provide for, among other things, certain confidentiality and non-solicitation covenants in favour of KRL. In addition, these agreements provide for certain non-competition covenants pursuant to which each of these individuals agrees not to be interested in (as owner, investor, employee, consultant or otherwise) any casual dining restaurant business, which by definition excludes the fine dining restaurant segment in which Mr. Aisenstat currently has interests through his association with and investments in Ki Modern Japanese & Bar, The Shore Club and Joe Fortes Seafood & Chop House. In connection with the Recipe Merger, Mr. Aisenstat assumed responsibility for Milestones, one of Recipe’s more upscale brands. These non-competition covenants will apply for a period following termination of employment, except termination by KRL without cause and without payment or notice in lieu of payment.

Senior Corporate Managers

In addition to the members of the executive committee, KRL employs ten senior corporate Managers. The names, positions and length of employment with KRL of each of the senior corporate Managers is summarized below. Each of these individuals is responsible for the development and implementation of the policies and activities of KRL in their area of responsibility.

Name	Years of Service with The Keg	Current Position
Dean Sockett.....	41	Vice President, People + Culture
Craig Davies.....	38	Vice President, Corporate Services
Dave Campbell.....	31	Vice President, Operations West
Ron Varley.....	30	Vice President, Planning + Systems
Buster Edwards	30	Vice President, Franchising
Andrea Janzen	19	Vice President, Real Estate
Rob Hewstan.....	17	Vice President, Finance
Catherine Chow	12	Vice President, Legal + General Counsel
Jason Butler	7	Vice President, Operations East
Ryan Bullock	5	Vice President, Marketing

KRL employs ten Operational Directors, each of whom is responsible for the corporate Keg restaurants in specific geographic regions and three Operational Directors, each of whom is responsible for the franchised Keg restaurants in a specific geographical region. Each of these individuals has a minimum of 15 years’ experience with KRL.

Management believes that the long-term association that these Keggars have with The Keg is a powerful testament to the passion and loyalty The Keg inspires within the organization. The collective experience with The Keg of the senior management of KRL is one of KRL’s most important assets. Senior management is a group of fully aligned and committed Keggars.

Government Regulation

Local Regulation of Keg Restaurants

Corporate and franchised Keg restaurants are subject to licensing and regulation by a number of governmental authorities, which may include liquor, health, sanitation, safety, fire, building and other

agencies in the provinces, states or municipalities in which Keg restaurants are located. Developing new Keg restaurants in particular locations requires licences and land use approval, and could be delayed by difficulties in obtaining such licences and approvals or by more stringent requirements of local government bodies with respect to zoning, land use and licensing. Keg franchisees must comply with all applicable federal, provincial, state and local laws and regulations. Pursuant to its franchise agreements, KRL is indemnified by Keg franchisees for any liabilities or costs incurred which are attributable to their failure to comply with such laws and regulations.

Food Product Regulation

KRL and suppliers of food products to Keg restaurants must comply with applicable federal, provincial and state regulations relating to the manufacture, preparation and labelling of food products.

Franchise Regulation

KRL must comply with the laws and regulations adopted in the Provinces of Alberta and Ontario that require certain disclosure to be made with respect to the offer and sale of franchises. These laws require that KRL furnish prospective Keg franchisees with a disclosure document containing information prescribed by these laws.

KRL's subsidiaries in the United States must also comply with the state and federal laws and regulations that relate to the offer and sale of franchises. These laws require that KRL's subsidiaries in the United States furnish prospective franchisees with a disclosure document, known as a Franchise Disclosure Document, containing information prescribed by these laws.

Employment Regulations

KRL and Keg franchisees are subject to provincial and state labour and employment laws that govern their relationship with employees, such as minimum wage requirements, overtime and working conditions.

Regulations Governing Alcoholic Beverages

Alcoholic beverage control regulations require that KRL, its subsidiaries or a Keg franchisee, as the case may be, apply to a provincial, state or a municipal authority for a licence or permit to sell alcoholic beverages on the premises and, in certain locations, to provide service for extended hours and on Sundays. Typically, licences must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of daily operations of a Keg restaurant, including the minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control, and handling, storage and dispensing of alcoholic beverages.

In certain provinces and states, Keg restaurants may be subject to "dram-shop" statutes, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person.

Regulations Governing Smoking

Keg restaurants are subject to various laws in Canada and the United States that prohibit or limit smoking on the premises and that impose fines for failure to adhere to such laws.

Competition

The restaurant industry and casual dining restaurant segment have been and remain very competitive. As the casual dining restaurant segment has grown and evolved, consumers have been given a variety of choices and, therefore, can be very demanding. There has been very little change over time in the factors consumers consider to be important in their dining out decisions: quality, service, execution and taste appeal. The Keg prides itself upon its great tasting steaks and other menu choices, quality of food, friendly, helpful and knowledgeable service and the consistency of its execution.

Competitors for the casual dining restaurant customer range from large national and regional restaurant chains to local independent restaurant operators. While independent restaurants continue to have a significant place in the casual dining restaurant segment, Management believes chain restaurants have gained market share over the last 30 years. Management believes restaurant chains will continue to do so, as they have a number of advantages over their independent counterparts, including: lower food costs through greater purchasing power, the ability to stimulate sales through advertising dollars, better site selection expertise, appeal to landlords and greater brand power as consumers gravitate to familiar dining experiences.

The Keg is one of the largest, Canadian-based, national, casual dining restaurant chains and the only national operator in the casual dining steakhouse segment. There are therefore no identifiable national casual dining steakhouse competitors in Canada. In British Columbia, casual dining competitors include Cactus Club, Earl's, Milestone's, Boston Pizza and Joey. In the Prairies casual dining competitors include Earl's, Boston Pizza, Moxie's, Montana's and Joey. In Ontario casual dining competitors include Cactus Club, Earl's Joey, Canyon Creek, Baton Rouge, Boston Pizza, Jack Astor's, Kelsey's and Milestones.

In the United States, The Keg has a number of national and regional competitors in both the casual dining restaurant segment generally, and the steakhouse segment specifically. In the casual dining segment, these competitors include Outback Steakhouses, P.F. Chang's, Houston's, Olive Garden, Red Lobster, Applebees, T.G.I.Friday's, Chili's, Macaroni Grill and others. In the steakhouse segment, these competitors include Outback Steakhouses, Black Angus Steakhouses, Lone Star Steakhouses, Longhorn Steakhouses and others. Management believes that there is no one competitor in the United States which enjoys as dominant a national position, in either the casual dining or steakhouse restaurant segments, as The Keg does in Canada.

In both Canada and the United States, there are a large number of independent restaurants which are direct competitors of KRL in individual locations.

LICENCE AND ROYALTY

The Licence

Pursuant to the Licence and Royalty Agreement, the Partnership has granted to KRL the Licence to use the Keg Rights for a period of 99 years from the Closing. The Licence and Royalty entitles KRL to grant to Keg Brands Inc. an exclusive, royalty-free, sub-licence to use the Keg Rights, for a period of 99 years from the Closing, in association with the manufacture, distribution and sale of retail products (including sauces and seasonings). The Licence and Royalty Agreement is terminable (other than with respect to the rights sub-licensed to Keg Brands Inc.) by the Partnership upon KRL's default in the performance of its material obligations thereunder unless KRL remedies such default within a stipulated cure period.

The Royalty

In consideration of the Licence, KRL pays the Partnership, for each Payment Period, the Royalty equal to four percent of System Sales for all Keg restaurants for which System Sales is to be determined for such Payment Period (the "Royalty Pool"), as described below. The amount of the Royalty is determined at the end of each Payment Period and is payable to Unitholders of record on the 21st day following the end of such Payment Period. Although the Licence is geographically unlimited, the Royalty is calculated on the basis of System Sales in Canada and the United States only.

The Royalty Pool, at any time, is comprised of the Keg restaurants for which System Sales is to be calculated and for which the Royalty is to be paid at such time. Upon the Closing, the Royalty Pool consisted of the 80 Keg restaurants (of which 26 Keg restaurants in Canada were owned and operated by KRL and its subsidiaries, 17 Keg restaurants in the United States were owned and operated by various subsidiaries of KRL and 37 Keg restaurants (all of which are in Canada) were owned and operated by Keg franchisees) in existence on March 31, 2002. For the purposes of determining the amount of the Royalty payable at any time, System Sales is the amount of the gross sales of:

- the franchised Keg restaurants included in the Royalty Pool at such time as reported to KRL by such Keg restaurants without audit or other form of independent assurance by KRL, and
- the corporate Keg restaurants included in the Royalty Pool at such time

after deductions, in each case, for discounts, coupons and other promotional offerings and excluding all applicable sales taxes.

Royalty Pool Sales for the year ended December 31, 2017 were \$601.0 million, and for the year ended December 31, 2018 were \$632.2 million. Accordingly, the Royalty received by the Partnership in 2017 and 2018 was \$24.3 million and \$25.4 million respectively.

Each time a Royalty payment is made to the Partnership, KRL provides the Partnership with a statement, certified as correct by the Chief Financial Officer of KRL, of the amount of the System Sales for the Payment Period for which the Royalty is paid. The Partnership is entitled to inspect the books and records of KRL at any time to review the determination of the amount of the Royalty that is payable by KRL. KRL is required to provide the Partnership and the Fund, by not later than February 28th of each year, with an audited statement of the amount of System Sales for the 52 weeks (or 53 weeks) ended closest to the most recently preceding December 31st.

KRL is to provide the Partnership and the Fund with KRL's unaudited consolidated financial statements within 45 days of the end of each quarterly accounting period of KRL and audited annual consolidated financial statements within 120 days of the end of each fiscal year of KRL. These financial statements are required to be prepared in accordance with International Financial Reporting Standards.

Security

Payment of the Royalty is secured by a general security interest in all present and after acquired property of KRL (except the shares in Keg Brands Inc.) and each of its subsidiaries that owns a Keg restaurant in Canada, including all amounts payable to KRL by the Keg franchisees operating Keg restaurants in Canada, pursuant to a general security agreement dated May 31, 2002 (the "Partnership General Security Agreement") granted by KRL to the Partnership. Under the Partnership General Security Agreement, the Partnership will be entitled, in the event of a default by KRL, to appoint a receiver of KRL with the power to carry on the business of KRL. In the event of a material default by KRL, KRL is required to prepay the amount of the Royalty for 12 months pursuant to the Licence and Royalty Agreement. All amounts realized by the receiver, after costs, will be utilized towards the costs of operating the business of KRL and to the payment of the Royalty to the Partnership.

KRL has also granted to the Fund a general security interest for all amounts payable by KRL under the Keg Loan as evidenced by a general security agreement dated May 31, 2002 (the "Keg General Security Agreement"). That security interest is the same as, and ranks equally with, the security interest granted in respect of the Royalty. The negative covenants contained in the Keg General Security Agreement are the same as those contained in the Partnership General Security Agreement.

The Keg General Security Agreement and the Partnership General Security Agreement are subordinate to security granted by KRL to a syndicate of Canadian banks to secure a \$51,500,000 revolving credit term loan facility entered into on November 26, 2013, as amended, for the expansion of restaurant operations which includes a \$3,000,000 revolving demand operating facility with a Canadian chartered bank entered into on the same date for general corporate purposes, including working capital, overdrafts and letters of credit.

Operating Covenants of KRL in the Licence and Royalty Agreement

KRL has agreed in the Licence and Royalty Agreement, among other things, to:

- operate and conduct its business (including the operation of the corporate Keg restaurants and the supervision of the Keg franchisees) in at least the manner and to at least the standards that its business is presently conducted and operated;

- preserve and protect the business of KRL and all goodwill associated therewith;
- collect all fees and other amounts payable to KRL under franchise agreements with KRL by Keg franchisees;
- monitor the compliance of Keg franchisees with the trade mark and character and quality standards set under the franchise agreements; and
- enforce the observance and performance of franchise agreements by Keg franchisees in a manner that is consistent with good and prudent business practices.

Adjustment of the Royalty

The Licence and Royalty Agreement provides for an annual adjustment to the amount of the Royalty based upon Additional Restaurants to be included in the Royalty Pool. In respect of Purchased Class B Restaurants to be included in the Royalty Pool, the Class B Current Distribution Entitlement will be adjusted, pursuant to the Limited Partnership Agreement, to reflect the Determined Amounts resulting from the inclusion of the Purchased Class B Restaurants in the Royalty Pool. In respect of all other Additional Restaurants, KRL's entitlement to distributions and income pursuant to the Limited Partnership Agreement will increase, as evidenced by the issuance of Class D Units to KRL. The number of Class D Units to be issued or the adjustment to the Class B Current Distribution Entitlement will be based upon the annual adjustment to the Royalty in respect of such Additional Restaurants. Upon the issuance of Class D Units in respect of any Additional Restaurants (or adjustment of the Class B Current Distribution Entitlement in respect of Purchased Class B Restaurants), such Additional Restaurants or Purchased Class B Restaurants, as the case may be, will be included in the Royalty Pool. The following is a summary only of the manner by which such adjustments are to be calculated and implemented, and reference should be made to the Limited Partnership Agreement for the full text of these adjustments. The Limited Partnership Agreement can be obtained on the Canadian securities regulatory authorities' website at www.sedar.com or by request of the Treasurer and Secretary of Keg GP.

Determination of Restaurants Included/Excluded from Royalty Pool

New Keg Restaurants

Annually, on January 1st, the pool of Keg restaurants on which KRL pays a Royalty to the Partnership (the "Royalty Pool") is adjusted to include the gross sales from Additional 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 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 royalty revenue added to the Royalty Pool, divided by the yield of the Fund units, divided by the weighted average unit price of the publicly traded Fund units. KRL receives 80% of the estimated Additional Entitlement initially, with the balance received on or about December 31st of each year when the actual full year performance of the new restaurants is known with certainty.

KRL intends to continue to expand the number of Keg restaurants in Canada and the United States by constructing or establishing new Keg restaurants to be owned and operated by KRL or its subsidiaries or owned by Keg franchisees and operated under franchise agreements with KRL or its subsidiaries that are not included in the Royalty Pool (the "Additional Restaurants"). KRL's current intention is to open approximately 10 Additional Restaurants by 2023.

Closed Keg Restaurants

If a Keg restaurant is permanently closed (including the termination of a franchise agreement), KRL will pay the amount of the Royalty (the "Make-Whole Payment") payable in respect of the initial amount of the gross sales of the closed Keg restaurant. The initial amount of gross sales of the closed Keg restaurant is the gross sales of the closed Keg restaurant for the first 52 week period following the date as at which such closed Keg restaurant was included in the Royalty Pool. If the closed Keg restaurant was included in the Royalty Pool for less than 52 weeks the initial amount of gross sales of the closed Keg restaurant is determined by dividing the gross sales for the actual period during which such closed Keg restaurant was

included in the Royalty Pool by the number of weeks the closed Keg restaurant was included in the Royalty Pool, and multiplying the quotient so obtained by 52.

KRL will not be obligated to pay the Make-Whole Payment at any time after the earlier of the date on which 140 Keg restaurants are first included in the Royalty Pool and May 31, 2017 (the “Make-Whole Termination Date”). However, effective May 31, 2017 (the Make-While Termination Date), KRL will pay an additional royalty equal to the lesser of four percent of the gross sales of new Keg restaurants not yet included in the Royalty Pool, and the amount of the Make-Whole Payment that would have been payable if the Make-Whole Termination Date had not occurred.

Annual Adjustments to the Royalty Pool

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 103 as of December 31, 2018. Sixty-eight new Keg restaurants that opened during the period from April 1, 2002 through October 2, 2017, with annual gross sales of \$346.5 million, have been added to the Royalty Pool. Forty-five permanently closed Keg restaurants with annual sales of \$140.4 million have been removed from the Royalty Pool. This has resulted in a net increase in Royalty Pool sales of \$206.1 million annually and KRL receiving a cumulative Additional Entitlement equivalent to 6,377,120 Fund units as of December 31, 2018. The table on the following page sets forth all the historical annual adjustments to the Royalty Pool.

Annual Adjustments to the Royalty Pool

Roll-in Date⁽¹⁾	Number of New Kegs Added⁽²⁾	Number of Closed Kegs Removed⁽³⁾	Number of Net New Kegs	Net Increase in Royalty Pool Sales	Number of Exchangeable Units Issued	Number of Kegs in Royalty Pool after Adjustment
2003	3	2	1	\$ 9,448,622	323,703	81
2004	7	2	5	\$ 20,782,391	711,989	86
2005	4	4	-	\$ 17,105,987	586,038	86
2006	7	2	5	\$ 25,366,236	867,549	91
2007	6	2	4	\$ 24,785,371	822,245	95
2008	4	3	1	\$ 14,030,026	440,673	96
2009	8	2	6	\$ 33,283,929	979,095	102
2010	6	6	-	\$ 11,271,268	326,320	102
2011	3	3	-	\$ 5,552,891	160,764	102
2012	2	2	-	\$ 1,205,371	34,381	102
2013	-	-	-	\$ -	-	102
2014	5	4	1	\$ 11,023,997	316,524	103
2015	4	5	(1)	\$ 6,430,345	183,399	102
2016	3	5	(2)	\$ 339,373	9,467	100
2017	1	1	-	\$ 7,108,369	171,765	100
2018	5	2	3	\$ 18,317,516	443,208	103
	<u>68</u>	<u>45</u>	<u>23</u>	<u>\$ 206,051,692</u>	<u>6,377,120</u>	

Notes:

1 The roll-in date is January 1st of each year.

2 Represents the number of new Keg restaurants opened prior to October 2nd in each year and subsequently added to the Royalty Pool.

3 Represents the number of Keg restaurants permanently closed during the calendar year, and removed from the Royalty Pool.

Recent Adjustments to Royalty Pool

On January 1, 2019, an estimated \$12,625,000 in annual net sales were added to the Royalty Pool. Three new Keg restaurants that opened during the period from October 3, 2017 through October 2, 2018, with

estimated gross sales of \$16,000,000 annually, were added to the Royalty Pool. One permanently closed Keg restaurant with annual sales of \$3,375,000 million was removed from the Royalty Pool. The total number of restaurants in the Royalty Pool increased to 105. The pre-tax yield of the Fund units was determined to be 9.07% calculated using a weighted average unit price of \$17.47.

As a result of the contribution of the additional net sales to the Royalty Pool, and assuming 100% of the estimated Additional Entitlement is received, KRL's Additional Entitlement will be equivalent to 294,741 Fund units, being 1.87% of the Fund units on a fully diluted basis.

On January 1, 2019, KRL received 80% of this entitlement representing the equivalent of 235,793 Fund units, being 1.50% of the Fund units on a fully diluted basis. KRL will also receive a proportionate increase in monthly distributions from the Partnership. Including the initial portion of the Additional Entitlement described above, KRL will have the right to exchange its units in the capital of the Partnership for 4,318,857 Fund units representing 27.56% of the Fund units on a fully diluted basis.

The balance of the additional entitlement will be adjusted on December 25, 2019 to be effective January 1, 2019, once the actual performance of the new restaurants has been confirmed. If KRL were to receive 100% of the estimated Additional Entitlement for 2018, it would have the right to exchange its Partnership units for 4,377,805 Fund units representing 27.83% of the Fund units on a fully diluted basis.

Class B Units Entitlement

As at the Closing, the entitlement of the holders of the Class B Units to distributions on the Class B Units (calculated, at any time, as the fraction equal to the Cumulative Amount at such time, divided by \$10.00 (the "Class B Current Distribution Entitlement")) was nominal. Until the Class B Termination Date, the Class B Current Distribution Entitlement was increased on the Adjustment Date in each year, commencing January 1, 2003, based upon an amount (the "Determined Amount") that reflected the value of the increase in the Royalty as a result of the inclusion of the net gross sales of Purchased Class B Restaurants in the Royalty Pool.

The amount of the net gross revenue of the Purchased Class B Restaurants for the reporting period that is used to determine the Determined Amount (see definition in Glossary) is to be based upon the actual net gross sales of the Purchased Class B Restaurants for the first Fiscal Year in which such Purchased Class B Restaurants are included in the Royalty Pool. KRL is to provide the Partnership with an audited report of the amount of such actual net gross sales of the Purchased Class B Restaurants for the first Fiscal Year in which such Purchased Class B Restaurants are included in the Royalty Pool.

The Determined Amount for any Fiscal Year is to be 92.5% of the amount determined by dividing the Royalty paid in respect of the net gross sales for such Purchased Class B Restaurants in respect of the first Fiscal Year for which such Purchased Class B Restaurants are included in the Royalty Pool by the Unit Yield.

The number of Class B units issued to KRL in respect of any Determined Amount is determined by dividing such Determined Amount by the Current Market Price of a unit at the Determination Date immediately preceding the relevant Adjustment Date.

The Class B Current Distribution Entitlement is adjusted in accordance with each Determined Amount, to equal, as at the date of such adjustment, the cumulative amount of all Determined Amounts as at such time to a maximum of \$33,767,000 (the "Cumulative Amount") divided by \$33,767,000.

The Cumulative Amount is adjusted, in respect of any Determined Amount for any Fiscal Year, in two stages. Firstly, an amount equal to 80% of the amount determined on the basis of the forecast of net gross sales, as determined by KRL on the basis of assumptions that are considered to be reasonable by the board of directors of Keg GP, is added to the Cumulative Amount on the Adjustment Date immediately following the beginning of such Fiscal Year. Secondly, on December 31 immediately following such Adjustment Date, an amount equal to the Determined Amount, less the first addition, will be added to the Cumulative Amount and the Class B Adjustment Distribution declared with respect thereto.

Adjustments to the Additional Entitlement Calculations - Prior Amendments

During 2005, it was determined that the roll-in formula used to calculate the Additional Entitlement was inconsistent with other restaurant royalty funds in the Fund's peer group such that the accretion that was intended to result from the addition of new sales to the Royalty Pool was affected by the Fund's unit price at the time of the roll-in. If the unit price was above \$10, the addition of the sales of Additional Restaurants to the Royalty Pool would be less accretive to Unitholders than intended and conversely, if the unit price was below \$10, the addition of sales of Additional Restaurants would be more accretive than intended. As a result, on December 12, 2005, the Fund's Trustees and KRL's management amended the arrangements between KRL and the Fund (with effect as if the amendments had been made on May 31, 2002, the date of the Fund's initial public offering) to ensure that the intended accretion to Unitholders continues regardless of the Fund's unit price. As part of these new arrangements, KRL agreed to waive its entitlement to receive approximately 43,718 units in connection with the Additional Entitlement as at January 1, 2005 pursuant to the existing formula.

On December 21, 2010, the Fund announced its intention to remain an income trust in connection with the introduction of the SIFT tax which became effective on January 1, 2011. Further to this determination, during the first quarter of 2011 the Trustees of the Fund and KRL determined that the SIFT tax would have a negative and unintended impact on the economics associated with the roll-in mechanism for the Additional Entitlement on January 1, 2012 and thereafter. Specifically, if no change was made to the terms of the Limited Partnership Agreement, further additions to the Royalty Pool (and the compensation paid to KRL for creating additional Royalty revenue for the Partnership) would not be accretive to the Fund and its Unitholders and KRL would receive Additional Entitlements greater than such Royalty revenue would have been worth on an after-tax basis to the Fund and the Unitholders. Though KRL was under no contractual or other legal obligation to enter into any amendment to the Limited Partnership Agreement, management of KRL advised the Fund that it believed an adjustment to the roll-in mechanism was in the best interests of all parties as a way of preserving investor confidence and interest in the Fund and the market price of the Units.

As a result, on May 17, 2011, Unitholders of the Fund approved an amendment to the terms of the Limited Partnership Agreement, the details of which amendment were described in the Fund's Management Information Circular dated April 12, 2011, and which amendment would reduce (relative to what would have been received without the amendment) the Additional Entitlements that KRL is entitled to receive. A copy of the Amended and Restated Limited Partnership Agreement dated as of May 17, 2011 can be found on www.sedar.com.

Entitlement of KRL in respect of Additional Restaurants

From or after the Class B Termination Date (which occurred on January 1, 2008), KRL's entitlement to distributions and income pursuant to the Limited Partnership Agreement is adjusted in respect of the Determined Amount annually on the Adjustment Date in each year, to reflect the value of the increase in the Royalty as a result of the inclusion of the net gross sales of Additional Restaurants in the Royalty Pool. This increase will be evidenced by the issuance of Class D Units to KRL.

The Determined Amount for any Fiscal Year is to be 92.5% of the amount determined by dividing the Royalty paid in respect of the net gross sales for such Additional Restaurants for the first Fiscal Year for which such Additional Restaurants are included in the Royalty Pool by the Unit Yield paid on the Units for the Fiscal Year immediately preceding the Determination Date in respect of such first mentioned Fiscal Year.

The number of Class D Units to be issued to KRL in respect of any Determined Amount will be determined by dividing such Determined Amount by the Current Market Price of a Unit at the Determination Date immediately preceding the relevant Adjustment Date.

The Class D Units issued in respect of Additional Restaurants will be issued in two stages. Firstly, on the Adjustment Date on which such Additional Restaurants are added to the Royalty Pool, KRL will be issued Class D Units for 80% of the forecasted Determined Amount for such Additional Restaurants. Secondly, on December 31 immediately following such Adjustment Date, Class D Units representing the amount by

which the actual Determined Amount exceeds 80% of the forecasted Determined Amount will be issued and the Class D Adjustment Distribution declared with respect thereto.

Pursuant to the Limited Partnership Agreement, the Trust shall have a right to purchase for cash any or all of the Class D Units issued by the Partnership to KRL in respect of the Determined Amount. The Trust must give notice to KRL of its intention to exercise this right at the time the Class D Units are issued by the Partnership.

If the Trust elects to purchase for cash Class D Units issued to KRL, KRL is to have, pursuant to the Governance Agreement, a first right of refusal to purchase any or all of the Units that may be issued by the Fund for the purpose of financing, or refinancing, directly or indirectly, this cash payment.

If at the time the Royalty Pool is adjusted by including the net gross sales of an Additional Restaurant owned by KRL or any of its subsidiaries, (i) such Additional Restaurant is not subject to the Partnership General Security Agreement, and (ii) the Subordination Quotient, calculated over the most recently completed four fiscal quarters of KRL is less than 1.20, then until the earliest of:

- (a) the Partnership being granted security over the tangible assets associated with such Additional Restaurant pursuant to the Partnership General Security Agreement or in such other manner acceptable to the Partnership;
- (b) the first quarter-end as at which the Subordination Quotient, calculated over the then most recently completed four fiscal quarters of KRL is more than or equal to 1.20; and
- (c) the fifth anniversary of the date on which the Royalty Pool was first adjusted in respect of such Additional Restaurant,

KRL will subordinate and postpone its entitlement to receive distributions from the Partnership in respect of the Class D Units allocated to it as a result of the inclusion of such Additional Restaurant, or in the case of an Additional Restaurant which is a Purchased Class B Restaurant, the incremental distribution entitlement under the Class B Units arising from the inclusion of such Additional Restaurant, such that KRL will not receive distributions in respect of such entitlement in any period unless and until distributions received by the Trust from the Partnership in respect of such period, less the LP Priority Distribution, Class D Priority Distribution and any distributions received by the Trust in respect of Class C Units, equal the Net Royalty (calculated net of expenses (including interest expenses) of the Partnership and the Trust) less the Class C Distribution. KRL may not exercise the Exchange Rights in respect of any Class D Units while such units are subject to the above subordination and postponement. In addition, the Class B Exchange Limit shall be reduced by that number of Class B Units equal to the Determined Amount in respect of an Additional Restaurant giving rise to the subordination and postponement divided by \$10.00.

INFORMATION CONCERNING THE FUND

Declaration of Trust

The Fund is an unincorporated open-ended limited purpose trust established under the laws of the Province of Ontario pursuant to the Declaration of Trust. The Fund is a mutual fund trust for the purposes of the Tax Act. The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Declaration of Trust which does not purport to be complete. Reference is made to the Declaration of Trust for a complete description of the Units and the full text of its provisions. A copy may be obtained from the Canadian securities regulatory authorities' website at www.sedar.com or by request of the Treasurer and Secretary of Keg GP.

Activities of the Fund

The Declaration of Trust provides that the Fund is restricted to:

- (a) investing in securities, including those issued by the Trust and Keg GP, acquiring and holding the Keg Loan, guaranteeing the obligations of the Trust and the Partnership (including the Loan, Term Loan and Operating Loan) and granting security interests in the assets of the Fund therefor;
- (b) temporarily holding cash in interest-bearing accounts, short-term government debt or investment grade corporate debt for the purposes of paying the expenses of the Fund, paying amounts payable by the Fund in connection with the redemption of any Units and making distributions to Unitholders;
- (c) issuing Units (i) for cash or in satisfaction of any non-cash distribution or in order to acquire securities, including those issued by the Trust or the Partnership, (ii) upon the conversion or exchange of securities or debt obligations issued by the Fund, the Trust, the Partnership or any other person, and (iii) in satisfaction of any indebtedness of or borrowing by the Fund;
- (d) issuing debt securities or borrowing funds (including letters of credit, bank guarantees and bankers acceptances);
- (e) guaranteeing the obligations of the Partnership or the Trust or any affiliate (as such term is defined in Ontario Securities Commission Rule 45-501 as it is constituted as of the date of the Declaration of Trust) of the Fund for indebtedness for or in respect of borrowed funds (including letters of credit, bank guarantees and bankers acceptances) incurred by the Partnership or the Trust or an affiliate, as the case may be;
- (f) pledging securities issued by the Trust as security for the debt securities or borrowed funds referred to in (d) or the guarantees referred to in (e);
- (g) issuing rights and Units pursuant to any Unitholder rights plan adopted by the Fund;
- (h) purchasing securities pursuant to any issuer bid made by the Fund;
- (i) entering into an Administration Agreement; and
- (j) undertaking such other activities, or taking such actions, including investing in securities as shall be approved by the Trustees from time to time provided that the Fund shall not undertake any activity, take any action, or make any investment which would result in the Fund not being considered a “mutual fund trust” for purposes of the Tax Act.

Units

An unlimited number of Units may be issued pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund whether of net income, net realized capital gains or other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund. All Units have equal rights and privileges. The Units are not subject to future calls or assessments. Except as set out above and under “Redemption Right” below, the Units have no conversion, retraction, redemption or pre-emptive rights.

Pursuant to the Declaration of Trust, the holders (other than the Trust) of the Class A Units, Class B Units and Class D Units will be entitled to vote in all votes of Unitholders as if they were the holders of the number of Units which they would receive if they had exercised the Exchange Rights for all the Class A Units, Class B Units and Class D Units as of the record dates for such votes, and will be treated in all respects as Unitholders for the purposes of any such vote.

Issuance of Units

The Declaration of Trust provides that the Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine. Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a proportionate basis. The Declaration of Trust also provides that immediately after any proportionate distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated

such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution. In this case, each certificate representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation.

Trustees

The Fund shall have a minimum of two Trustees and a maximum of ten Trustees. The Trustees are to supervise the activities and manage the affairs of the Fund.

The Trustees of the Fund, who are also directors of Keg GP, are George Killy, Tim Kerr and Christopher Charles Woodward. Each of Messrs. Killy, Kerr and Woodward are “unrelated” within the meaning of the corporate governance policy of the Toronto Stock Exchange and “independent” within the meaning of applicable securities legislation. See “Trustees, Directors and Management – Trustees and Directors” for the principal occupations of the Trustees. Mr. Woodward is also Chairman of the Board of Trustees and Corporate Secretary of the Fund. Trustees are appointed at each annual meeting of Unitholders to hold office for a term expiring at the close of the next annual meeting.

Any one or more of the Trustees may resign upon 30 days’ prior written notice to the Fund and may be removed by a resolution passed by a majority of the Unitholders and the vacancy created by such removal or resignation must be filled at the same meeting, failing which it may be filled by the remaining Trustees.

A quorum of the Trustees, being a majority of the Trustees then holding office, may fill a vacancy in the Trustees, except a vacancy resulting from an increase in the maximum number of Trustees or from a failure of the Unitholders to elect the required number of Trustees at a meeting of the Unitholders called for such purpose. In the absence of a quorum of Trustees, or if the vacancy has arisen from a failure of the Unitholders to elect the required number of Trustees at a meeting of the Unitholders called for such purpose, the Trustees will forthwith call a special meeting of the Unitholders to fill the vacancy. If the Trustees fail to call such meeting or if there are no Trustees then in office, then any Unitholder may call the meeting.

The Trustees may, between annual meetings of Unitholders, appoint one or more additional Trustees to serve until the next annual meeting of Unitholders, but the number of additional Trustees will not at any time exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of Unitholders.

The Declaration of Trust provides that, subject to the terms and conditions thereof, the Trustees may, in respect of the trust assets, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof and shall supervise the investments and conduct the affairs of the Fund. The Declaration of Trust prohibits a non-resident of Canada (as that term is defined in the Tax Act) from acting as a Trustee. The Trustees are responsible for, among other things:

- acting for, voting on behalf of and representing the Fund as a Unitholder and noteholder of the Trust, including voting for the election of the Holdings Trustees;
- maintaining records and providing reports to Unitholders;
- supervising the activities of the Fund;
- effecting payments of distributable cash from the Fund to Unitholders; and
- voting in favour of the Fund’s nominees to serve as Holdings Trustees.

The Declaration of Trust provides that the Trustees shall act honestly and in good faith with a view to the best interests of the Fund and in connection therewith shall exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The duties and standard of care of the Trustees are intended to be similar to, and not to be any greater than those imposed on a director of a corporation governed by the Canada Business Corporations Act. The Declaration of Trust provides that the Trustees shall be entitled to indemnification from the Fund in respect of the exercise of their powers and the discharge of their duties provided that they acted honestly and in good faith with a view to the best interests of all the Unitholders.

Cash Distributions

The amount of cash to be distributed per Unit to the Unitholders in respect of each month shall be equal to a proportionate share of interest and principal repayments on the Keg Loan and the Notes and distributions on or in respect of the Trust Units owned by the Fund received in respect of such period less amounts that are paid, payable, incurred or provided for in respect of such period in connection with:

- administrative expenses and other obligations of the Fund;
- amounts which may be paid by the Fund in connection with any cash redemptions of Units;
- any interest expense incurred by the Fund; and
- reasonable reserves established by the Trustees in their sole discretion, which are currently nominal.

The Trustees may authorize increased or decreased distributions in excess of or below the aforementioned distributions during the year, as they see fit, in their sole discretion.

Under the Licence and Royalty Agreement, the Royalty is paid by KRL to the Partnership at the end of each calendar month in respect of the System Sales for such Payment Period. Interest on the Keg Loan and the Notes accrues at the rate of 7.5% per annum and 2.5% per annum, respectively, and is paid monthly on the third business day immediately prior to the end of the month immediately following the month for which such interest is accrued.

The Fund makes monthly distributions of amounts determined by the Trustees in their sole discretion to be available for distribution by the Fund in respect of such month. Distributions in respect of each month are paid on the last business day of the immediately following month to Unitholders of record on the 21st day of that following month (except distributions in respect of the month of December in each calendar year, for which the record date is the last day of December). See “General Development of the Fund – Distributions” for a summary of the distributions paid by the Fund to date.

To the extent that income of the Fund is applied to any cash redemptions of Units or is otherwise unavailable for cash distribution, distributions will be made to Unitholders in the form of additional Units. Such additional Units will be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

Holders of Units who are non-residents of Canada are required to pay all withholding taxes payable in respect of any distributions of income by the Fund, whether such distributions are in the form of cash or additional Units. Non-residents should consult their own tax advisors regarding the tax consequences of investing in the Units.

Redemption Right

Units are redeemable at any time on demand by the holders thereof. As the Units are issued in book entry form, a Unitholder who wishes to exercise the redemption right will be required to obtain a redemption notice form from the Unitholder’s investment dealer who will be required to deliver the completed redemption notice form to CDS. Upon receipt of the redemption notice by the Fund, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit (the “Redemption Price”) equal to the lesser of:

- 90% of the Current Market Price of a Unit immediately prior to the date on which the Units were surrendered for redemption (the “Unit Redemption Date”); and
- an amount equal to: (a) the closing price of the Units on the principal stock exchange on which the Units are listed (or if the Units are not listed on any stock exchange, the principal market on which the Units are quoted for trading), if there was a trade on the Unit Redemption Date and the exchange or market provides a closing price; (b) an amount equal to the average of the highest and lowest prices of the Units if there was a trade on the Unit Redemption Date and the stock exchange or market provides only the highest and lowest prices of the Units

traded on a particular day; or (c) the average of the last bid and ask prices of the Units on the stock exchange or market if there was no trading on the Unit Redemption Date.

The aggregate Redemption Price payable by the Fund in respect of any Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment made no later than the last day of the month following the month in which the Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the following limitations:

- the total amount payable by the Fund in respect of such Units and all other Units tendered for redemption in the same calendar month shall not exceed \$50,000, provided that the Trustees may, in their sole discretion, waive such limitation in respect of all Units tendered for redemption in any calendar month;
- at the time such Units are tendered for redemption, the outstanding Units shall be listed for trading on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; or
- the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the Unit Redemption Date or for more than five trading days during the ten day trading period commencing immediately after the Unit Redemption Date.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the foregoing limitations, then the redemption price for each Unit tendered for redemption will be the fair market value thereof as determined by Keg GP, in its capacity as administrator of the Fund, and, subject to any applicable regulatory approvals, will be paid and satisfied by way of a distribution of securities or assets held by the Fund. In such circumstances, the Fund will transfer to the Trust, in respect of each Unit surrendered for redemption, a prorated portion of the outstanding Keg Loan owed to the Fund in consideration for Trust Units and Notes. Trust Units and Notes having a value equal to the redemption price will then be redeemed by the Trust in consideration of the issuance to the Fund of Series 2 Notes. The Series 2 Notes will be distributed in satisfaction of the redemption price. The aggregate principal amount of the Series 2 Notes distributed will be equal to the redemption price payable by the Fund. The Series 2 Notes will rank equally with the Notes and will be distributed in satisfaction of the redemption price. No Series 2 Notes in integral multiples of less than \$100 will be distributed and, where the number of Series 2 Notes to be received by a Unitholder includes a multiple less than \$100, such number shall be rounded to the next lowest whole number or integral of \$100. The Fund shall be entitled to all interest paid on the Notes and the distributions paid on the Trust Units on or before the date of the distribution of the Notes. Where the Fund makes a distribution of Series 2 Notes on the redemption of Units of a Unitholder, the Fund currently intends to allocate to that Unitholder any capital gain realized by the Fund as a result of the redemption of Trust Units and Notes in consideration of the Series 2 Notes distributed to the Unitholder.

It is anticipated that the redemption right described above will not be the primary mechanism for Unitholders to dispose of their Units. Securities of the Trust which may be distributed to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in such securities and they may be subject to resale restrictions under applicable securities laws. Securities of the Trust so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, depending upon the circumstances at the time.

Trust Units

Trust Units are not, and are not intended to be, issued or held by any person other than the Fund (until such time as a Unitholder redeems Units of the Fund), and as such, registrations of interests in, and transfers of, the Trust Units are not to be made through the book entry system administered by CDS. Rather, holders of Trust Units will be entitled to receive certificates therefor.

An unlimited number of Trust Units may be issued pursuant to the Holdings Declaration of Trust. Each Trust Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Trust whether of net income, net realized capital gains or other amounts, and in the net assets of the Trust in the event of termination or winding-up of the Trust. All Trust Units have equal rights and privileges. The Trust Units are not subject to future calls or assessments. The Trust Units have no conversion, retraction, redemption or pre-emptive rights.

The amount of cash to be distributed per Trust Unit to the Holdings Unitholders in respect of each month shall be equal to a proportionate share of distributions on or in respect of the Partnership Securities owned by the Trust and all other amounts, if any, from any other investments from time to time held by the Trust, received in respect of such period, less amounts which are paid, payable, incurred or provided for in respect of such period in connection with:

- administrative expenses and other obligations of the Trust;
- any interest (including interest payable in respect of the Notes, the Term Loan and the Loan) incurred by the Trust;
- principal repayments in respect of the Notes considered advisable by the Holdings Trustees and upon the Term Loan and the Loan and any other debt securities of the Trust; and
- reasonable reserves established by the Holdings Trustees in such period, which are currently nominal.

The Holdings Trustees may authorize additional distributions in excess of the aforementioned distributions during the year, as they see fit, in their sole discretion.

Any income of the Trust which is unavailable for cash distribution will be distributed to Holdings Unitholders in the form of additional Trust Units.

Notes

The following is a summary of the material attributes and characteristics of the Notes, which have been issued by the Trust under a note indenture (the "Note Indenture") providing for the issuance of the Notes by the Trust dated May 31, 2002 and made between the Trust and the Note Trustee, and is qualified in its entirety by reference to the provisions of the Note Indenture, which contains a complete statement of such attributes and characteristics. A copy of the Note Indenture may be obtained from the Canadian securities regulatory authorities' website at www.sedar.com or by request of the Treasurer and Secretary of Keg GP.

The number of Notes authorized is unlimited. The initial series of Notes is designated as Series 1 notes and is repayable 30 years after the Closing. The initial series of Notes is subject to prepayment from time to time as considered advisable by the Holdings Trustees, with the consent of the Trust and the holders of the Notes by a resolution passed by the holders of not less than 66 ²/₃% of the principal amount of Notes represented, either in person or by proxy, at a meeting of holders of Notes called for the purpose of approving such resolution, or approval in writing by the holders of not less than 66 ²/₃% of the principal amount of Notes then outstanding (a "Noteholders' Extraordinary Resolution").

The Notes bear interest at the rate of 2.5% per annum. Under the terms of the Notes, interest is accrued at 2.5% per annum and is to be paid on the third business day immediately prior to the end of each month (each an "Interest Payment Date") immediately following the month for which such interest has accrued.

All Notes rank equally with each other Note. The Notes are issued only as fully registered Notes in a minimum denomination of \$100 and for amounts above such minimum, only in integral multiples of \$10.

The Holdings Trustees may from time to time authorize the creation of one or more series of Notes in addition to the Series 1 notes. The Holdings Trustees may also from time to time issue an additional number of Series 1 notes. Notes of any additional series of Notes may be limited to such aggregate principal amount, bear such date or dates, bear such rate or rates of interest, be redeemable at such prices and in such manner, be entitled to the benefits of such covenants or other rights, be payable at such place or places and in such currencies and contain such other terms or provisions not inconsistent with the Note

Indenture as the Trust may determine. Additional Series 1 notes shall mature on the same date and bear the same rate of interest as the Series 1 notes but may be limited to such aggregate principal amount, bear such date or dates, be payable at such place or places and in such currencies and contain such other terms or provisions not inconsistent with the Note Indenture as the Trust may determine.

Payment upon Maturity

On maturity, the Trust will repay the indebtedness represented by the Notes by paying to the Note Trustee, on behalf of the holders, an amount equal to the principal amount of the outstanding Notes, together with accrued and unpaid interest thereon. Payment to the holders will be made upon presentation and surrender of the Notes by the holders to the Note Trustee on the maturity date. Upon payment of the principal amount together with any accrued and unpaid interest thereon, the Notes shall be cancelled by the Note Trustee.

Ranking

The payment of the principal of and interest on the Notes and all other amounts payable pursuant to the Note Indenture are unsecured debt obligations of the Trust and are expressly subordinated in right of payment to all Senior Indebtedness. "Senior Indebtedness" is defined in the Note Indenture as all indebtedness and liabilities of the Trust, including principal of, and interest on, the Term Loan, which by the terms of the instrument or agreement creating, evidencing or governing the same, is expressed to rank in right of payment in priority to the indebtedness evidenced by the Notes or the Note Indenture.

Default

The Note Indenture provides that any of the following shall constitute an Event of Default (as defined in the Note Indenture):

- default in repayment of the principal amount of any of the Notes when the same becomes due;
- subject to the terms of any Senior Indebtedness, the failure to pay the interest obligations of any of the Notes when the same becomes due, for a period of six months;
- default on any Senior Indebtedness or any indebtedness of the Partnership so that an amount in excess of \$2.5 million is or becomes due and payable;
- certain events of winding-up, liquidation, bankruptcy, insolvency or receivership of the Trust or the Partnership;
- the taking of possession by an encumbrancer, in the opinion of the Note Trustee, of all or substantially all of the property of the Trust or of a material subsidiary, including the Partnership;
- the Trust ceasing to own the LP Units or the Partnership ceasing to own the Keg Rights;
- the Partnership or any material subsidiary ceasing to carry on its business or a substantial part thereof; or
- default in the observance or performance of any other covenant or condition of the Note Indenture and the continuance of such default for a period of 60 days after notice in writing has been given by the Note Trustee to the Trust specifying such default and requiring the Trust to rectify the same.

Meetings of Unitholders

Each Unit entitles the holder thereof to one vote at all meetings of Unitholders. Meetings of Unitholders will be called and held annually for the appointment of Trustees and the appointment of auditors of the Fund. The Declaration of Trust provides that the Unitholders shall be entitled to pass resolutions that will bind the Fund only with respect to:

- the election or removal of Trustees of the Fund;
- the appointment or removal of the auditors of the Fund;
- the appointment of an inspector to investigate the performance by the Trustees in respect of their respective responsibilities and duties in respect of the Fund;
- the approval of amendments to the Declaration of Trust (except as described under "Amendments to the Declaration of Trust");

- the sale of all or substantially all of the assets of the Fund;
- the exercise of certain voting rights attached to the Trust Units held by the Fund and the LP Units held by the Trust; and
- the dissolution of the Fund prior to the end of its term.

A resolution appointing or removing the Trustees must be passed by a simple majority of the votes cast by the holders of Units and a resolution appointing or removing the auditors of the Fund must be passed by a simple majority of the votes cast by the holders of Units. All other matters must be approved by a Unitholders' Special Resolution.

A meeting of Unitholders may be convened at any time and for any purpose by the Trustees and must be convened if requisitioned by the holders of not less than 10% of the Units then outstanding by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at the meeting.

Unitholders may attend and vote at all meetings of the Unitholders either in person or by proxy and a proxy holder need not be a Unitholder. Two persons present in person or represented by proxy and representing in the aggregate at least 25% of the votes attached to all outstanding Units shall constitute a quorum for the transaction of business at all such meetings, except holders of Units, as such, will not be included in a quorum in respect of a resolution to appoint or remove the Trustees of the Fund.

Pursuant to the Declaration of Trust, the holders of the Class A Units, Class B Units and Class D Units will be entitled to vote in all votes of Unitholders as if they were the holders of the number of Units which they would receive if they had exercised the Exchange Rights for all the Class A Units, Class B Units and Class D Units as of the record dates for such votes, and will be treated in all respects as Unitholders for the purposes of any such vote. In the event the Fund (or a subsidiary, including the Trust) holds the Class A Units, Class B Units or Class D Units, the Fund (or that subsidiary, including the Trust) will not be entitled to exercise the votes attached to the Class A Units, Class B Units or Class D Units (other than Class D Units issued by the Partnership directly to the Trust) in votes of Unitholders.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

Limitation on Non-Resident Ownership

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, the Declaration of Trust provides that at no time may non-residents of Canada be the beneficial owners of a majority of the Units. The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units are resident.

If the Trustees become aware that the beneficial owners of 49% of the Units then outstanding are, or may be, non-residents of Canada within the meaning of the Tax Act, or that such a situation is imminent, the Trustees may direct the transfer agent and registrar to make a public announcement thereof and shall not accept a subscription for Units from or issue or register a transfer of Units to any person unless the person provides a declaration that he or she is not a non-resident. If, notwithstanding the foregoing, the Trustees determine that a majority of the Units are held by non-residents, the Trustees may direct the transfer agent of the Units to send a notice to non-resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 60 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not non-residents within such period, the Trustees may direct the transfer agent to sell such Units on behalf of such Unitholders and, in the interim, the voting and distribution rights attached to such Units shall be suspended. Upon such sale, the affected holders shall cease to be holders of the Units and their rights shall be limited to receiving the net proceeds of such sale.

Amendments to the Declaration of Trust

The Declaration of Trust may be amended or altered from time to time by a resolution passed by a majority of not less than 66 ²/₃% of the votes cast, either in person or by proxy, at a meeting of Unitholders, called for the purpose of approving such resolution, or approved in writing by the holders of not less than 66 ²/₃% of the Units entitled to be voted on such resolution (a “Unitholders’ Special Resolution”).

The Trustees may, without the approval of the Unitholders, make certain amendments to the Declaration of Trust, including amendments:

- for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or over the Fund;
- which, in the opinion of counsel to the Trustees, provide additional protection for Unitholders;
- to remove any conflicts or inconsistencies in the Declaration of Trust or to make minor corrections which, in the opinion of the Trustees, are necessary or desirable and not prejudicial to the Unitholders; and
- which, in the opinion of the Trustees, are necessary or desirable as a result of changes in Canadian taxation laws or accounting standards.

Term of the Fund

The Fund has been established for a term ending 21 years after the date of death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on April 1, 2002. On a date selected by the Trustees which is not more than two years prior to the expiry of the term of the Fund, the Trustees are obligated to commence to wind up the affairs of the Fund so that it will terminate on the expiration of the term. In addition, at any time prior to the expiry of the term of the Fund, the Unitholders may by a Unitholders’ Special Resolution require the Trustees to commence to wind up the affairs of the Fund.

The Declaration of Trust provides that, upon being required to commence to wind up the affairs of the Fund, the Trustees will give notice thereof to the Unitholders, which notice shall designate the time or times at which Unitholders may surrender their Units for cancellation and the date at which the register of Units will be closed. After the date the register is closed, the Trustees shall proceed to wind up the affairs of the Fund as soon as may be reasonably practicable and for such purpose shall, subject to any direction to the contrary in respect of a termination authorized by a resolution of the Unitholders, sell and convert into money the Trust Units, Notes and all other assets comprising the Fund in one transaction or in a series of transactions at public or private sales and do all other acts appropriate to liquidate the Fund. After paying, retiring, discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Fund and providing for indemnity against any other outstanding liabilities and obligations, the Trustees shall distribute the remaining part of the proceeds of the sale of the Trust Units, Notes and other assets together with any cash forming part of the assets of the Fund among the Unitholders in accordance with their proportionate interests. If the Trustees are unable to sell all or any of the Trust Units, Notes or other assets which comprise part of the Fund by the date set for termination, the Trustees may distribute the remaining Trust Units, Notes or other assets of the Fund directly to the Unitholders in accordance with their proportionate interests subject to obtaining all required regulatory approvals.

Take-over Bids

The Declaration of Trust and Governance Agreement contain provisions to the effect that if a take-over bid is made for the Units (including rights to the Units to be issued upon exercise of the Exchange Rights) and not less than 90% of the Units on a fully diluted basis, including the Partnership Securities exchangeable for Units upon exercise of the Exchange Rights, (other than Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders and holders of Partnership Securities who did not accept the take-over bid on the terms offered by the offeror.

Exercise of Certain Voting Rights Attached to Securities of the Partnership

The Declaration of Trust provides that the Fund shall not vote its common shares in the capital of Keg GP, Trust Units and Notes to authorize, among other things:

- any sale, lease or other disposition of all or substantially all of the direct or indirect assets of the Trust or Keg GP except in conjunction with an internal reorganization;
- any material amendment to the Note Indenture other than in contemplation of a further issue of Notes; and
- any material amendment to the Holdings Declaration of Trust or Limited Partnership Agreement which may be prejudicial to the Fund,

without the authorization of the Unitholders by a Unitholders' Special Resolution.

Information and Reports

The Fund will furnish, in accordance with and subject to, applicable securities laws, to Unitholders such consolidated financial statements of the Fund (including quarterly and annual consolidated financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Unitholders, the Trustees will provide the Unitholders (along with notice of such meeting) all such information as is required by applicable law and the Declaration of Trust to be provided to such holders.

The Partnership has undertaken to provide the Fund with:

- a report of any material change that occurs in the affairs of the Partnership in form and content that it would file with the applicable securities regulatory authorities as if it were a reporting issuer; and
- all financial statements that it would be required to file with the applicable securities regulatory authorities as if it were a reporting issuer under applicable securities laws.

All such reports and statements will be provided to the Fund in a timely manner so as to permit the Fund to comply with the continuous disclosure requirements relating to reports of material changes in its affairs and the delivery of financial statements as required under applicable securities laws.

KRL is to provide the Partnership and the Fund with KRL's unaudited consolidated financial statements within 45 days of the end of each quarterly accounting period of KRL and audited annual consolidated financial statements within 90 days of the end of each fiscal year of KRL. These financial statements are required to be prepared in accordance with International Financial Reporting Standards. KRL has provided an undertaking to the applicable securities regulatory authorities:

- to provide to the Fund, for filing and delivery to Unitholders, annual and interim financial statements as required by applicable securities laws, including an indication of System Sales for the relevant period;
- to issue a press release and file a material change report in accordance with applicable securities laws with respect to any material change in KRL that would reasonably be expected to have a significant effect on the market price or value of any securities of the Fund; and
- to require any holder of a control position in KRL to comply with the takeover and control person distribution requirements of applicable securities laws in respect of any acquisition or disposition, respectively, of any securities of the Fund.

Book Entry Only System

Registration of interests in, and transfers of, the Units is made only through a book-based system (the "Book Entry Only System") administered by CDS. Units must be purchased, transferred and surrendered for redemption through a CDS Participant. All rights of Unitholders must be exercised through, and all payments or other property to which such Unitholder is entitled will be made or delivered by, CDS or the CDS Participant through which the Unitholder holds such Units. Upon purchase of any Units, the Unitholders will receive only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the Units are purchased. References in this annual information form to a Unitholder means, unless the context otherwise requires, the owner of the beneficial interest in such Units.

The ability of a beneficial owner of Units to pledge such Units or otherwise take action with respect to such Unitholder's interest in such Units (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

The Fund has the option to terminate registration of the Units through the Book Entry Only System in which case certificates for the Units in fully registered form would be issued to beneficial owners of such Units or their nominees.

Administration

Except as expressly prohibited by law, the Trustees and Holdings Trustees, as the case may be, may grant or delegate certain of their authority to effect the actual administration of their duties under the Declaration of Trust and the Holdings Declaration of Trust, respectively. The Trustees or the Holding Trustees, as the case may be, may grant broad discretion to a third party to administer and manage the day-to-day operations of the Fund and the Trust, respectively, and to make executive decisions which conform to the general policies and principles set forth in the Declaration of Trust and the Holdings Declaration of Trust, respectively or otherwise established by them from time to time.

On May 31, 2002, the Fund entered into the Administration Agreement with the Partnership whereby the Partnership agreed to provide or arrange for the provision of services required in the administration of the Fund, including those necessary to: (i) ensure compliance by the Fund with continuous disclosure obligations under applicable securities legislation, including the preparation of financial statements relating thereto; (ii) provide investor relations services; (iii) provide or cause to be provided to Unitholders all information to which Unitholders are entitled under the Declaration of Trust, including relevant information with respect to income taxes; (iv) call and hold meetings of Unitholders and distribute required materials, including notices of meetings and information circulars, in respect of all such meetings; (v) provide for the calculation of distributions to Unitholders; (vi) attend to all administrative and other matters arising in connection with any redemptions of Units; (vii) ensure compliance with the Fund's limitations on non-resident ownership; (viii) administer the Keg Loan; and (ix) the provision of general accounting, bookkeeping and administrative services. The Administration Agreement may be terminated by the Fund upon payment to the Partnership of all costs and expenses incurred by the Partnership in terminating contracts entered into by the Partnership with the approval of the Fund for the performance by the Partnership of its duties under the Administration Agreement.

The Partnership pays all expenses incurred by it and attributable to the exercise of its duties in the administration of the Fund and no fee is payable to the Partnership for the services provided by it to the Fund under the Administration Agreement.

On May 31, 2002, the Trust entered into the Holdings Administration Agreement with the Partnership whereby the Partnership agreed to provide or arrange for the provision of services required in the administration of the Trust, including those necessary to: (i) prepare financial statements for the Trust; (ii) provide for a calculation of distributions on the Trust Units and payment of interest on the Notes; (iii) administer and ensure compliance with the Term Loan; and (iv) the provision of general accounting, bookkeeping and administrative services. The Holdings Administration Agreement may be terminated by the Trust upon payment to the Partnership of all costs and expenses incurred by the Partnership in

terminating contracts entered into by the Partnership with the approval of the Trust for the performance by the Partnership of its duties under the Holdings Administration Agreement.

The Partnership will pay all expenses incurred by it and attributable to the exercise of its duties in the administration of the Trust and no fee is payable to the Partnership for the services provided by it to the Trust under the Holdings Administration Agreement.

Partnership Units

As mentioned under “General Development of the Fund – Initial Public Offering and the Funding and Acquisition of the Keg Rights and the Keg Loan”, as at December 31, 2018, there are currently 100 GP units issued and outstanding (99 GP units held by Keg GP, and 1 GP unit held by KRL), and 905,944 Class A Units, 176,700 Class B Units, 5,700,000 Class C Units, and 3,000,420 Class D Units, issued and outstanding, which are held by KRL. As of December 31, 2018, there are 8,153,500 LP Units and 3,200,000 Class B limited partnership units, issued and outstanding, which are held by The Trust. The rights and entitlements of these units in the Partnership with respect to voting, distributions of distributable cash, allocations of Partnership income and distributions of proceeds of liquidation of the Partnership are described in detail in the Limited Partnership Agreement, a copy of which is available on the Canadian securities regulatory authorities’ website at www.sedar.com or by request of the Treasurer and Secretary of Keg GP.

KRL’s rights to exchange its Class A Units, Class B Units and Class D Units for Units or, in the case of its Class C Units, for the assumption of indebtedness under the Keg Loan, are described in detail in the Exchange Agreement, a copy of which is available on the Canadian securities regulatory authorities’ website at www.sedar.com or by request of the Treasurer and Secretary of Keg GP. Summaries of the distributions of available cash of the Partnership and the Exchange Rights appear below but are qualified in their entirety by the full text of the Limited Partnership Agreement and the Exchange Agreement.

Distributions

The managing general partner will, on behalf of the Partnership, distribute available cash as set out below. Distributions of available cash in respect of each month will be made not later than the third business day immediately prior to the end of the immediately following month to Keg GP and to those partners listed on the record on the 21st day of that following month (except distributions in respect of the month of December in each calendar year, for which the record date will be the last day of December). The managing general partner may, in addition, on behalf of the Partnership, distribute available cash at any other time.

Available cash in respect of any period will represent, in general, the Royalty earned in such period, less amounts which in the opinion of the managing general partner are required to be provided for in respect of:

- debt service obligations, if any, and payments on account of principal of the Operating Loan or any other debt obligations of the Partnership;
- interest (including interest accrued or payable under the Operating Loan) and other expense obligations of the Partnership;
- expenses of the Fund and the Trust to be paid by the Partnership under the Administration Agreement and the Holdings Administration Agreement; and
- reasonable reserves considered necessary or desirable by Keg GP, which are expected to be required only for administrative expenses of the Partnership, the Trust and the Fund.

The Partnership will make monthly distributions to its partners of available cash in the order of priority as follows:

- (a) first, to the Trust as holder of the LP Units, the LP Priority Distribution;
- (b) second, to the Trust as holder of Class D limited partner units of the Partnership, the Class D Priority Distribution;
- (c) third, to the holders of the Class C Units, the Class C Distribution;

- (d) fourth, to the holders of the Class A Units, the Class A Proportionate Distribution;
- (e) fifth, to the holders of the Class B Units, the Class B Proportionate Distribution;
- (f) sixth, to the holders of the Class D Units, the Class D Proportionate Distribution; and

thereafter (and after reserving an amount for the Class B Adjustment Distribution and the Class D Adjustment Distribution), to the holders of Class A Units, Class B Units, Class D Units, LP Units and GP Units in accordance with the aggregate number of units of each class issued and outstanding (or, in the case of the Class B Units, the number of Class B Units determined by multiplying the actual number of Class B Units issued and outstanding by the Class B Current Distribution Entitlement), provided that any distributions hereunder in respect of the Class D Units shall be reduced by the amount, if any, of the Class D Excess. This reduction reflects the priority distribution, if any, made in respect of the Class D limited partner units held by the Trust under (b) above. The Class D Excess shall then be distributed to the holders of Class A Units, Class B Units, Class D Units, LP Units and GP Units, in proportion with their holdings.

In addition, immediately prior to the end of each year, there shall be declared to be distributed to the holders of the Class B Units and Class D Units, in priority to the distribution referred to in (c), (d), (e) and (f) above, the Class B Adjustment Distribution and the Class D Adjustment Distribution, respectively, which Class B Adjustment Distribution and Class D Adjustment Distribution shall be paid on or after January 1 of the year immediately following the declaration of such distributions.

Each cash distribution made to holders of Class A Units, Class C Units, LP Units and GP Units shall be made proportionately to the number of units of the relevant class held at the time of such distribution. All cash distributions to be made to the holders of Class B Units (the "Aggregate Class B Distributions") shall be made in accordance with the following:

- (a) to the holders of Class B limited partnership units, in proportion with their holdings, an amount (the "Exchanged Class B Distribution") equal to the Aggregate Class B Distribution multiplied by the Exchanged Class B Ratio; and
- (b) to KRL, as holder of Class B general partnership units, an amount equal to the Aggregate Class B Distribution less the Exchanged Class B Distribution.

All cash distributions to be made to the holders of Class D Units (other than the Class D Priority Distribution and the Class D Adjustment Distribution) shall be made: (a) first to the holders of Class D general partner units, in proportion with their holdings, an amount equal to the Class D Priority Distribution multiplied by the fraction equal to the number of issued and outstanding Class D general partner units divided by the number of issued and outstanding Class D limited partner units; and (b) thereafter, to the holders of Class D Units, in proportion with their holdings.

The Exchange Rights

On Closing, KRL, the Fund, the Trust and Keg GP entered into the Exchange Agreement. The Exchange Agreement gives KRL (or a Related Party to whom Partnership Securities are transferred) the right to exchange Class A Units, Class B Units and Class D Units for Units of the Fund on the basis of one Unit of the Fund for each Class A Unit, Class B Unit or Class D Unit exchanged. However, KRL may not, at any time, exchange more than that number of Class B Units (the "Class B Exchange Limit") equal to the following formula:

$$\frac{\text{Cumulative Amount}}{\$10.00} - \text{Aggregate Number of Class B Units previously exchanged}$$

The Class B Exchange Limit ensures that, in the aggregate, KRL exchanges only Class B Units that are fully entitled (i.e., Class B Units that are entitled to receive distributions equal to distributions paid per unit on the Units of the Fund.) As of January 1, 2019, KRL was entitled to exchange 905,944 Class A Units, 176,700 Class B Units, and 3,236,213 Class D Units into Units. See "Licence and Royalty. The Royalty – Recent Adjustments to Royalty Pool."

Pursuant to the Declaration of Trust and the Governance Agreement, the holders of the Class A Units, Class B Units and Class D Units (other than the Fund or its subsidiaries, if they hold Class A Units, Class B Units or Class D Units) are entitled to vote in all votes of Unitholders (including resolutions in writing) as if they were the holders of the number of Units of the Fund, which they would receive if the Class A Units, Class B Units and Class D Units were exchanged for Units as of the record dates for such votes.

Pursuant to the Exchange Agreement, KRL will also have the right to transfer its Class C Units to the Trust in consideration of the Trust assuming (and the concurrent release of KRL of its obligations with respect to) an amount of the indebtedness under the Keg Loan equal to \$10.00 per Class C Unit so transferred.

RISK FACTORS

Risks Related to the Casual Dining Restaurant Industry

The Restaurant Industry and its Competitive Nature

The performance of the Fund is directly dependent upon the interest payments the Fund receives from KRL and upon the Royalty received by the Partnership from KRL. The amount of the Royalty will be dependent upon System Sales, which is subject to a number of factors that affect the restaurant industry generally and the casual dining segment of this industry in particular. The restaurant industry generally, and in particular, the casual dining segment of this industry, is intensely competitive with respect to price, service, location and food quality. There are many well-established competitors, particularly in the United States with substantially greater financial and other resources than KRL. Competitors include national and regional chains, as well as individually owned restaurants. Recently, competition has increased in the mid-price, full-service, casual dining segment in which Keg restaurants operate. A number of competing companies with high brand name recognition operate steakhouses and have announced their intention to expand rapidly, including into markets in which Keg restaurants are located. Some of KRL's competitors have been in existence for a substantially longer period than KRL and may be better established in the markets where Keg restaurants are or may be located. If KRL and the Keg franchisees are unable to successfully compete in the casual dining segment of the restaurant industry, System 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 may also affect the restaurant business. In addition, factors such as inflation, increased food, labour and benefits costs, and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and Keg restaurants in particular. Changing consumer preferences and 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 sales, and accordingly, the amount of the Royalty and impact the financial condition of KRL. For example, consumer preferences could be affected by health concerns about the consumption of beef, the primary item served at Keg restaurants, or by specific events such as the outbreak of "mad cow disease" or "foot & mouth disease" which occurred in the United Kingdom or a number of cases of BSE found in Canadian cattle (though in fact these incidents did not have a material impact on KRL restaurant traffic). Similarly, these events could reduce the available supply of beef or significantly raise the price of beef. Even if KRL was able to successfully compete with other restaurant companies with similar concepts, it may be forced to make changes in one or more of its concepts in order to respond to changes in consumer tastes or dining patterns. If KRL changes a restaurant concept, it may lose additional customers who do not prefer the new concept and menu, and it may not be able to attract a sufficient new customer base to produce the revenue needed to make the restaurant profitable. Similarly, KRL may have different or additional competitors for its intended customers as a result of such a concept change and may not be able to successfully compete against such competitors. 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 revenue and operating income, which could adversely affect gross sales, 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

Sales from Keg restaurants are dependent upon the availability and quality of the products used in the products sold by such Keg restaurants. The availability and price of these commodities is subject to fluctuation and may be affected by a variety of factors affecting the supply and demand of the products, market demand for beef, disease (including disease resulting from widespread epidemics such as “mad cow disease” or “foot & mouth disease”) and other factors.

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.

A significant reduction in the availability or quality of products purchased by Keg restaurants resulting from any of the above factors could have a material adverse effect on gross sales of Keg restaurants, and accordingly, may reduce the amount of the Royalty, or adversely affect the financial condition of KRL.

Growth of the Royalty

The growth of the Royalty is dependent upon the ability of KRL to (i) maintain and grow both its corporate and franchised Keg restaurants, (ii) locate new Keg restaurant sites in prime locations, and (iii) obtain qualified operators to become Keg franchisees. KRL faces competition for restaurant locations and franchisees from its competitors and from franchisors of other businesses. KRL’s inability to successfully obtain qualified franchisees could adversely affect its business development. The opening and success of Keg restaurants, whether corporate or franchised, is dependent on a number of factors, including: availability of suitable sites; negotiations of acceptable lease or purchase terms for new locations; availability, training and retention of management and other employees necessary to staff new Keg restaurants; adequately supervising construction; securing suitable financing; and other factors, some of which are beyond the control of KRL. Keg franchisees may not have all these business abilities or access to financial resources necessary to open a Keg restaurant or to successfully develop or operate a Keg restaurant in their franchise areas in a manner consistent with KRL’s standards.

KRL provides training and support to Keg franchisees, but the quality of franchised operations may be diminished by any number of factors beyond KRL’s control. Consequently, Keg franchisees may not successfully operate Keg restaurants in a manner consistent with KRL’s standards and requirements, or may not hire and train qualified managers and other restaurant personnel. If they do not, the image and reputation of KRL may suffer, and gross revenue and results of operations of the Keg restaurants could decline.

The Closure of Keg Restaurants may Affect the Amount of the Royalty

The amount of the Royalty payable to the Partnership by KRL is dependent upon the System Sales which is dependent, for its stability, on the number of Keg restaurants that are included in the Royalty Pool and the gross sales of these Keg restaurants. Each year, a number of Keg restaurants may close and while KRL is required, subject to certain limitations, to replace the gross sales that are lost as a result of the closure of Keg restaurants with the gross sales from new Keg restaurants, or pay the Make-Whole Payment, there is no assurance that KRL will be able to obtain sufficient new Keg restaurants to replace the gross sales of the Keg restaurants that have closed, or will have the financial resources to make the Make-Whole Payment. In addition, many of the remaining terms of the leases from which both corporate and franchised Keg restaurants operate are shorter than the remaining terms of the associated franchise agreements, and it will be necessary to renew these leases or to obtain satisfactory alternate locations. There is no assurance that the leases will be renewed or suitable alternate locations will be obtained and, in this event, the Keg restaurants will close.

Franchise Fees and Other Revenue

The ability of KRL to pay the Royalty is dependent, in part, on Keg franchisees' ability to generate sales and to pay franchise fees and other amounts to KRL. Failure to achieve adequate levels of collection from Keg franchisees could have a serious effect on the ability of KRL to pay the Royalty, the Make-Whole Payments and interest on the Keg Loan.

Dependence on Key Personnel

The success of KRL depends upon the personal efforts of key personnel, including their ability to retain and attract appropriate franchisee candidates. The loss of the services of such key personnel could have a material effect on the operations of KRL. In addition, KRL's continued growth depends on its ability to attract and retain skilled management and employees and the ability of its key personnel to manage KRL's growth. Certain key personnel: (i) are not bound by non-competition covenants; or (ii) have other business interests in the fine dining steakhouse industry. If such personnel depart The Keg and subsequently compete with KRL or determine to devote significantly more time to other business interests, such activities could have a material adverse effect on KRL's ability to pay the Royalty, the Make-Whole Payments and interest on the Keg Loan.

Intellectual Property

The ability of KRL to maintain or increase its System Sales will depend on its ability to maintain "brand equity" through the use of the Keg Rights licensed from the Partnership. If the Partnership fails to enforce or maintain any of its intellectual property rights, KRL may be unable to capitalize on its efforts to establish brand equity. All registered trade marks in Canada can be challenged pursuant to provisions of the Trade-marks Act (Canada) and comparable legislation in the United States, and if any Keg Rights are ever successfully challenged, this may have an adverse impact on System Sales and therefore on the Royalty.

The Partnership owns the Keg Rights in Canada and the United States. However, it will not own identical or similar trade marks owned by parties not related to KRL or the Partnership in other jurisdictions. Third parties may use such trade marks in jurisdictions other than Canada and the United States in a manner that diminishes the value of such trade marks. If this occurs, the value of the Keg Rights may suffer and gross sales by Keg restaurants could decline. Similarly, negative publicity or events associated with such trade marks in jurisdictions outside of Canada and the United States may negatively affect the image and reputation of Keg restaurants in Canada and the United States, resulting in a decline in gross sales by Keg restaurants.

Government Regulation

KRL is subject to various federal, provincial and local laws affecting its business. Each Keg restaurant is subject to licensing and regulation by a number of governmental authorities, which may include alcoholic beverage control, smoking laws, health and safety and fire agencies. Difficulties in obtaining or failures to obtain the required licences or approvals could delay or prevent the development of a new Keg restaurant in a particular area.

Regulations Governing Alcoholic Beverages

A portion of System Sales is attributable to the sale of alcoholic beverages and its ability to serve such beverages is an important factor in attracting customers. Alcoholic beverage control regulations require each Keg restaurant to apply to provincial, state or municipal authorities, for a licence or permit to sell alcoholic beverages on the premises and, in certain locations, to provide service for extended hours and on Sundays. Typically, licences must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of daily operations of Keg restaurants, including minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control, and handling, storage and dispensing of alcoholic beverages.

The failure of KRL or a Keg franchisee to retain a licence to serve liquor for a Keg restaurant would adversely affect the restaurant's operations and reduce System Sales.

KRL or a Keg franchisee may be subject to legislation in certain provinces or states, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. KRL carries liquor liability coverage as part of its existing comprehensive general liability insurance.

Sales Tax Regulations

While there are variations in studies about the extent to which sales taxes impact retail sales, the increase in the after-tax price of goods and services has a negative effect on the customer's perception of spending on restaurant dining. Such negative perception can potentially reduce either the frequency of guest visits to restaurants, the total amount which guests spend per restaurant visit, or both. Price elasticity appears to have less impact on densely-populated and market-dominant areas such as urban or downtown restaurants. However, as customer perception of disposable spending is adversely affected by increased after-tax prices, System Sales are at risk of declining.

Regionally in 2010, the British Columbia Ministry of Finance and Ontario provincial government implemented harmonized sales taxes imposed on restaurant meals, which were previously exempt or included in the calculation of provincial sales taxes. Guest traffic and sales in Keg Restaurants located in British Columbia were initially adversely affected. On April 1, 2013, the harmonized sales taxes in British Columbia was removed and the provincial sales tax system was reinstated. The actual and long-term effects of the reinstatement of provincial sales taxes in British Columbia are unknown, but not expected to have a significant impact. The implementation of HST and potential impositions of sales taxes in other regions that currently do not have retail sales taxes applicable to restaurant meals or alcoholic beverages may result in a decrease of System Sales and royalties received by the Fund.

Laws Concerning Employees

The operations of Keg restaurants are also subject to minimum wage laws governing such matters as working conditions, overtime and tip credits. Significant numbers of Keg restaurants' food service and preparation personnel are paid at rates related to the minimum wage and, accordingly, further increases in the minimum wage could increase Keg restaurants' labour costs.

Potential Litigation and Other Complaints

KRL and Keg franchisees may be the subject of complaints or litigation from guests alleging food related illness including illness resulting from widespread epidemics such as "mad cow disease" or "foot & mouth disease", injuries suffered on the premises or other food quality, health or operational concerns. Adverse publicity resulting from such allegations may materially affect the sales by Keg restaurants, regardless of whether such allegations are true or whether KRL or a Keg franchisee is ultimately held liable.

Risks Related to the Structure of the Fund

Dependence of the Fund on the Trust and KRL to Make Payments

The cash distributions to the Unitholders are entirely dependent on the ability of the Trust to pay its interest obligations under the Notes and to make distributions on the Trust Units and upon the ability of KRL to pay the interest on the Keg Loan.

Dependence of the Fund on KRL Operations and Assets

The sole source of revenue of the Partnership and the Fund is the Royalty and Make-Whole Payments payable to the Partnership and the interest on the Keg Loan payable to the Fund, by KRL. KRL collects franchise fees and other amounts from Keg franchisees and generates revenues from its corporate Keg restaurants. In the conduct of the business, KRL pays expenses and incurs debt and obligations to third

parties. These expenses, debts and obligations could impact the ability of KRL to pay the Royalty and Make-Whole Payments to the Partnership and interest on the Keg Loan to the Fund.

The Partnership and the Fund are each entirely dependent upon the operations and assets of KRL to pay the Royalty and Make-Whole Payments to the Partnership and interest on the Keg Loan to the Fund, and each is subject to the risks encountered by KRL in the operation of its business, including the risks relating to the casual dining restaurant industry referred to above and the results of operations and financial condition of KRL.

Leverage; Restrictive Covenants

The Partnership and the Trust will have third-party debt service obligations under the Operating Loan and the Term Loan, respectively. The degree to which the Partnership and Trust is leveraged could have important consequences to the holders of the Units, including: (i) a portion of the Partnership's and Trust's cash flow from operations will be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for distribution to the Fund; and (ii) certain of the Partnership's and Trust's borrowings will be at variable rates of interest, which exposes the Partnership to the risk of increased interest rates. The Trust's ability to make scheduled payments of the principal of, or interest on, or to refinance, its indebtedness will depend on distributions made to it by the Partnership, which is subject to the payment of the Royalty and Make-Whole Payments by KRL.

The Term Loan contains numerous restrictive covenants that limit the discretion of the Partnership's management and the Trust with respect to certain business matters. These covenants will place restrictions on, among other things, the ability of the Partnership to incur additional indebtedness, to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. A failure to comply with the obligations in the Term Loan could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the Term Loan were to be accelerated, there can be no assurance that the Trust's assets would be sufficient to repay in full that indebtedness.

Borrowings by KRL and its subsidiaries, including subsidiaries of KRL that are not subject to the restrictions on indebtedness contained in, and have assets that are not subject to the security interest under, the Partnership General Security Agreement and the Keg General Security Agreement, could adversely affect KRL's ability to pay the Royalty, the Make-Whole Payments and interest on the Keg Loan.

Cash Distributions are not Guaranteed and will Fluctuate with the Partnership's Performance

Although the Fund intends to distribute the income earned by the Fund less expenses of the Fund and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by the Fund or the Partnership. The actual amount distributed in respect of the Units will depend upon numerous factors, including payment of the Royalty, Make-Whole Payments and interest on the Keg Loan by KRL.

Nature of Units

Securities such as the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the Trust or the Partnership and should not be viewed by investors as units in the Trust or the Partnership. As holders of Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Units represent a fractional interest in the Fund. The Fund's only assets will be Notes, Trust Units, the Keg Loan and common shares in the capital of Keg GP. The price per Unit is a function of anticipated distributable cash.

Possible Unitholder Liability

The Declaration of Trust provides that no Unitholder will be subject to any liability whatsoever to any person in connection with a holding of Units. However, there remains a risk, which is considered by the Fund to be remote in the circumstances, that a Unitholder could be personally liable despite such statement in the Declaration of Trust for the obligations of the Fund to the extent that claims are not satisfied out of the assets of the Fund.

In December 2004, the *Trust Beneficiaries' Liability Act* (Ontario) was enacted to create a statutory limitation on the liability of Unitholders of Ontario income trusts such as the Fund. The legislation provides that a Unitholder will not, as beneficiary, be liable for any act, default, obligation or liability of the trust or any of its trustees after the legislation comes into force. However, this legislation does not address potential liabilities arising before the date the legislation came into force. In addition, this legislation has not been judicially considered and it is possible that reliance on the legislation by a Unitholder could be successfully challenged on jurisdictional or other grounds.

Distribution of Securities on Redemption or Termination of the Fund

Upon a redemption of Units, the Trustees may distribute Series 2 Notes directly to the Unitholders, subject to obtaining all required regulatory approvals. Also, upon termination of the Fund the Trustees may distribute Notes to Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for the Notes, including the Series 2 Notes. In addition, the Notes are not freely tradable and are not currently listed on any stock exchange. Securities of the Trust so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, depending upon the circumstances at the time.

Fluctuations in Foreign Currency

As at December 31, 2018, KRL had 10 restaurants located in the United States, all of which were corporately owned. Keg restaurants located in the United States generate sales in United States dollars, which must be translated into their Canadian dollar equivalent for reporting purposes. Corporate Keg restaurants located in the United States incur costs in United States dollars, which also must be translated into their Canadian dollar equivalents for reporting purposes. Fluctuations in foreign exchange rates will affect the Canadian dollar equivalent of the sales generated by the restaurants located in the United States and in the case of corporate Keg restaurants, the translation of costs incurred into their Canadian dollar equivalent for reporting purposes.

The Fund May Issue Additional Units Diluting Existing Unitholders' Interests

The Declaration of Trust authorizes the Fund to issue an unlimited number of Units for such consideration and on such terms and conditions as shall be established by the Trustees without the approval of any Unitholders. Additional Units will be issued by the Fund upon the exchange of the Class A Units, Class B Units and Class D Units.

Income Tax Matters

Although the Fund and the Partnership are of the view that all expenses to be claimed by them in the determination of their respective incomes under the Tax Act will be reasonable and deductible in accordance with the applicable provisions of the Tax Act and that the allocation of income for purposes of the Tax Act between KRL and the Trust is reasonable, there can be no assurance that the Tax Act or the interpretation of the Tax Act will not change, or that CRA will agree with the expenses claimed. If CRA successfully challenges the deductibility of such expenses or the allocation of such income, the Partnership's allocation of taxable income to the Trust, and indirectly the Fund and the Unitholders, will increase or change.

There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects Unitholders. If the Fund ceases to qualify as a “mutual fund trust” under the Tax Act, the income tax treatment afforded to Unitholders would be materially and adversely different in certain respects.

Interest on the Notes and the Keg Loan accrues at the Fund level for income tax purposes whether or not actually paid. Similarly, the Royalty may accrue at the Partnership level for income tax purposes whether or not actually paid. As a result, the income of the Partnership allocated to the Fund (through the Trust), in respect of a particular fiscal year may exceed the cash distributed by the Partnership to the Fund (through the Trust) in such year. Where, in a particular year, the Fund does not have sufficient available cash to distribute such an amount to Unitholders (for instance, where interest payments on the Notes and the Keg Loan or payments of the Royalty are due but not paid in whole or in part), the Declaration of Trust provides that additional Units may be distributed to Unitholders in lieu of cash distributions. Unitholders will generally be required to include an amount equal to the fair market value of those Units into their taxable income.

In addition, the agreement under which KRL transferred the Keg Rights to the Partnership provided that elections would be made under the Tax Act to transfer the Keg Rights on a fully or partially tax-deferred basis, as determined by KRL. The cost to the Partnership of the Keg Rights that are subject to those elections may be less than fair market value, such that the Partnership may realize taxable income on the future disposition of these trademarks.

On January 1, 2011, the Fund became liable to pay the SIFT tax. The payment of the SIFT tax reduced the cash flow of the Fund, thereby reducing the amount available for distribution to Unitholders. The SIFT tax may also adversely affect the marketability of the Units and the ability of the Fund to undertake financings and acquisitions. The Trustees examined a number of alternatives available to the Fund to maximize Unitholder value in the face of legislative changes to the tax treatment of income trusts, which became effective on January 1, 2011, and concluded that the Fund remaining a trust was in the best interest of Unitholders and the business. If the Trustees decide, in the future, to change the Fund’s existing structure, there is no way of determining the potential impact (positively or negatively) that any such change might have on the value or trading price of Units or any publicly traded replacement securities.

Investment Eligibility

There can be no assurance that the Units will continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds, registered education savings plans and registered disability savings plans. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments.

MARKET FOR SECURITIES

The outstanding Units of the Fund are listed for trading on the Toronto Stock Exchange under the symbol KEG.UN. The following table sets out the price ranges and volume traded of the Units on the Toronto Stock Exchange for 2018.

Month	High	Low	Volume
January	\$20.04	\$18.15	444,552
February	\$18.72	\$16.61	414,222
March	\$18.59	\$17.50	183,946
April	\$18.50	\$17.86	139,166
May	\$18.39	\$17.80	204,401
June	\$18.08	\$17.50	178,492
July	\$17.86	\$16.60	473,376
August	\$17.90	\$17.00	241,089
September	\$17.74	\$17.26	142,170
October	\$17.70	\$16.80	229,302
November	\$17.75	\$16.98	188,314
December	\$17.35	\$15.01	387,346

TRUSTEES, DIRECTORS AND MANAGEMENT

Trustees and Directors

In the following table on the next page is stated the name of each Trustee, the municipality in which he is ordinarily resident, all offices of the Fund now held by him, his principal occupation, the period of time for which he has been a Trustee of the Fund, and the number of Units and Exchangeable Securities beneficially owned by him, directly or indirectly, or over which he exercises control or direction, as at the date hereof. The present term of office of each Trustee will expire immediately prior to the election of Trustees at the subsequent annual meeting of unitholders or until his successor is elected.

Name, Position and Municipality of Residence ⁽¹⁾	Principal Occupation and, if not Previously Elected as a Trustee, Occupation During the Past 5 Years ⁽¹⁾	Previous Service as a Trustee	Number of Units and Exchangeable Securities Held ⁽²⁾
GEORGE KILLY Trustee Vancouver, BC, Canada	President, Harley Street Holdings Inc.	Since April 12, 2002	60,000
TIM KERR Trustee Vancouver, BC, Canada	Partner, Springhouse Investments Corp.	Since June 7, 2013	16,000
CHRISTOPHER CHARLES WOODWARD Trustee, Chairman of the Board of Trustees and Corporate Secretary Vancouver, BC, Canada	President, Woodcorp Investments Ltd.	Since April 12, 2002	4,500

Notes:

- (1) The information as to municipality of residence and principal occupation, not being within the knowledge of the Fund, has been furnished by the respective Trustees individually.
- (2) The information as to Units and Exchangeable Securities beneficially owned or over which a Trustee exercises control or direction, not being within the knowledge of the Fund, has been furnished by the respective Trustees individually.

Pursuant to the provisions of the Governance Agreement, the board of directors of Keg GP is required to consist of five individuals. Three directors are nominated by the Fund (each of whom may be a Trustee and must be an “unrelated director” within the meaning of the corporate governance policy of The Toronto Stock Exchange and “independent” within the meaning of the applicable securities legislation) and two directors are nominated by KRL. KRL’s entitlement to nominate directors is subject to KRL holding, directly or indirectly, 10% or more of the Units whether held directly or indirectly through Exchangeable Securities. The Fund and KRL are required, pursuant to the Governance Agreement, to vote their common shares of Keg GP in favour of such nominees.

In the following table is stated the name of each director, the municipality in which he is ordinarily resident, all offices of Keg GP now held by him, his principal occupation and the period of time for which he has been a director of Keg GP:

Name, Position and Municipality of Residence⁽¹⁾	Principal Occupation During the Past 5 Years⁽¹⁾	Period of Service as a Director
GEORGE KILLY ⁽²⁾⁽³⁾⁽⁴⁾ Director Vancouver, BC, Canada	President, Harley Street Holdings Inc.	Since May 1, 2002
TIM KERR ⁽²⁾⁽³⁾⁽⁴⁾ Director Vancouver, BC, Canada	Partner, Springhouse Investments Corp.	Since June 7, 2013
CHRISTOPHER CHARLES WOODWARD ⁽²⁾⁽³⁾⁽⁴⁾ Director Vancouver, BC, Canada	President, Woodcorp Investments Ltd.	Since May 1, 2002
DAVID AISENSTAT ⁽⁵⁾ Director and President Vancouver, BC, Canada	President & Chief Executive Officer, KRL	Since May 31, 2002
NEIL MACLEAN ⁽⁵⁾ Director, Treasurer and Secretary Delta, BC, Canada	Executive Vice-President & Chief Financial Officer, KRL	Since May 31, 2002

Notes:

- (1) The information as to municipality of residence and principal occupation, not being within the knowledge of the Fund, has been furnished by the respective Directors individually.
- (2) Member of the Audit Committee of Keg GP.
- (3) Member of the Governance Committee of Keg GP.
- (4) Nominee of the Fund.
- (5) Nominee of KRL.
- (6) On December 31, 2018, KRL had the right to exchange its Class A Units, Class B Units, and Class D Units into 4,083,064 Units representing 26.45% of the Units on a fully diluted basis. On January 1, 2019, as a result of KRL's initial 80% entitlement to the Additional Entitlement for 2019, KRL had the right to exchange its Class A Units, Class B Units and Class D Units into 4,318,857 Units representing 27.56% of the Units on a fully diluted basis.

On February 22, 2018, as a result of the Recipe Merger, in which David Aisenstat sold his 49% interest in KRL to Recipe, the beneficial ownership of the Fund by the Trustees, directors and executive officers, as a group, owned beneficially or exercised control or direction over 90,700 or approximately 0.59% of the outstanding Units on a fully diluted basis.

As of December 31, 2018, the Trustees, directors and executive officers, as a group, owned beneficially or exercised control or direction over 97,274 Units or approximately 0.63% of the outstanding Units on a fully diluted basis. As of January 1, 2019, as a result of KRL's initial entitlement to the Additional Entitlement for 2019, the Trustees, directors and executive officers, as a group, owned beneficially or exercised control or direction over 97,274 or approximately 0.62% of the outstanding Units on a fully diluted basis.

Conflicts of Interest

Other than disclosed herein, to the knowledge of the Trustees, there are no existing or potential material conflicts of interest among the Fund or a subsidiary of the Fund and a Trustee, director or officer of the Fund or a subsidiary of the Fund.

David Aisenstat is a director of Keg GP and is also a director and officer of KRL. Neil Maclean is a director of Keg GP and is also an officer of KRL. Due to the relationship between KRL and the Fund, or a subsidiary of the Fund, such persons may have conflicting interests.

Compensation of Trustees and Directors

The following table provides a summary of compensation provided to the Trustees of the Fund and the Directors of Keg GP for the most recently completed financial year.

Name	Fees Earned (\$)	Share-Based Awards (\$)	Option-Based Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Pension Value (\$)	All other Compensation (\$)	Total (\$)
George Killy	\$30,500	n/a	n/a	n/a	n/a	n/a	\$30,500
Christopher Charles Woodward	\$30,500	n/a	n/a	n/a	n/a	n/a	\$30,500
Tim Kerr	\$30,500	n/a	n/a	n/a	n/a	n/a	\$30,500
David Aisenstat	nil	n/a	n/a	n/a	n/a	n/a	nil
Neil Maclean	nil	n/a	n/a	n/a	n/a	n/a	nil

The annual compensation for each Trustee is \$7,500 plus \$1,000 for each meeting of the Trustees except where the Trustee attends a meeting of the board of directors of Keg GP or a meeting of Holdings Trustees on the same day and for which compensation is paid. The Holdings Trustees (who comprise all of the Trustees) are also compensated \$7,500 per annum plus \$1,000 for each meeting of Holdings Trustees except where such trustee attends a meeting of the board of directors of Keg GP or a meeting of the Trustees on the same day and for which compensation is paid. The Trustees are also directors of Keg GP and, as such, each receives compensation of \$7,500 per year plus \$1,000 for attending each meeting of the board of directors or a committee thereof except where the Trustee attends a meeting of the Trustees or a meeting of Holdings Trustees on the same day and for which compensation is paid. Directors who are also directors or officers of KRL are not entitled to the annual retainer payable to directors of Keg GP. Trustees, Holdings Trustees and directors of Keg GP are also entitled to be reimbursed for reasonable expenses incurred by them in connection with their services as Trustees, Holdings Trustees and directors of Keg GP. The aggregate amount paid to the Trustees as compensation, for acting as Trustees, Holdings Trustees and directors of Keg GP, during the financial year of the Fund ended December 31, 2018 was \$91,500. This compensation (and any expense reimbursement) is paid by the Partnership.

Trustees', Directors' and Officers' Liability Insurance

The Partnership maintains a policy of insurance for Trustees, Holdings Trustees and the directors and officers of Keg GP. The aggregate limit of liability applicable to all insured trustees, directors and officers under the policy is \$10 million inclusive of defence costs. Under the policy, the Fund, the Trust and Keg GP have reimbursement coverage to the extent that it has indemnified the insured trustees, directors and officers in excess of a deductible of \$25,000 for each loss. The aggregate limit of liability will be shared between the Fund, the Trust and Keg GP and their respective trustees, directors and officers such that the limit of liability will not be exclusive to the Fund, the Trust, Keg GP or their respective directors, officers and trustees. The annual premium for the period from May 28, 2018 to May 27, 2019 was paid by the Partnership and amounted to \$21,320.

Functions and Powers of Keg GP and KRL

Keg GP has the authority to manage the business and affairs of the Partnership, to make decisions regarding the business of the Partnership and to bind the Partnership in respect of any such decision. Keg GP is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Partnership and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances.

The authority and power vested in Keg GP to manage the business and affairs of the Partnership includes all authority necessary or incidental to carry out the objects, purposes and business of the Partnership, including the ability to engage agents to assist Keg GP to carry out its management obligations and administrative functions in respect of the Partnership and its business. KRL, as a general partner of the Partnership, is actively engaged in the business of the Partnership, responsible for, and has authority in, assisting Keg GP in the management of the business and affairs of the Partnership and performs such additional specific duties in connection with the business of the Partnership as is delegated to KRL by

Keg GP from time to time and pursuant to the Limited Partnership Agreement. KRL also provides ongoing and regular consultation and management services to the Partnership as to the operation and management of the business of the Partnership, in addition to the assistance provided to Keg GP.

In particular, KRL is responsible for:

- the performance of the duties of the Partnership pursuant to the Administration Agreement and the Holdings Administration Agreement;
- the provision of accounting, bookkeeping and administrative services; and
- subject to the approval of Keg GP, allocating distributions of cash and allocations of taxable and accounting income to the partners.

The Limited Partnership Agreement provides that all material transactions and agreements involving the Partnership (other than the agreements entered into in connection with the formation of the Partnership or the initial public offering of the Fund) must be approved by Keg GP's board of directors and, where those agreements involve KRL or its affiliates or associates, they must be approved by a majority of the directors who are not nominees of KRL or of an affiliate or an associate of KRL, and where those agreements involve the creation of debt obligations for which KRL is liable, they must be approved by KRL.

The authority of Keg GP is limited in certain respects under the Limited Partnership Agreement. Keg GP is prohibited, without the prior approval of the other partners given by Partnership Special Resolution, from dissolving the Partnership or selling, exchanging or otherwise disposing of all or substantially all of the assets of the Partnership (otherwise than in conjunction with an internal reorganization which has been approved by KRL).

The Partnership reimburses Keg GP and KRL for all out-of-pocket costs and expenses approved by Keg GP and incurred by Keg GP or KRL in the performance of their duties under the Limited Partnership Agreement on behalf of the Partnership.

Governance of Keg GP

Committees

The board of directors of Keg GP have established the following committees, each committee comprising only the nominees of the Fund:

Audit Committee: This committee is responsible for monitoring Keg GP and the Partnership's financial reporting, accounting systems, internal controls and liaising with external auditors.

Governance Committee: The Committee is responsible for:

- overseeing the operations of the Partnership, including payments to be made by KRL to the Partnership under the Licence and Royalty Agreement;
- considering, and providing a recommendation on, any conflict of interest involving KRL and Keg GP or the Partnership before such conflict of interest is approved by the board of directors of Keg GP;
- annually reviewing:
 - the operations of KRL, including its business plans and prospects for the ensuing year,
 - the performance of the management of KRL, and
 - adjustments to be made pursuant to the Licence and Royalty Agreement;
- developing Keg GP's approach to corporate governance issues and compliance with applicable laws, regulations, rules, policies and orders with respect to such issues;
- advising the board in filling vacancies on the board; and
- periodically reviewing the composition and effectiveness of the board and the contribution of individual directors.

Undertakings to Canadian Securities Regulatory Authorities

The following individuals are insiders of the Fund, and, as such have reporting obligations as “insiders” under the securities laws of the various provinces and territories of Canada and are required to file “insider trading reports” with respect to the Fund where required under those laws:

- the Trustees of the Fund and the Holdings Trustees of the Trust;
- the directors and senior officers of Keg GP; and
- the directors, senior officers and holders of voting securities of KRL carrying more than 10 per cent of the voting rights attached to voting securities of KRL outstanding (an “insider”) of KRL.

KRL and each of its directors, senior officers and insiders have undertaken with the securities commission or other securities regulatory authority in each of the provinces and territories of Canada, to file insider trading reports with respect to securities of the Fund as if each were an insider of the Fund and with respect to KRL as if KRL was a reporting issuer or its equivalent in such jurisdictions.

Restrictive Covenants

KRL has agreed in the Governance Agreement not to amend the term or provisions of the confidentiality and non-solicitation covenants and, where applicable, non-competition covenants contained in employment agreements with its senior management without the consent of the Partnership, and to enforce these covenants at the request of the Partnership in a commercially reasonable manner. KRL has agreed in the Licence and Royalty Agreement not to own or operate or otherwise be interested in any restaurant business, during the period of the Licence, other than Keg restaurants carrying on the business of a casual dining steakhouse utilizing the Keg Rights.

Future Financings

The Fund has agreed with KRL in the Governance Agreement not to issue any Units if the proceeds of such issue are to be used, directly or indirectly, to finance or refinance the acquisition by the Trust from KRL of Class D Units for cash unless:

- such Units are first offered to KRL at a price not greater than the price offered to any proposed purchaser thereof, less commissions, and on terms summarized by the Fund; and
- within 48 hours (excluding Saturdays, Sundays and holidays) KRL does not agree to purchase any of such Units.

KRL shall be entitled to elect, within such 48 hour period, to purchase any of the Units so offered at such price, less commissions, and on such terms, and if KRL makes such election, the Fund will issue Units to KRL at such price, less commissions, and on such terms. The Fund shall not thereafter issue such Units at a price, less commissions, lower than 90% of the price at which, and on terms materially less favourable to the Fund from the terms on which, such Units were first offered to KRL without again first offering such Units to KRL in accordance with the foregoing.

Restrictions on the Transfer of Partnership Securities

KRL has agreed in the Governance Agreement that, until the Fund is liquidated, the Partnership Securities held by KRL may only be sold or otherwise disposed of by KRL to the Trust pursuant to the Exchange Rights or the Limited Partnership Agreement or, in the case of the Class C Units, the transfer of such Class C Units to the Trust. The Partnership Securities may also be sold or otherwise disposed of by KRL in the event of:

- a takeover bid for all of the Units in which the offeror acquires 90% of all of the issued and outstanding Units (including rights to the Units to be issued to KRL upon exercise of the Exchange Rights); or

- a takeover bid, amalgamation, plan of arrangement or other business combination or reorganization involving all or substantially all of the Units, or the assets of, the Partnership, or all or substantially all of the Units or assets of the Fund.

If a takeover bid is made for all of the issued and outstanding Units (including rights to the Units to be issued upon exercise by KRL of the Exchange Rights) or a proposal is made for the sale of all or substantially all of the direct and indirect properties of the Fund and not less than 90% of the Units on a fully-diluted basis, including the Partnership Securities exchangeable for Units upon exercise of the Exchange Rights, (other than Units held at the date of the takeover bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror or not less than two thirds of the Units including the Class A, B and D Exchange Units are voted in favour of such proposal, the Fund shall have the option, exercisable within 60 days of the termination of the takeover bid or completion of such sale, to require KRL to sell its Partnership Securities (other than the Class C Units) to the Fund. The aggregate price at which such Partnership Securities will be sold is equal to the consideration paid per Unit pursuant to such takeover bid, or sale multiplied by the number of Units which KRL would be entitled to receive if KRL exercised its Exchange Rights on the date of purchase or sale, as the case may be.

KRL has agreed in the Governance Agreement not to sell or otherwise dispose of any of its Partnership Securities to any person other than the Fund, the Trust, the Partnership or a Related Party, provided in the case of a sale or disposition to a Related Party, the Related Party becomes a party to the Governance Agreement together with KRL.

The Trust has agreed in the Governance Agreement that the Trust will not sell or otherwise dispose of any of its Partnership Securities except with the prior written consent of KRL or as may be required pursuant to the Loan or the Term Loan.

Right of First Opportunity

KRL and the Related Party have agreed in the Governance Agreement that neither KRL, nor a Related Party, will enter into any agreement which, if completed, would result in a Change of Control (as hereinafter defined) of KRL unless the Partnership or the Fund is first provided with the opportunity to acquire the assets and undertaking of KRL, or all but not less than all of the shares of KRL held directly or indirectly by the Related Party, for the consideration and on terms set forth in a written notice (the "ROFO Notice") by KRL to the Fund and the Partnership. The ROFO Notice will set forth the amount of the consideration to be paid by the Partnership or the Fund for the assets and undertaking of the Partnership, or the shares of KRL held directly or indirectly by the Related Party, and a summary of the terms of the proposed transaction.

If, within 30 days after the receipt of the ROFO Notice, the Fund or the Partnership does not inform KRL in writing that the Fund or the Partnership desires to purchase the assets and undertaking of KRL, or the shares of KRL held directly and indirectly by the Related Party or, within 30 days after the Fund or the Partnership so informs KRL, the Fund or the Partnership does not enter into an agreement with KRL or the Related Party for the purchase of assets and undertaking of KRL, or the shares of KRL held directly or indirectly by the Related Party, then KRL or the Related Party may enter into any agreement in respect thereof which, if completed, would result in a Change of Control of KRL, so long as:

- the amounts that would be received by KRL or by the Related Party upon completion of the transaction contemplated by such agreement, after taking into account the amount of income taxes that would be payable under the Tax Act by KRL and the Related Parties if the consideration payable in respect of the transaction that results in a Change of Control were immediately distributed to, or paid to, the Related Party is at least equal to the amount of such consideration set forth in the ROFO Notice;
- the non-price terms of the transaction as contained in such agreement, when considered as a whole in a commercially reasonable manner having regard to the nature of the transaction and the summary of the proposed transaction as contained in the ROFO Notice, are not materially less favourable to KRL and/or the Related Party, as the case may be, than the summary of the terms of the proposed transaction contained in the ROFO Notice; and

- on or before the completion of the transaction as contained in such agreement, the purchaser or other party to such agreement enters into an agreement with the Partnership and the Fund agreeing to guarantee the performance of KRL's obligations under the Governance Agreement and KRL's operating covenants in the Licence and Royalty Agreement (the "Purchaser's Guarantee").

If KRL or the Related Party does not enter into such an agreement within 210 days after the date the ROFO Notice was given to the Fund or the Partnership by KRL in respect of such transaction, or a transaction giving effect to a Change of Control permitted by the foregoing is not completed by the first anniversary of the date upon which such ROFO Notice was first given, then neither KRL nor the Related Party may enter into an agreement which, if completed, would result in a Change of Control, unless the Fund and the Partnership are again provided with the opportunity to acquire the assets and undertaking of KRL, or all but not less than all of the shares of KRL held directly or indirectly by the Related Party in accordance with the foregoing.

A Change of Control will be defined as:

- the direct or indirect acquisition by any person or persons (other than one or more Related Parties), acting jointly or in concert, of beneficial ownership ("acting jointly or in concert" and "beneficial ownership" within the meaning of the *Securities Act* (Ontario) as of January 1, 2002) of 50% or more of the aggregate number of votes attached to KRL's then outstanding voting shares; or
- the approval by shareholders of KRL of (a) an amalgamation involving KRL, or (b) a complete liquidation or dissolution of KRL or the sale or other disposition of all or substantially all of the assets of KRL if immediately after the completion of a transaction referred to in (a) or (b) the Related Party does not own directly or indirectly more than 50% of the aggregate number of votes attached to the then outstanding voting securities of the corporation resulting from such amalgamation or the corporation that then owns the assets and undertaking previously owned by KRL.

Notwithstanding the foregoing, a Change of Control shall not be deemed to occur solely because 50% or more of the aggregate number of votes attached to KRL's then outstanding securities is acquired by:

- a Related Party;
- a trustee or other fiduciary holding securities for the benefit of a Related Party or the estate of a Related Party; or
- any corporation which, immediately prior to such acquisition, is owned directly or indirectly by a Related Party,

provided that the acquiree agrees to be bound by the restrictions contained in the Governance Agreement to which the Related Party is subject.

Prior to entering into the purchase agreement respecting the Fairfax Acquisition, which completed on February 4, 2014, the parties to such agreement secured the consent of the Fund and the Partnership to the Change of Control and the waiver of the application of the right of first opportunity and the Purchaser's Guarantee as described above.

Further, on completion of the foregoing acquisition of interests of KRL, Fairfax and Mr. Aisenstat (as Related Parties) entered into an amended and restated governance agreement for the limited purpose of agreeing to provide certain rights to the Partnership and the Fund in the event of a Change of Control of KRL.

Other Matters

The Governance Agreement also provides that:

- no additional Partnership Securities, except Class D Units issued to KRL following the Class B Termination Date as evidence of KRL's increased entitlement to distributions and income

- pursuant to the Limited Partnership Agreement in respect of the inclusion of net gross sales and Additional Restaurants in the Royalty Pool, are to be issued by the Partnership without the prior written consent of KRL; and
- none of the restrictions in the Governance Agreement will prevent KRL or any subsidiary of KRL from pledging the Partnership Securities to a financial institution as security for a *bona fide* loan to KRL or such subsidiary so long as the financial institution enters into an agreement with the Fund and the Partnership agreeing to be bound by the restrictions contained in the Governance Agreement and that, upon any realization upon the Partnership Securities exchangeable into Units, such Partnership Securities will be exchanged for Units, through the exercise of the Exchange Rights.

AUDIT COMMITTEE

A copy of the Audit Committee’s charter is attached hereto as Schedule “A”.

The audit committee is comprised of all of the members of the board of Trustees, being Messrs. Woodward (Chairman), Killy and Kerr, all of whom are independent and financially literate in accordance with applicable securities legislation. In addition to each member’s general business experience, an outline of the education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee, including any education or experience that has provided the member with an understanding of (i) the accounting principles used by the Fund, and (ii) the Fund’s internal controls and procedures for financial reporting, is set forth below.

C.C. Woodward, Chairman. Mr. Woodward serves as an independent trustee on several public and private corporate, charitable and education and health boards including on the audit sub-committees of some of these boards. Mr. Woodward is also President of his own investment company, Woodcorp Investments Ltd. Mr. Woodward holds a Bachelor of Arts in Economics from the University of Western Ontario.

George Killy. Mr. Killy is an entrepreneur with several years of experience as a managing director, chief executive officer and significant stakeholder in the forest products industry. Mr. Killy is also President of his own investment company, Harley Street Holdings Inc. Mr. Killy serves on various corporate and charitable boards in the Vancouver area including as board member of the Vancouver 2010 Bid Corporation and as previous chairman of the Vancouver Art Gallery. Mr. Killy holds a Bachelor of Arts in Economics and Commerce from Simon Fraser University.

Tim Kerr. Mr. Kerr is a prominent businessman who since 1972 directed the family business Lignum Ltd. until it was later sold to Riverside in 2004. During that time, Mr. Kerr sat on various forest industry committees, and now since then, Mr. Kerr has run a family office, Springhouse Investments Corp. Mr. Kerr also manages the Timothy C Kerr Family Foundation. Mr. Kerr graduated from U.B.C. and later attended Harvard Business School A.M.P.

The following table provides for greater disclosure of the services provided and fees earned by the Fund’s external auditor over the two most recently completed fiscal years, dividing the services into the four categories of work performed.

Type of Work	Fees – 2018	Fees – 2017
Audit Fees.....	\$ 75,500	\$ 72,500
Audit-Related Fees.....	14,500	14,500
Sub-total	\$ 90,000	\$ 87,000
Tax Fees.....	\$ 19,025	\$ 19,025
All Other Fees.....	500	500
Total	\$109,525	\$ 106,525

Audit Services

Audit fees were paid for professional services rendered by the auditors for the audit of the Fund's annual financial statements as well as services provided in connection with statutory and regulatory filings.

Audit-Related Services

Audit-related fees were paid for assurance and related services that are reasonably related to the performance of the audit of the annual financial statements and are not reported under the audit services category above.

Tax Services

Tax fees were paid for tax compliance, tax advice and tax planning professional services. These services consisted of providing advice regarding tax reviews, reviewing tax returns and assisting in responses to government tax authorities.

Other Services

Other fees were paid for products and services other than the audit services, audit-related services and tax services described above.

LEGAL PROCEEDINGS

Management is not aware of any litigation outstanding, threatened or pending as of the date hereof by or against the Fund, the Trust, the Partnership, Keg GP or KRL which would be material to a purchaser of the Units.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as set forth elsewhere in this Annual Information Form, no trustee, director, executive officer or principal shareholder or Unitholder of the Fund, the Trust, the Partnership, Keg GP or KRL, or associate or affiliate of any of the foregoing, has any other material interest, direct or indirect, in any transaction which has materially affected the Fund, the Trust, the Partnership, Keg GP or KRL in the past three years (or in any transactions or proposed transaction which may materially affect the Fund, the Trust, the Partnership, Keg GP or KRL in the future).

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar of the Units is Computershare Trust Company of Canada at its principal office in Vancouver, British Columbia.

MATERIAL CONTRACTS

The only material contracts entered into by any of the Fund, the Trust, the Partnership or Keg GP during the past year or entered into prior to the most recently completed financial year but after January 1, 2002 and that is still in effect, other than in the ordinary course of business, are as follows (all of which are dated May 31, 2002 unless otherwise indicated):

- (a) credit agreements relating to each of the Term Loan and Operating Loan dated May 31, 2002, as amended October 28, 2004, September 26, 2006, August 12, 2009 and as further amended April 12, 2011;
- (b) credit agreement relating to the amendment and restatement of the Keg Loan and the Keg General Security Agreement;

- (c) the Licence and Royalty Agreement dated May 31, 2002, as amended February 17, 2003 and the Partnership General Security Agreement;
- (d) the Governance Agreement;
- (e) the Exchange Agreement;
- (f) the Registration Rights Agreement;
- (g) the Limited Partnership Agreement, as amended May 31, 2003 as further amended January 1, 2006, January 1, 2008, December 20, 2010 and May 17, 2011;
- (h) the Declaration of Trust;
- (i) the Holdings Declaration of Trust;
- (j) the Administration Agreement;
- (k) the Holdings Administration Agreement;
- (l) the Note Indenture; and
- (m) the Underwriting Agreement dated May 17, 2002.

EXPERTS

The auditor's of the Fund, KPMG LLP, have prepared the auditors' report attached to the Fund's annual consolidated financial statements for its most recently completed year end. As of December 31, 2018, KPMG LLP was independent from the Fund within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

ADDITIONAL INFORMATION

Additional information relating to the Fund may be found on the System for Electronic Document Analysis and Retrieval at www.sedar.com. Additional information, including trustees', directors' and officers' remuneration and indebtedness, principal holders of the Fund's securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in the Fund's information circular in respect of its most recent annual meeting. Additional financial information is provided in the Fund's financial statements and management's discussion and analysis for its most recently completed financial year.

GLOSSARY

“**Additional Restaurants**” means, at any time, Keg restaurants owned and operated by KRL or its subsidiaries or owned by Keg franchisees and operated under franchise agreements with KRL or its subsidiaries, and which are not included in the Royalty Pool at such time.

“**Adjustment Date**” means January 1 of each calendar year.

“**affiliate**” has the meaning set out in the Securities Act.

“**Aggregate Class B Distributions**” means the aggregate cumulative preferential cash distributions to be made on the Class B Units (including the Class B Proportionate Distribution and the Class B Adjustment Distribution).

“**associate**” has the meaning set out in the Securities Act.

“**CBCA**” means the *Canada Business Corporations Act*.

“**CRA**” means Canada Revenue Agency.

“**CDS**” means The Canadian Depository for Securities Limited.

“**Class A Exchange Units**” means, at any time, the number of Units that the holders of the Class A Units (other than the Fund or its subsidiaries, if they hold Class A Units) would receive if the Exchange Rights for all Class A Units issued and outstanding at such time were exercised at that time and such Class A Units were exchanged for Units.

“**Class A Proportionate Distribution**” means the cumulative preferential cash distribution to be paid on the Class A Units, equal to the Class C Distribution multiplied by the Class A Ratio.

“**Class A Ratio**” means the fraction equal to the number of issued Class A Units divided by the number of issued LP Units.

“**Class A Units**” means the Class A general partner units of the Partnership held by KRL or any Related Party, or Class A limited partner units of the Partnership acquired by the Trust or a permitted transferee pursuant to the Exchange Agreement (see “Information Concerning the Fund — Partnership Units — The Exchange Rights”), as the case may be.

“**Class B Adjustment Distribution**” means the cumulative preferential cash distribution to be paid on the Class B Units following the end of each calendar year equal to the additional amount of distributions, which would have been paid on the Class B Units during such calendar year if the initial addition to the Cumulative Amount in respect of Purchased Class B Restaurants, added to the Royalty Pool on the Adjustment Date at the beginning of such calendar year, had been equal to the Determined Amount calculated in respect of such Purchased Class B Restaurants, which Class B Adjustment Distribution shall be declared to be distributed on December 31 and paid on or after January 1 following such declaration.

“**Class B Current Distribution Entitlement**” means, at any time, the fraction equal to the Cumulative Amount at such time divided by \$33,767,000.

“**Class B Exchange Limit**” means, at any time, the maximum number of Class B Units held by KRL that may be exchanged for Units, calculated as the Cumulative Amount at such time, divided by \$10.00, less the number of Class B Units previously exchanged.

“**Class B Exchange Units**” means, at any time, the number of Units that the holders of the Class B Units (other than the Fund or its subsidiaries, if they hold Class B Units) would receive at a particular time if the Exchange Rights for all Class B Units issued and outstanding at such time were exercised at such time and such Class B Units were exchanged for Units.

“Class B Proportionate Distribution” means the cumulative preferential cash distribution to be paid on the Class B Units, equal to the Class C Distribution multiplied by the Class B Ratio.

“Class B Ratio” means the fraction equal to the number of issued Class B Units multiplied by the Class B Current Distribution Entitlement divided by the number of issued LP Units.

“Class B Termination Date” means the earlier of (i) the date on which the Cumulative Amount is equal to \$33,767,000, and (ii) May 31, 2012.

“Class B Units” means the Class B general partner units of the Partnership held by KRL or any Related Party, or Class B limited partner units of the Partnership acquired by the Trust or a permitted transferee pursuant to the Exchange Agreement (see “Information Concerning the Fund — Partnership Units — The Exchange Rights”), as the case may be.

“Class C Distribution” means in respect of any month the aggregate cumulative preferential cash distribution to be paid on the Class C Units, equal to \$0.0625 per Class C Unit multiplied by the number of issued and outstanding Class C Units.

“Class C Units” means the Class C general partner units of the Partnership held by KRL or any Related Party or Class C limited partner units of the Partnership acquired by the Trust or a permitted transferee pursuant to the Exchange Agreement (see “Information Concerning the Fund — Partnership Units — The Exchange Rights”), as the case may be.

“Class D Adjustment Distribution” means the cumulative preferential cash distribution to be paid on the Class D Units following the end of each calendar year equal to the amount of distributions which would have been paid on the Class D Units during such calendar year if the initial number of Class D Units issued in respect of Additional Restaurants added to the Royalty Pool on the Adjustment Date in such calendar year had been equal to the Determined Amount calculated in respect of such Additional Restaurants divided by the Current Market Price of a Unit, which Class D Adjustment Distribution shall be declared to be distributed on December 31 and paid on or after January 1 following such declaration.

“Class D Excess” means the amount, if any, by which the Class D Priority Distribution exceeds the product of the Class C Distribution and the Class D Ratio.

“Class D Exchange Units” means, at any time, the number of Units that the holders of the Class D Units (other than the Fund or its subsidiaries, if they hold Class D Units) would receive if the Exchange Rights for all Class D Units issued and outstanding at such time were exercised at that time and such Class D Units were exchanged for Units.

“Class D Priority Distribution” means, in respect of any month, a cumulative preferential cash distribution on the Class D limited partner units equal in amount to all sums due and payable by the Trust under the Loan in such month (other than any “balloon” payment of principal on maturity).

“Class D Proportionate Distribution” means the cumulative preferential cash distribution to be paid on the Class D Units, equal to the Class C Distribution multiplied by the Class D Ratio, less the Class D Priority Distribution.

“Class D Ratio” means the fraction equal to the number of issued Class D Units divided by the number of issued LP Units.

“Class D Units” means the Class D general partner units of the Partnership held by KRL or any Related Party or Class D limited partner units of the Partnership acquired by the Trust or a permitted transferee pursuant to the Exchange Agreement (see “Information Concerning the Fund – Partnership Units – The Exchange Rights”), as the case may be.

“corporate Keg restaurants” means Keg restaurants owned and operated by KRL or any of its subsidiaries.

“Cumulative Amount” means, at any time, the cumulative amount of all Determined Amounts up to (and including) such time, to a maximum of \$33,767,000, provided that such amounts shall be added to the Cumulative Amount as follows:

On each Adjustment Date until the Class B Termination Date, the Class B Current Distribution Entitlement is to be adjusted by increasing the Cumulative Amount. Such increase is to be effected in two stages, as follows:

- (1) the product of (i) 80% of the Initial Determined Amount for Proposed Additional Restaurants, determined as at the Determination Date immediately preceding such Adjustment Date and (ii) the Current Market Price Ratio as of the Adjustment Date, will be added to the Cumulative Amount on such Adjustment Date; and
- (2) on the immediately succeeding Adjustment Date, an amount equal to the product of (i) an amount equal to the Determined Amount in respect of the Additional Restaurants in respect of which the initial adjustment referred to in (1) above was made, less the amount under (i) in paragraph (1) above, and (ii) the Current Market Price Ratio as of the previous Adjustment Date, will be added to the Cumulative Amount on such Adjustment Date.

“Current Market Price of a Unit” means, as at any date or for any period, the weighted average price per Unit at which the Units have traded on a Stock Exchange during the period of 20 consecutive trading days ending on the fifth trading day before such date or the end of each period.

“Current Market Price Ratio” as at a date means the fraction having a numerator of ten (10) and a denominator equal to the Current Market Price of a Unit on such date;

“Debt Service” means, in any period, total interest and scheduled repayments of principal paid or payable during such period in respect of all indebtedness for borrowed money of, or unpaid purchase price for property purchased by, KRL and its subsidiaries (other than the Keg Loan and trade payables incurred in the ordinary course of carrying on business).

“Declaration of Trust” means the amended and restated declaration of trust dated April 12, 2002, as amended and as the same may be amended, supplemented and restated from time to time.

“Determined Amount” means the amount, calculated as at the end of each Fiscal Year, in respect of the Adjustment Date in the next following Fiscal Year, commencing January 1, 2003, determined in the manner described under “Licence and Royalty — Adjustment of the Royalty — Class B Units Entitlement”.

“Determination Date” means, in respect of any Fiscal Year, the first day of such Fiscal Year.

“Exchange Agreement” means the exchange agreement dated May 31, 2002 between the Fund, the Trust, KRL and Keg GP providing for the Exchange Rights.

“Exchanged Class B Ratio” means, at any time, a fraction, the numerator of which is equal to the number of Class B Units issued and outstanding which have been exchanged by KRL pursuant to the Exchange Rights, multiplied by \$10.00, and the denominator of which is equal to the Cumulative Amount.

“Exchange Rights” means in respect of Class A Units, Class B Units and Class D Units, the right of KRL (or a Related Party to which KRL has transferred Partnership Securities in accordance with the Governance Agreement) to exchange a Class A Unit, a Class B Unit (subject, in the case of Class B Units, to the Class B Exchange Limit) or a Class D Unit, for a Unit by delivering such Class A Unit, Class B Unit or Class D Unit, as the case may be, to the Trust in exchange for a Unit which the Trust will obtain from the Fund.

“Fiscal Year” means the 52-week (or 53-week) period ending on the relevant Year End.

“franchised Keg restaurants” means Keg restaurants, owned and operated by the owners thereof under franchise agreements with KRL.

“Fund” means The Keg Royalties Income Fund, an unincorporated open-ended limited purpose trust established under the laws of the Province of Ontario and governed by the Declaration of Trust.

“Governance Agreement” means the governance agreement dated May 31, 2002, as amended, entered into among the Fund, the Trust, the Partnership, Keg GP, KRL and the Related Party providing for, among other things, the governance of Keg GP.

“GP Units” means the ordinary general partner units of the Partnership.

“Holdings Trustees” means, at the relevant time, the trustees of the Trust.

“Holdings Unitholders” means, at the relevant time, the holders of the Trust Units.

“Initial Determined Amount” means, in respect of a Reporting Period, the amount determined at the Determination Date for such Reporting Period by the following formula: $92.5\% \times 4\% \times (FSS-RSS)/UY$

Where:

- (a) FSS is the Forecast System Sales for the Proposed Additional Restaurants for such Reporting Period;
- (b) RSS is the Replacement System Sales as at the Determination Date of such Reporting Period; and
- (c) UY is the Unit Yield as at the Determination Date of such Reporting Period.

“Keg franchisees” means the owners of the Keg restaurants under franchise agreements with KRL.

“Keg General Security Agreement” means the general security agreement granted to the Fund by KRL and each of its subsidiaries that own a Keg restaurant in Canada over the assets of KRL and each of these subsidiaries, except Keg Brands Inc. (and the shares of Keg Brands Inc.), to secure payment of the Keg Loan, the security for which will rank equally with the security interest granted to the Partnership under the Partnership General Security Agreement.

“Keg GP” means The Keg GP Ltd., a corporation incorporated under the CBCA.

“Kegger” means an employee or management of a Keg restaurant or of KRL.

“KRL” means Keg Restaurants Ltd., a corporation amalgamated under the laws of the Province of Ontario.

“Limited Partnership Agreement” means the amended and restated limited partnership agreement dated May 31, 2002, as amended and as may be further amended, supplemented or restated from time to time, between Keg GP, KRL and the Holdings Trustees by which the Partnership is governed.

“Loan” means all loans made to the Trust by a financial institution carrying on business in Canada to finance the acquisition by the Trust of Class D Units issued to KRL in respect of a Determined Amount (including customary fees) and all renewals and replacements thereof by a financial institution carrying on business in Canada.

“LP Priority Distribution” means, in respect of any month, a cumulative preferential cash distribution on the LP Units equal in amount to all sums due and payable by the Trust under the Term Loan in such month (other than any “balloon” payment of principal on maturity). If the Term Loan is repaid in whole or in part through the issuance of Units, the LP Priority Distribution shall also include, in respect of any month, an amount equal to the monthly yield for the prior month, multiplied by the amount of the Term Loan so repaid, where the “monthly yield” is determined by dividing the per Unit amount distributed in cash by the Fund in a month by the Current Market Price of the Units on the final day of such month.

“LP Units” means the ordinary limited partner units of the Partnership.

“Make-Whole Payment” means the amount of the Royalty payable by KRL in respect of the initial amount of the gross revenue of a closed Keg restaurant, as more particularly described under “Licence and Royalty — Adjustment of the Royalty — Closed Keg Restaurants”.

“Management” means senior management of KRL.

“Net Royalty” means, for any period, the aggregate amount payable by KRL under the Licence and Royalty Agreement multiplied by a fraction, the numerator of which is the aggregate number of all Partnership Securities (other than Class C Units) held by the Trust or its assignee(s) and the denominator of which is the aggregate number of all Partnership Securities (other than Class C Units), provided that the number of Class B Units for purposes of the denominator will be calculated as the number of issued Class B Units multiplied by the Class B Current Distribution Entitlement.

“Note Indenture” means the note indenture to be made between the Trust and the Note Trustee, providing for the issuance of the Notes and the Series 2 Notes.

“Note Trustee” means Computershare Trust Company of Canada, as the trustee under the Note Indenture.

“Noteholders’ Extraordinary Resolution” means a resolution passed by the holders of not less than $66\frac{2}{3}\%$ of the principal amount of Notes, represented, either in person or by proxy, at a meeting of holders of Notes called for the purpose of approving such resolution, or approval in writing by the holders of not less than $66\frac{2}{3}\%$ of the principal amount of Notes then outstanding.

“Partnership” means The Keg Rights Limited Partnership, a limited partnership formed under the laws of the Province of British Columbia pursuant to the Limited Partnership Agreement.

“Partnership General Security Agreement” means the general security agreement granted to the Partnership by KRL and each of its subsidiaries that owns a Keg restaurant located in Canada over the assets of KRL and each of these subsidiaries, except Keg Brands Inc. (and the shares of Keg Brands Inc.), to secure payment of the Royalty and all of the obligations of KRL to the Partnership under the Licence and Royalty Agreement, the security for which will rank equally with the security interest granted to the Fund under the Keg General Security Agreement.

“Partnership Securities” means, collectively, the LP Units, Class A Units, Class B Units, Class C Units and Class D Units in the capital of the Partnership.

“Partnership Special Resolution” means (i) a resolution of the board of directors of Keg GP that is consented to by each of KRL and the Trust or (ii) if either KRL or the Trust do not consent, a Unitholders’ Ordinary Resolution.

“Payment Period” means each of the four-week and five-week periods within any Fiscal Year commencing on the day immediately following a Year End, each Fiscal Year consisting of a repeating series of two consecutive four-week periods followed by a five-week period.

“Purchased Class B Restaurants” at any time means the Additional Restaurants included in the Royalty Pool up to and including the Class B Termination Date.

“Related Party” means, Recipe Unlimited Corporation, the sole holder of the beneficial interest in KRL, or any corporation or other entity in which he or any of his associates has a direct or indirect equity interest of 50% or greater, or an associate or affiliate of any of them.

“Royalty Pool” means, in any period, all Keg restaurants for which System Sales is to be determined for such period, as described under “Licence and Royalty — The Royalty”.

“Royalty Pool Sales” means, at any time, the gross sales of Keg restaurants in respect of which the Royalty is payable.

“**Same Store Sales**” means System Sales from Keg restaurants in operation during the entire period of both the current and prior Fiscal Years.

“**Same Store Sales Growth**” means the increase in System Sales from Keg restaurants in operation during the entire period of both the current and prior Fiscal Years as compared to System Sales for the same period of the prior year.

“**Securities Act**” means the *Securities Act* (Ontario).

“**Series 2 Notes**” means the subordinate notes issued by the Trust from time to time in consideration for the redemption of Trust Units and Notes.

“**SIFT tax**” means the specified investment flow-through trust tax which is an entity-level tax that Canadian publically traded income trusts are required to pay effective January 1, 2011.

“**Stock Exchange**” means a stock exchange recognized by the Ontario Securities Commission for such purposes, and where the Units have traded on more than one Stock Exchange during the relevant period, “**Stock Exchange**” means the Stock Exchange where the greatest volume of Units traded during the relevant period.

“**Subordination Quotient**” for any period means (i) Total EBITDA of KRL and its subsidiaries, less Debt Service, all for such period, (ii) divided by Net Royalty for such period.

“**subsidiary**” has the meaning set out in the Securities Act and includes a partnership or other entity.

“**System Sales**” means the gross sales of corporate Keg restaurants in Canada and the United States, and the amount of gross sales reported to KRL by franchised Keg restaurants in Canada and the United States, without audit or other form of independent assurance, in each case, after deducting discounts, coupons and other promotional offerings and excluding applicable sales taxes.

“**Tax Act**” means the *Income Tax Act* (Canada), as amended.

“**The Keg**” refers to the business of KRL, its subsidiaries and Keg franchisees.

“**Total EBITDA of KRL and its subsidiaries**” means EBITDA of KRL and its subsidiaries, plus the Royalty less all income allocated to KRL by the Partnership.

“**Trust**” means The Keg Holdings Trust, an unincorporated limited purpose trust established under the laws of the Province of Ontario pursuant to the Holdings Declaration of Trust.

“**Trustees**” means, at the relevant time, the trustees of the Fund.

“**Unitholders**” means, at the relevant time, the holders of the Units.

“**Unitholders’ Ordinary Resolution**” means a resolution passed by a majority of more than 50% of the votes cast, either in person or by proxy, at a meeting of Unitholders, called for the purpose of approving such resolution, or approved in writing by the holders of more than 50% of the Units, on a fully diluted basis, entitled to be voted on such resolution.

“**Unitholders’ Special Resolution**” means a resolution passed by a majority of not less than 66 ²/₃% of the votes cast, either in person or by proxy, at a meeting of Unitholders, called for the purpose of approving such resolution, or approved in writing by the holders of not less than 66 ²/₃% of the Units, on a fully diluted basis, entitled to be voted on such resolution.

“**Unit Yield**” at any Determination Date means (a) the sum of (i) the Annual Distribution for the Reporting Period ending immediately prior to such Determination Date and (ii) the SIFT taxes paid or payable by the

Fund for the Reporting Period immediately prior to such Determination Date, (b) divided by the Current Market Price of the Units on such Determination Date.

“Units” means units of the Fund.

“week” or **“calendar week”** means a period of seven consecutive days ending on Sunday.

“weighted average price” means, for any period, the amount obtained by dividing the aggregate sale price of all of the Units traded on the relevant Stock Exchange during such period divided by the total number of Units so traded.

“Year End” means the Sunday closest to September 30 in any year.

SCHEDULE "A"
AUDIT COMMITTEE CHARTER
OF
THE KEG GP, AS ADMINSTRATOR TO
THE KEG ROYALTIES INCOME FUND

I. PURPOSE

The purpose of the Audit Committee (the "**Committee**") is to assist the board of trustees of the Fund (the "**Board**") in fulfilling its oversight responsibilities by reviewing the financial information which will be provided to unitholders of the Fund and others, the systems of corporate financial controls which management and the Board have established and the audit process.

More specifically, the purpose of the Committee is to satisfy itself that:

- A. The Fund's annual financial statements are fairly presented in accordance with International Financial Reporting Standards and to recommend to the Board whether the annual financial statements should be approved.
- B. The information contained in the Fund's quarterly financial statements, annual report to unitholders and other financial publications, such as management's discussion and analysis, is complete and accurate in all material respects and to recommend to the Board whether these materials should be approved.
- C. The Fund has appropriate systems of internal control over the safeguarding of assets and financial reporting to ensure compliance with legal and regulatory requirements.
- D. The Fund's independent auditors are qualified and independent.
- E. The internal and independent audit functions have been effectively carried out and that any matter which the internal or the independent auditors wish to bring to the attention of the Board has been addressed. The Committee will also recommend to the Board the re-appointment or appointment of auditors and their remuneration.

II. COMPOSITION AND TERMS OF OFFICE

- A. Following each annual meeting of unitholders of the Fund, the Board shall appoint not less than three trustees to serve on the Committee, all of whom shall not be officers or employees of the Fund or its affiliates and shall be free of any other relationship which could reasonably be perceived to materially interfere with the trustee's ability to act with a view to the best interests of the Fund.
- B. The Committee shall endeavour to be composed of individuals who satisfy the guidelines of the Toronto Stock Exchange in respect of the composition of audit committees, namely that each of the members of the Committee shall meet the independent and experience requirements of the Toronto Stock Exchange. Each of the members of the Committee shall be financially literate in that each member has the ability to read and understand a balance sheet, an income statement and a cash flow statement. One member of the committee shall have accounting or related financial expertise in that such member has the ability to analyze and interpret a full set of financial statements, including the notes, in accordance with International Financial Reporting Standards.

- C. The chair of the Committee shall be appointed by the Board and shall not be an officer or employee of the Fund or its affiliates.
- D. Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member upon ceasing to be a trustee of the Fund. Each member of the Committee shall hold office until the close of the next annual meeting of unitholders of the Fund or until the member resigns or is replaced, whichever first occurs.
- E. The Committee will meet at least quarterly and more frequently as circumstances require. The meetings will be scheduled to permit timely review of the interim and annual financial statements. The additional meetings may be held as deemed necessary by the chair of the Committee or as requested by any member of the Committee or by the internal or independent auditors.
- F. If all members consent, and proper notice has been given or waived, a member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities as permit all persons participating in the meeting to communicate adequately with each other, and a member participating in such a meeting by any such means is deemed to be present at that meeting.
- G. A quorum for the transaction of business at all meetings of the Committee shall be a majority of the members of the Committee. Questions arising at any meeting shall be determined by a majority of votes of the members of the Committee present, and in case of an equality of votes the Chair of the Committee shall have a second casting vote.
- H. The Committee may invite such trustees, officers and employees of the Fund as it may see fit from time to time to attend meetings of the Committee and assist in the discussion and consideration of the business of the Committee, but without voting rights.
- I. The Committee shall be entitled to retain, at the cost of the Fund, and receive advice from special legal, accounting or other advisors in connection with the discharge of its duties.
- J. The Committee shall keep regular minutes of proceedings and shall cause them to be recorded in books kept for that purpose, and shall report the same to the Board at such times as the Board may, from time to time, require.
- K. Supporting schedules and information reviewed by the Committee will be available for examination by any trustee upon request to the Secretary of the Committee.
- L. The Committee shall choose as its secretary such person as it deems appropriate.
- M. The internal and independent auditors shall be given notice of, and have the right to appear before and to be heard at, every meeting of the Committee, and shall appear before the Committee when requested to do so by the Committee.

III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Board hereby delegates to the Committee the following powers and duties to be performed by the Committee on behalf of and for the Board:

A. Financial Reporting Control Systems

The Committee shall:

- (i) review reports from senior officers of the Fund outlining any significant changes in financial risks facing the Fund;

- (ii) review the management letter of the independent auditors and the Fund's responses to suggestions made;
- (iii) review any new appointments to senior positions of the Fund with financial reporting responsibilities; and
- (iv) obtain assurance from both internal and independent auditors regarding the overall control environment and the adequacy of accounting system controls.

B. Interim Financial Statements

The Committee shall:

- (i) review interim financial statements with officers of the Fund prior to their release and recommend their approval to the Board; this will include a detailed review of quarterly and year-to-date results.
- (ii) review narrative comment accompanying interim financial statements.

C. Annual Financial Statements and Other Financial Information

The Committee shall:

- (i) review any changes in accounting policies or financial reporting requirements that may affect the current year's financial statements;
- (ii) obtain summaries of significant transactions, and other potentially difficult matters whose treatment in the annual financial statements merits advance consideration;
- (iii) obtain draft annual financial statements in advance of the Committee meeting and assess, on a preliminary basis, the reasonableness of the financial statements in light of the analyses provided by officers of the Fund;
- (iv) review a summary provided by the Fund's legal counsel of the status of any material pending or threatened litigation, claims and assessments;
- (v) discuss the annual financial statements and the auditors' report thereon in detail with officers of the Fund and the auditors;
- (vi) review the annual report and other annual financial reporting documents including management's discussion and analysis;
- (vii) provide to the Board a recommendation as to whether the annual financial statements should be approved; and
- (viii) review insurance coverage including directors' and officers' liability coverage.

D. Independent Audit Terms of Reference, Reports, Planning and Appointment

The Committee shall:

- (i) review the audit plan with the independent auditors;
- (ii) discuss in private with the independent auditors matters affecting the conduct of their audit and other corporate matters;

- (iii) recommend to the Board each year the retention or replacement of the independent auditors; if there is a plan to change auditors, review all issues related to the change and the steps planned for an orderly transition; and
- (iv) review and recommend for approval to the Board (a) the terms of the annual audit engagement and remuneration of the independent auditor, and (b) the engagement and remuneration of the independent auditor for non-audit services (subject to any restriction on such services imposed by the Toronto Stock Exchange or applicable legislation).

E. Internal Audit Reports and Planning

The Committee shall:

- (i) annually review the summary report of the internal audit function for the past year; and
- (ii) annually review planned activities and resources of the internal audit function for the coming year.

IV. ACCOUNTABILITY

- A. The Committee shall report to the Board at its next regular meeting all such action it has taken since the previous report.
- B. The Committee is empowered to investigate any activity of the Fund and all employees are to co-operate as requested by the Committee. The Committee may retain persons having special expertise to assist it in fulfilling its responsibilities.
- C. The Committee is authorized to request the presence at any meeting, but without voting rights, of a representative from the independent auditors, senior management, internal audit, legal counsel or anyone else who could contribute substantively to the subject of the meeting and assist in the discussion and consideration of the business of the Committee, including trustees, officers and employees of the Fund.

V. ANNUAL EVALUATION

At least annually, the Committee shall, in a manner determined to be appropriate:

- A. Perform a review and evaluation of the performance of the Committee and its members, including the compliance of the Committee with this Charter.
- B. Review and assess the adequacy of this Charter and recommend to the Board any improvement to this Charter that the Committee determines to be appropriate.