THE KEG ROYALTIES INCOME FUND

YEAR-END REPORT

For the three and twelve months ended December 31, 2018

TO OUR UNITHOLDERS

On behalf of the Board of Trustees, I am pleased to present the results of The Keg Royalties Income Fund (the "Fund") for the three and twelve months ended December 31, 2018.

RESULTS

The gross sales reported by the 103 Keg restaurants in the Royalty Pool were $161,310,000 for the quarter, an increase of $7,671,000 or 5.0% from the comparable quarter of the prior year. For 2018, gross sales were $632,157,000, an increase of $31,188,000 or 5.2% over 2017.

Royalty income increased by $260,000 or 4.2% from $6,226,000 in the three months ended December 31, 2017 to $6,486,000 in the three months ended December 31, 2018, and by $1,065,000 or 4.4% from $24,294,000 for the year ended December 31, 2017 to $25,359,000 for the year ended December 31, 2018.

Distributable cash before SIFT tax increased by $150,000 from $4,023,000 (35.4 cents/Fund unit) to $4,173,000 (36.8 cents/Fund unit) for the quarter, and increased by $245,000 from $17,649,000 ($1.55/Fund unit) to $17,894,000 ($1.58/Fund unit) for the year. Distributable cash available to pay distributions to public unitholders increased by $95,000 from $2,860,000 (25.2 cents/Fund unit) to $2,955,000 (26.0 cents/Fund unit) for the quarter and increased by $1,000 from $13,129,000 ($1.16/Fund unit) to $13,130,000 ($1.16/Fund unit) for the year. Distributions of $3,222,000 (28.4 cents/Fund unit) were paid to Fund unitholders during the fourth quarter of 2018, and a special distribution declared of $341,000 (3.0 cents/Fund unit) as compared with $3,190,000 (28.1 cents/Fund unit) during the fourth quarter of 2017, and a special distribution declared of $341,000 (3.0 cents/Fund unit). During 2018, distributions of $12,888,000 ($1.135/Fund unit) were paid to Fund unitholders (excluding the $341,000 special distribution declared in the fourth quarter of 2018) versus $12,570,000 ($1.107/Fund unit) during 2017 (excluding the $341,000 special distribution declared in the fourth quarter of 2017). The payout ratio was 120.6% for the fourth quarter of the current year and 100.8% for fiscal 2018.

The Fund remains financially well positioned with cash on hand of $2,567,000 and a positive working capital balance of $2,707,000 as at December 31, 2018.

OUTLOOK

In Canada, Restaurants Canada has forecasted sales in the full-service restaurant category, the category in which The Keg operates to increase by an average of 4.6% between 2018 and 2022, or 1.6% on an inflation adjusted basis. In the United States ("US"), the National Restaurant Association ("NRA") has estimated that sales in the full-service category increased by 2.8% in 2016, and has projected sales to increase by 3.5% in 2017. The NRA has not yet updated 2017 and 2018 data nor released a long-term forecast. Given the close historical relationship between disposable income and foodservice spending, management of Keg Restaurants Ltd. ("KRL") expects that as economic conditions continue to improve in North America, sales for The Keg will also improve, leading it to once again outperform the full-service category with respect to same store sales growth.

COMPETITIVE STRENGTH AND GROWTH

The Keg remains an industry leader in the full-service restaurant category in Canada; a category it has resided in for over 45 years. KRL's management team remains committed to maintaining and improving the legendary high standards that have come to define the brand throughout North America, including The Keg's high-quality menu, unmatched hospitality and marketing innovation. KRL has consistently demonstrated its ability to deliver growth in both system sales and same store sales over the long term, providing stability and growth in distributable cash and distributions to the Fund's unitholders.

Sincerely,

C.C. Woodward
Chairman, The Keg Royalties Income Fund
on behalf of the Board of Trustees
March 13, 2019

FINANCIAL HIGHLIGHTS

($000's except per unit amounts)	Oct. 1 to Dec. 31, 2018	Oct. 1 to Dec. 31, 2017	Jan. 1 to Dec. 31, 2018	Jan. 1 to Dec. 31, 2017
Restaurants in the Royalty Pool	**103**	**100**	**103**	**100**
Royalty Pool sales [1]	**$ 161,310**	**$ 153,639**	**$ 632,157**	**$ 600,969**
Royalty income [2]	$ 6,486	$ 6,226	$ 25,359	$ 24,294
Interest income [3]	1,085	1,082	4,299	4,283
Total income	**$ 7,571**	**$ 7,308**	**$ 29,658**	**$ 28,577**
Administrative expenses [4]	(99)	(96)	(411)	(379)
Interest and financing expenses [5]	(150)	(127)	(564)	(463)
Operating income	**$ 7,322**	**$ 7,085**	**$ 28,683**	**$ 27,735**
Distributions to KRL [6]	(2,718)	(2,517)	(10,729)	(9,969)
Profit before fair value gain (loss) and income taxes	**$ 4,604**	**$ 4,568**	**$ 17,954**	$ **17,766**
Fair value gain (loss) [7]	6,872	2,013	16,054	3,991
Income taxes [8]	(1,244)	(1,284)	(4,791)	(4,700)
Profit (loss) and comprehensive income (loss)	**$ 10,232**	**$ 5,297**	**$ 29,217**	**$ 17,057**
Distributable cash before SIFT tax [9]	**$ 4,173**	**$ 4,023**	**$ 17,894**	**$ 17,649**
Distributable cash [10]	**$ 2,955**	**$ 2,860**	**$ 13,130**	**$ 13,129**
Distributions to Fund unitholders [11]	**$ 3,563**	**$ 3,531**	**$ 13,229**	**$ 12,911**
Payout Ratio [12]	**120.6%**	**123.5%**	**100.8%**	**98.3%**
Per Fund unit information [13]				
Profit before fair value gain (loss) and income taxes	$ .406	$ .402	$ 1.581	$ 1.565
Profit (loss) and comprehensive income (loss)	$ .901	$ .467	$ 2.573	$ 1.502
Distributable cash before SIFT tax [9]	**$ .368**	**$ .354**	**$ 1.576**	**$ 1.554**
Distributable cash [10]	**$ .260**	**$ .252**	**$ 1.156**	**$ 1.156**
Distributions to Fund unitholders [11]	**$ .314**	**$ .311**	**$ 1.165**	**$ 1.137**
SSSG [14]				
Canada	0.2%	5.1%	1.2%	5.1%
United States	2.5%	6.5%	4.5%	4.3%
Consolidated	0.7%	4.8%	1.5%	4.7%
Restaurants in KRL System [15]				
# Beginning of Period	105	103	106	101
Opened	--	3	--	7
Closed	--	--	(1)	(2)
# End of Period	105	106	105	106

Notes:

[1] Royalty Pool sales are the gross sales reported by Keg Restaurants included in the Royalty Pool in any period. As of December 31, 2018, the Royalty Pool includes 103 Keg restaurants, 48 of which are owned and operated by KRL and its subsidiaries, (38 in Canada and 10 in the United Sates), and 55 Keg restaurants which are owned and operated by Keg franchisees (all of which are in Canada). As of December 31, 2018, two corporate and one franchise restaurant (all opened subsequent to October 2, 2017) are not yet included in the Royalty Pool, while one permanently closed restaurant remains in the Royalty Pool.

[2] The Fund, indirectly through the "Partnership", earns royalty income equal to 4% of gross sales of Keg restaurants in the Royalty Pool.

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

[4] The Fund, indirectly through the Partnership, incurs administrative expenses and interest on the operating line of credit, to the extent utilized.

[5] The Fund, indirectly through The Keg Holdings Trust (the "Trust"), incurs interest expense on the $14.0 million term loan and amortization of deferred financing charges.

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

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

[8] Income taxes for the three months ended December 31, 2018 include SIFT tax expense of $1,218,000 (three months ended December 31, 2017 – $1,163,000) and non-cash deferred tax expense of $26,000 (three months ended December 31, 2017 – $121,000). Income taxes for the twelve months ended December 31, 2018, include SIFT tax expense of $4,764,000 (twelve months ended December 31, 2017 – $4,520,000) and a non-cash deferred tax expense of $27,000 (twelve months ended December 31, 2017 – $180,000).

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

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

[11] Distributions to Fund unitholders include all regular monthly cash distributions paid to Fund unitholders during a period and any special distributions, either declared or paid, to Fund unitholders in the same period.

[12] Payout ratio is computed as the ratio of aggregate cash distributions paid during the period plus any special distributions declared or paid during the same period (numerator) to the aggregate distributable cash of the period (denominator).

[13] All per unit amounts are calculated based on the weighted average number of Fund units outstanding, which are those units held by public unitholders during the respective period. The weighted average number of Fund units outstanding for the three months ended December 31, 2018 were 11,353,500 (three months ended December 31, 2017 – 11,353,500), and for the twelve months ended December 31, 2018 were 11,353,500 (twelve months ended December 31, 2017 – 11,353,500).

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

[15] The number of restaurants included in the Royalty Pool, may differ from the number of restaurants in the KRL system at any time as the periods for which they are reported differ. The number of restaurants added or removed from the Royalty Pool during any period will differ from the number of restaurant openings and closings reported by KRL, as the periods for which they are reported differ as well.

[16] The interim financial results for all periods presented herein have not been audited.

SUMMARY OF QUARTERLY RESULTS

($000's except per unit amounts)	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Restaurants in the Royalty Pool	**103**	**103**	**103**	**103**
Royalty Pool sales [1]	**$ 161,310**	**$ 157,910**	**$ 150,974**	**$ 161,963**
Royalty income [2]	$ 6,486	$ 6,350	$ 6,044	$ 6,479
Interest income [3]	1,085	1,084	1,070	1,059
Total income	**$ 7,571**	**$ 7,434**	**$ 7,114**	**$ 7,538**
Administrative expenses [4]	(99)	(105)	(95)	(113)
Interest and financing expenses [5]	(150)	(148)	(134)	(131)
Operating income	**$ 7,322**	**$ 7,181**	**$ 6,885**	**$ 7,294**
Distributions to KRL [6]	(2,718)	(2,735)	(2,581)	(2,695)
Profit before fair value gain (loss) and income taxes	**$ 4,604**	**$ 4,446**	**$ 4,304**	**$ 4,599**
Fair value gain (loss) [7]	6,872	(363)	2,620	6,925
Income taxes [8]	(1,244)	(1,198)	(1,138)	(1,210)
Profit (loss) and comprehensive income (loss)	**$ 10,232**	**$ 2,885**	**$ 5,786**	**$ 10,314**
Distributable cash before SIFT taxes [9]	**$ 4,173**	**$ 4,417**	**$ 4,332**	**$ 4,973**
Distributable cash [10]	**$ 2,955**	**$ 3,234**	**$ 3,189**	**$ 3,754**
Distributions to Fund unitholders [11]	**$ 3,563**	**$ 3,222**	**$ 3,222**	**$ 3,222**
Payout Ratio [12]	**120.6%**	**99.6%**	**101.0%**	**85.8%**
Per Fund unit information [13]				
Profit before fair value gain (loss) and income taxes	$ .406	$ .392	$ .379	$ .405
Profit (loss) and comprehensive income (loss)	$ .901	$ .254	$ .510	$ .908
Distributable cash before SIFT tax [9]	**$ .368**	**$ .389**	**$ .382**	**$ .438**
Distributable cash [10]	**$ .260**	**$ .285**	**$ .281**	**$ .331**
Distributions to Fund unitholders [11]	**$ .314**	**$ .284**	**$ .284**	**$ .284**
SSSG [14]				
Canada	0.2%	2.3%	0.8%	1.6%
United States	2.5%	6.3%	4.1%	5.4%
Consolidated	0.7%	3.0%	0.7%	1.5%
Restaurants in KRL System [15]				
# Beginning of Period	105	105	106	106
Opened	--	--	--	--
Closed	--	--	(1)	--
# End of Period	105	105	105	106

SUMMARY OF QUARTERLY RESULTS

($000's except per unit amounts)	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Restaurants in the Royalty Pool	**100**	**100**	**100**	**100**
Royalty Pool sales (1)	**$ 153,639**	**$ 147,798**	**$ 145,472**	**$ 154,060**
Royalty income (2)	$ 6,226	5,993	$ 5,869	$ 6,206
Interest income (3)	1,082	1,080	1,067	1,055
Total income	**$ 7,308**	**7,073**	**$ 6,936**	**$ 7,261**
Administrative expenses (4)	(96)	(96)	(98)	(89)
Interest and financing expenses (5)	(127)	(124)	(108)	(106)
Operating income	**$ 7,085**	**6,853**	**$ 6,730**	**$ 7,066**
Distributions to KRL (6)	(2,517)	(2,514)	(2,429)	(2,510)
Profit before fair value gain (loss) and income taxes	**$ 4,568**	**4,339**	**$ 4,301**	**$ 4,556**
Fair value gain (loss) (7)	2,013	6,696	(8,279)	3,562
Income taxes (8)	(1,284)	(1,115)	(1,093)	(1,208)
Profit (loss) and comprehensive income (loss)	**$ 5,297**	**$ 9,920**	**$ (5,071)**	**$ 6,910**
Distributable cash before SIFT tax (9)	**$ 4,023**	**$ 4,549**	**$ 4,301**	**$ 4,776**
Distributable cash (10)	**$ 2,860**	**$ 3,443**	**$ 3,209**	**$ 3,617**
Distributions to Fund unitholders (11)	**$ 3,531**	**$ 3,127**	**$ 3,127**	**$ 3,127**
Payout Ratio (12)	**123.5%**	**90.8%**	**97.4%**	**86.5%**
Per Fund unit information (13)				
Profit before fair value gain (loss) and income taxes	$ .402	$ .382	$ .379	$ .401
Profit (loss) and comprehensive income (loss)	$ .467	$ .874	$ (.447)	$ .609
Distributable cash before SIFT tax (9)	**$ .354**	**$ .401**	**$ .379**	**$ .421**
Distributable cash (10)	**$ .252**	**$ .303**	**$ .283**	**$ .319**
Distributions to Fund unitholders (11)	**$ .311**	**$ .275**	**$ .275**	**$ .275**
SSSG (14)				
Canada	5.1%	3.0%	6.1%	5.3%
United States	6.5%	5.2%	5.7%	0.5%
Consolidated	4.8%	2.8%	6.5%	4.5%
Restaurants in KRL System (15)				
# Beginning of Period	103	102	101	101
Opened	3	1	2	1
Closed	--	--	(1)	(1)
# End of Period	106	103	102	101

SELECTED ANNUAL INFORMATION

($000's except per unit amounts)	Jan. 1 to Dec. 31, 2018	Jan. 1 to Dec. 31, 2017	Jan. 1 to Dec. 31, 2016
Restaurants in the Royalty Pool	**103**	**100**	**100**
Royalty Pool sales [1]	**$ 632,157**	**$ 600,969**	**$ 576,951**
Royalty income [2]	$ 25,359	$ 24,294	$ 23,101
Interest income [3]	4,299	4,283	4,279
Total income	**$ 29,658**	**$ 28,577**	**$ 27,380**
Administrative expenses [4]	(411)	(379)	(384)
Interest and financing expenses [5]	(564)	(463)	(436)
Operating income	**$ 28,683**	**$ 27,735**	**$ 26,560**
Distributions to KRL [6]	(10,729)	(9,969)	(9,485)
Profit before fair value gain (loss) and income taxes	**$ 17,954**	**$ 17,766**	**$ 17,075**
Fair value gain (loss) [7]	16,054	3,991	(11,408)
Income taxes [8]	(4,791)	(4,700)	(4,399)
Profit (loss) and comprehensive income (loss)	**$ 29,217**	**$ 17,057**	**$ 1,268**
Distributable cash before SIFT tax [9]	**$ 17,894**	**$ 17,649**	**$ 17,127**
Distributable cash [10]	**$ 13,130**	**$ 13,129**	**$ 12,807**
Distributions to Fund unitholders [11]	**$ 13,229**	**$ 12,911**	**$ 12,591**
Payout Ratio [12]	**100.8%**	**98.3%**	**98.3%**
Per Fund unit information [13]			
Profit before fair value gain (loss) and income taxes	$ 1.581	$ 1.565	$ 1.504
Profit (loss) and comprehensive income (loss)	$ 2.573	$ 1.502	$ .112
Distributable cash before SIFT tax [9]	**$ 1.576**	**$ 1.554**	**$ 1.509**
Distributable cash [10]	**$ 1.156**	**$ 1.156**	**$ 1.128**
Distributions to Fund unitholders [11]	**$ 1.165**	**$ 1.137**	**$ 1.109**
SSSG [14]			
Canada	1.2%	5.1%	1.3%
United States	4.5%	4.3%	0.7%
Consolidated	1.5%	4.7%	1.5%
Restaurants in KRL System [15]			
# Beginning of Period	106	101	101
Opened	--	7	1
Closed	(1)	(2)	(1)
# End of Period	105	106	101

	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016
Total assets	$ 239,837	$ 230,671	$ 226,468
Total liabilities	142,309	149,131	149,042

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Twelve Months Ended December 31, 2018
As of March 13, 2019

OVERVIEW

KEY ATTRIBUTES OF THE FUND

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

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

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

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

Readers should note that the number of restaurants added to the Royalty Pool each year may differ from the number of restaurant openings and closings reported by KRL on an annual basis, as the periods for which they are reported differ slightly.

On January 23, 2018, Recipe Unlimited Corporation ("RECP") (formerly Cara Operations Limited), KRL and the Fund announced that RECP and KRL agreed to merge pursuant to the terms of a binding letter of intent. On February 22, 2018, this transaction was completed but will not impact the operations of the Fund. The Fund will remain in its current form and will continue to receive royalty payments from Keg restaurants included in the Royalty Pool. There are no changes to the contractual relationships between the Fund, KRL and the Partnership arising out of the completion of the RECP and KRL merger.

THE ROYALTY POOL

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

The total number of Keg restaurants included in the Royalty Pool increased from the 80 Keg restaurants in existence on March 31, 2002, to 100 as of December 31, 2017. Sixty-three new Keg restaurants that opened during the period from April 1, 2002 through October 2, 2016, with annual gross sales of $320,102,000, were added to the Royalty Pool. Forty-three permanently closed Keg restaurants with annual sales of $132,368,000 were removed from the Royalty Pool. This resulted in a net increase in Royalty Pool sales of $187,734,000 annually and KRL receiving a cumulative Additional Entitlement equivalent to 5,933,912 Fund units as of December 31, 2017.

On January 1, 2018, an estimated $20,159,000 in annual net sales were added to the Royalty Pool. Five new restaurants that opened during the period from October 3, 2016 through October 2, 2017, with estimated gross sales of $28,250,000 annually, were added to the Royalty Pool. Two permanently closed restaurants with annual sales of $8,091,000 were removed from the Royalty Pool. The total number of restaurants in the Royalty Pool increased to 103. The pre-tax yield of the Fund units was determined to be 7.54% calculated using a weighted average unit price of $20.28.

On January 1, 2018, KRL received 80% of this entitlement, representing the equivalent of 390,212 Fund units, being 2.54% of the Fund units on a fully diluted basis. KRL also received a proportionate increase in monthly distributions from the Partnership. On December 31, 2018, but effective January 1, 2018, KRL received the balance of the 2018 Additional Entitlement. The actual sales generated by the five new restaurants added to the Royalty Pool on January 1, 2018, were confirmed to be $26,408,000, approximately $1,841,000 or 6.5% lower than the amount originally estimated. This resulted in KRL receiving an additional entitlement equivalent to 52,996 Fund units, and KRL having the right to exchange its units in the capital of the Partnership for 4,083,064 Fund units, representing 26.45% of the Fund units on a fully diluted basis.

On January 1, 2019, an estimated $12,600,000 in annual net sales were added to the Royalty Pool. Three new restaurants that opened during the period from October 3, 2017 to October 2, 2018 will be added to the Royalty Pool and one permanently closed restaurant will be removed from the Royalty Pool. See "Subsequent Event".

KRL'S INTEREST IN THE FUND

KRL's interest in the earnings of the Partnership is from its ownership of Class A, entitled Class B, Class C and Class D Partnership units. The Class A, entitled Class B and Class D Partnership units are exchangeable into Fund units on a one-for-one basis in certain circumstances ("Exchangeable units"). KRL's effective ownership of the Fund and its interest in the earnings of the Partnership has grown from 10.00% at the time of the IPO to 24.28% as of December 31, 2017. The increase in KRL's effective ownership of the Fund is due to the cumulative Additional Entitlement received by KRL equivalent to 5,933,912 Fund units, less 3,200,000 Exchangeable units exchanged by KRL for Fund units and sold through the facilities of the TSX. The sale of the 3,200,000 Fund units increased the number of issued and outstanding Fund units from 8,153,500 at the time of the IPO to 11,353,500 as of February 8, 2011.

On January 1, 2018, KRL became entitled to the initial 80% of the Additional Entitlement for 2018, consisting of 390,212 Exchangeable units, increasing its effective ownership of the Fund to 26.20%. On December 31, 2018, but effective January 1, 2018, KRL became entitled to the remaining balance of the Additional Entitlement for 2018, consisting of 52,996 Exchangeable units, increasing its effective ownership of the Fund to 26.45%. See "The Royalty Pool" section.

On January 1, 2019, KRL became entitled to the initial 80% of the Additional Entitlement for 2019. See "Subsequent Event" section.

FAIR VALUE GAIN (LOSS)

Fair value gain (loss) is the non-cash decrease or increase in the market value of the Exchangeable units held by KRL during the respective period. It is a non-cash adjustment and, therefore, does not affect distributable cash. The exchangeable units held by KRL are classified as a financial liability under IFRS. The Fund is required to determine the fair value of that liability at the end of each reporting period and adjust for any increase or decrease, during the same period. The closing market price of a Fund unit at the end of each reporting period is used to determine the fair value of the Exchangeable unit liability, since Exchangeable units are exchangeable into Fund units on a one-for-one basis. If the market price of a Fund unit increases during a period, the financial liability of the Fund also increases, and a non-cash loss is recorded during that period. If the market price of a Fund unit decreases during a period, the financial liability of the Fund also decreases, and a non-cash gain is recorded during that period.

FEDERAL GOVERNMENT TAX ON INCOME FUNDS

On January 1, 2011, legislative changes to the tax treatment of certain income trusts, as a result of the Specified Investment Flow-through Trust tax (the "SIFT tax"), came into effect. Due to these changes, income trusts will not be entitled to deduct distributions of certain types of income for tax purposes, and will therefore be subject to taxation similar to corporations. As a result of this taxation imposed by the Federal Government, the Fund's Trustees had to adopt a new distribution policy which reflects the Fund's obligation to make the SIFT tax payments. See "Distributions to Unitholders". The Fund is subject to tax at a rate of 26% for 2016 and 2017. Effective January 1, 2018, the British Columbia general corporate 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.

DISTRIBUTIONS TO UNITHOLDERS

The Fund's objective is to provide consistent monthly distributions to unitholders at the highest sustainable level, and the Trustees of the Fund continue to review distribution levels on an ongoing basis to fulfill that objective. Since the inception of the Fund in May 2002 until December 31, 2016, monthly distributions to unitholders have been increased thirteen times, from the original level of 9.0 cents/Fund unit at the time of the IPO, to 12.4 cents/Fund unit, on a pre-tax basis (9.18 cents/Fund unit on an after-tax basis), an increase of 37.8%. During 2018, monthly distributions to Fund unitholders were increased by 3.1% from 9.18 cents/Fund unit to 9.46 cents/Fund unit commencing with the November 2017 distribution.

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

As a result of the SIFT tax that came into effect on January 1, 2011, the Fund's Trustees had to adopt a new distribution policy which reflects the Fund's obligation to make these tax payments. The eligible dividend portion of the Fund's distribution, combined with the return of capital component of the distribution, should provide taxable Canadian individuals with an effective after-tax cash return very closely comparable to the return that existed before the imposition of the SIFT tax.

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

The determination to declare and make payable distributions from the Fund are at the discretion of the Board of Trustees of the Fund and until declared payable, the Fund has no requirement to pay cash distributions to Fund unitholders.

Year-to-date distributions paid were as follows:

			Distributions	
Period	**Payment Date**	**$ / Unit**	**Total $**	**Year-to-Date $**
December 1-31, 2017	January 31, 2018	9.46¢	$ 1,074,041	$ 1,074,041
January 1-31, 2018	February 28, 2018	9.46¢	$ 1,074,041	$ 2,148,082
February 1-28, 2018	March 30, 2018	9.46¢	$ 1,074,041	$ 3,222,123
March 1-31, 2018	April 30, 2018	9.46¢	$ 1,074,041	$ 4,296,164
April 1-30, 2018	May 31, 2018	9.46¢	$ 1,074,041	$ 5,370,205
May 1-31, 2018	June 29, 2018	9.46¢	$ 1,074,041	$ 6,444,246
June 1-30, 2018	July 31, 2018	9.46¢	$ 1,074,041	$ 7,518,287
July 1-31, 2018	August 31, 2018	9.46¢	$ 1,074,041	$ 8,592,328
August 1-31, 2018	September 28, 2018	9.46¢	$ 1,074,041	$ 9,666,369
September 1-30, 2018	October 31, 2018	9.46¢	$ 1,074,041	$10,740,410
October 1-31, 2018	November 30, 2018	9.46¢	$ 1,074,041	$11,814,451
November 1-30, 2018	December 31, 2018	9.46¢	$ 1,074,041	$12,888,492
Special Distribution	January 31, 2019	3.00¢	$ 340,605*	$13,229,097

*Paid subsequent to the period.

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

A special distribution of $341,000 (3.0 cents/Fund unit) which was declared in December 2018 and paid January 31, 2019 was treated as a distribution in 2018 for Fund reporting purposes.

Since inception, the Fund has generated $186,471,000 of distributable cash, and paid cumulative distributions of $185,273,000, including the special distribution of $341,000 declared in December 2018, 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%.

DISTRIBUTABLE CASH

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

Distributable cash is calculated as follows:

($000's)	Oct. 1 to Dec. 31, 2018	Oct. 1 to Dec. 31, 2017	Jan. 1 to Dec. 31, 2018	Jan 1 to Dec. 31, 2017
Cash flow from operations [1]	$ 5,892	$ 5,579	$ 24,456	$ 23,727
SIFT tax paid on Fund units [2]	1,139	1,079	4,703	4,330
Interest and financing fees paid on term loan [3]	(140)	(118)	(536)	(439)
KRL's interest [4]	(2,718)	(2,517)	(10,729)	(9,969)
Distributable cash before current year SIFT tax	$ 4,173	$ 4,023	$ 17,894	$ 17,649
SIFT tax expense on Fund units [5]	(1,218)	(1,163)	(4,764)	(4,520)
Distributable cash [6]	$ 2,955	$ 2,860	$ 13,130	$ 13,129

Notes:

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

(2) Includes SIFT taxes actually paid during the respective period. During the fourth quarter of 2018, $1,139,000 was paid, all on account for 2018 (fourth quarter of 2017 – $1,079,000, all on account for 2017). During 2018, $4,703,000 was paid, consisting of $4,516,000 on account for 2018, and $187,000 on account for 2017 (2017 – $4,330,000, all on account for 2017).

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

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

(5) Represents the SIFT tax expense for the respective period calculated at 27% of estimated taxable income for 2018 and 26% for 2017.

(6) Distributable cash is the amount of cash available for distribution to the Fund's public unitholders. It is defined as the periodic cash flows from operating activities as reported in the IFRS condensed consolidated financial statements, including the change in non-cash working capital, plus SIFT tax paid (including current year instalments), less interest and financing fees paid on the term loan, less the Partnership distributions attributable to KRL, and less current year SIFT tax expense.

OWNERSHIP OF THE FUND

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

	December 31, 2018[1]		December 31, 2017[1]	
	#	%	#	%
Fund units held by public unitholders [2]	11,353,500	73.55	11,353,500	75.72
Exchangeable Partnership units held by KRL: [3]				
Class A units [4]	905,944	5.87	905,944	6.04
Class B units [5]	176,700	1.14	176,700	1.18
Class D units [5]	3,000,420	19.44	2,557,212	17.06
Total Exchangeable Partnership units [6]	4,083,064	26.45	3,639,856	24.28
Total Fund and Exchangeable Partnership units	15,436,564	100.00	14,993,356	100.00

Notes:

[1] Information is current as of December 31, 2018. On January 1, 2018, KRL became entitled to the initial 80% of the Additional Entitlement for 2018, consisting of 390,212 Exchangeable units, increasing its effective ownership of the Fund to 26.20%. On December 31, 2018, but effective January 1, 2018, KRL became entitled to the remaining balance of the Additional Entitlement for 2018 consisting of 52,996 Exchangeable units, increasing its effective ownership of the fund to 26.45% on a fully diluted basis. As of December 31, 2018, there are 11,353,500 Fund units outstanding, and 4,083,064 Exchangeable Partnership units issued and outstanding, all of which are entitled to distributions. On January 1, 2019, KRL became entitled to the initial 80% of the Additional Entitlement for 2019. See "Subsequent Event" section.

[2] Represents the public's total effective ownership of the Fund as of December 31, 2018 and December 31, 2017. The public's average effective ownership of the Fund (based on the weighted average number of Fund units held by public unitholders during the respective period) was 73.55% during the three and twelve months ended December 31, 2018 (three and twelve months ended December 31, 2017 – 75.72%). The weighted average number of Fund units outstanding for the three and twelve months ended December 31, 2018 was 11,353,500 (three and twelve months ended December 31, 2017 – 11,353,500).

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

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

[5] These Exchangeable Partnership units are issued to KRL in return for adding net sales to the Royalty Pool on an annual basis. Class D units are equivalent to Class B units in all material respects but began to be issued once all Class B units became fully entitled to distributions on January 1, 2008. As of December 31, 2018, KRL is the registered holder of 176,700 Class B units and 3,000,420 Class D units, all of which are entitled (December 31, 2017 – 176,700 Class B units and 2,557,212 Class D units, all of which were entitled).

[6] Represents KRL's total effective ownership of the Fund as of December 31, 2018 and December 31, 2017. KRL's average effective ownership of the Fund (based on the weighted average number of Exchangeable units held by KRL during the respective period) was 26.45% during the three and twelve months ended December 31, 2018 (three and twelve months ended December 31, 2017 – 24.28%). The weighted average number of Exchangeable units held by KRL during the three and twelve months ended December 31, 2018 was 4,083,064 (three and twelve months ended December 31, 2017 – 3,639,856).

SYSTEM SALES

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

($000's)	13 weeks ended Dec. 30, 2018	13 weeks ended Dec. 31, 2017	52 weeks ended Dec. 30, 2018	52 weeks ended Dec. 31, 2017
Corporate Keg restaurants [1]	$ 85,534	$ 83,318	$ 331,009	$ 304,771
Franchised Keg restaurants [2]	80,387	80,026	319,534	320,022
Total system sales	$ 165,921	$ 163,344	$ 650,543	$ 624,793

FOURTH QUARTER

System sales for the 13 weeks ended December 30, 2018 were $165,921,000 compared to $163,344,000 for the 13 weeks ended December 31, 2017, an increase of $2,577,000 or 1.6%. The increase was due to the net impact of the same store sales increases at comparable restaurants during the quarter ($540,000 increase in sales), the positive effect of the exchange rate increase on the translation of the US restaurant sales into their Canadian dollar equivalent ($506,000 increase in sales), the sales of the new restaurants that operated during the comparable quarter ($1,458,000 increase in sales), the sales of restaurants temporarily closed for renovation during KRL's 13-week period ended December 31, 2017 ($1,984,000 increase in sales), the loss of sales of restaurants temporarily closed for renovation during KRL's 13-week period ended December 30, 2018 ($949,000 decrease in sales), and the loss of sales from permanently closed restaurants that did not operate during the comparable quarter ($962,000 decrease in sales).

During the 13 weeks ended December 30, 2018, no new restaurants were opened, and no restaurants were closed. During the 13 weeks ended December 31, 2017, two new corporate and one new franchise restaurants were opened, and no restaurants were closed. As of December 30, 2018, there were a total of 105 Keg restaurants as compared with 106 Keg restaurants at December 31, 2017.

Same store sales (sales of restaurants that operated during the entire 13-week periods of both the current and prior years) increased by 0.2% in Canada and by 2.5% in the US. After translating the sales of the US restaurants into their Canadian dollar equivalent, consolidated same store sales for the comparable 13-week periods increased by 0.7%. The average exchange rate moved from 1.2710 in KRL's 13-week period ended December 31, 2017 to 1.3213 in KRL's 13-week period ended December 30, 2018, significantly increasing the Canadian dollar equivalent of the US restaurant sales.

YEAR

System sales for the 52 weeks ended December 30, 2018 were $650,543,000 compared to $624,793,000 for the 52 weeks ended December 31, 2017, an increase of $25,750,000 or 4.1%. The increase was due to the net impact of the same store sales increases at comparable restaurants during the period ($8,696,000 increase in sales), the negative effect of the exchange rate decrease on the translation of the US restaurant sales into their Canadian dollar equivalent ($50,000 decrease in sales), the sales of the new restaurants that operated during the comparable period ($20,471,000 increase in sales), the sales of restaurants temporarily closed for renovation during KRL's 52-week period ended December 31, 2017 ($5,517,000 increase in sales), the loss of sales from restaurants temporarily closed for renovation during KRL's 52-week period ended December 30, 2018 ($5,252,000 decrease in sales), and the loss of sales from permanently closed restaurants that did not operate during the comparable period ($3,632,000 decrease in sales).

YEAR (CONTINUED)

During the 52 weeks ended December 30, 2018, one corporate restaurant in Canada was permanently closed, due to a lease expiry. Also, during 2018, one franchise restaurant was purchased and will operate as a corporate restaurant effective July 2, 2018. During the 52 weeks ended December 31, 2017 four new corporate and two new franchise restaurants were opened, one franchise restaurant was relocated, and one corporate restaurant was permanently closed due to a lease expiry, all in Canada. Also, during 2017, three franchise restaurants were purchased and have been operating as corporate restaurants since August 28, 2017.

Same store sales (sales of restaurants that operated during the entire 52-week period of both the current year and prior years) increased by 1.2% in Canada and by 4.5% in the US. After translating the sales of the US restaurants into their Canadian dollar equivalent, consolidated same store sales for the comparable 52-week periods increased by 1.5%. The average exchange rate moved from 1.2976 in KRL's 52-week period ended December 31, 2017, to 1.2963 in KRL's 52-week period ended December 30, 2018, slightly decreasing the Canadian dollar equivalent of the US restaurant sales.

OPERATING RESULTS

FOURTH QUARTER

ROYALTY POOL SALES

Royalty Pool sales increased by $7,671,000 or 5.0% from $153,639,000 to $161,310,000 for the comparable quarter. The increase in Royalty Pool sales was due to the net impact of same store sales increases at comparable Royalty Pool restaurants during the comparable quarter ($541,000 increase in Royalty Pool sales), the positive effect of the exchange rate increase on the translation of the US restaurant sales into their Canadian dollar equivalent ($516,000 increase in Royalty Pool sales), the sales of new restaurants added to the Royalty Pool on January 1, 2018 ($6,541,000 increase in Royalty Pool sales), the sales of restaurants temporarily closed for renovation during the comparable quarter of the prior year ($1,984,000 increase in Royalty Pool sales), the loss of sales of restaurants temporarily closed for renovation during the comparable quarter of the current year ($949,000 decrease in Royalty Pool sales), and the loss of sales from permanently closed restaurants that did not operate during the comparable quarter of the current year ($962,000 decrease in Royalty Pool sales).

ROYALTY INCOME

Total royalty income increased from $6,226,000 in the fourth quarter of 2017 to $6,486,000 in the fourth quarter of 2018. The increase of $260,000 during the comparable quarter consists of an increase in royalty fee income of $307,000, and a decrease in Make-whole fees of $47,000.

The increase in royalty fee income was due to the net impact of same store sales increases at comparable Royalty Pool restaurants during the comparable quarter ($22,000 increase in royalty fee income), the positive effect of the exchange rate increase on the translation of US restaurant sales into their Canadian dollar equivalent ($21,000 increase in royalty fee income), the sales of new restaurants added to the Royalty Pool on January 1, 2018 ($262,000 increase in royalty fee income), the sales of restaurants temporarily closed for renovation during the comparable quarter of the prior year ($79,000 increase in royalty fee income), the loss of sales of restaurants temporarily closed for renovation during the comparable quarter of the current year ($38,000 decrease in royalty fee income), and the loss of sales from permanently closed restaurants that did not operate during the comparable quarter of the current year ($39,000 decrease in royalty fee income).

Make-whole fees decreased as fewer restaurants were closed during the comparable quarter. During the fourth quarter of the current year, one restaurant was subject to Make-whole payments (that restaurant was closed for a total of 13 weeks during the comparable quarter), whereas in the comparable quarter of the prior year, two restaurants were subject to Make-whole payments (those restaurants were closed for a total of 26 weeks during the comparable quarter).

INTEREST INCOME

Interest income earned by the Fund during the fourth quarter of the current year was $1,085,000 and was comprised of interest income on the Keg Loan of $1,078,000 and other interest income of $7,000. Interest income on the Keg Loan remained the same during the comparable quarter, while other interest income earned by the Fund on surplus cash balances increased by $3,000. Interest income earned on cash balances increased as higher interest rates were applied to the cash balances on hand during the comparable quarter.

ADMINISTRATIVE EXPENSES

Expenses incurred by the Partnership for the quarter ended December 31, 2018 were $99,000, comprised of general and administrative expenses of $100,000, net of interest income of $1,000. The increase in administration expenses of $3,000 consisted of an increase in general and administrative expenses of $4,000, and an increase in interest income of $1,000. General and administrative expenses increased primarily as a result of the timing of certain expenses. Other interest income earned by the Fund on surplus cash balances increased slightly during the comparable quarter, as higher interest rates applied to these surplus cash balances.

INTEREST AND FINANCING EXPENSES

Interest and financing expenses incurred by the Fund were $150,000 for the three months ended December 31, 2018, and included interest on the long-term debt of $145,000, and amortization of deferred financing charges of $5,000. The increase in interest and financing expenses of $23,000, was entirely due to an increase in the interest expense on the long-term debt during the comparable quarter, as the amortization of deferred finance charges remained the same during the comparable quarter. Interest expense on the long-term debt increased, as the effective interest rate on that debt increased from 3.45% to 4.13% as a result of five changes to the prime lending rate totalling 1.25% since July 2017.

OPERATING INCOME

The Fund's operating income increased from $7,085,000 during the fourth quarter of 2017, to $7,322,000 during the fourth quarter of 2018. The increase of $237,000 was due to the net impact of the increase in royalty income of $260,000, the increase in interest income of $3,000, the increase in administrative expenses of $3,000 and the increase in interest and financing expenses of $23,000.

DISTRIBUTIONS TO KRL

Distributions attributable to KRL during the three months ended December 31, 2018 were $2,718,000, which included distributions of $1,649,000 on the Exchangeable units and $1,069,000 on the Class C units. Distributions on the Exchangeable units increased by $201,000 from the comparable quarter of the prior year, due to the combined impact of an increase in the operating income of the Fund during the fourth quarter of the current year, and an increase in KRL's average effective ownership of the Fund during that period. KRL's average effective ownership of the Fund increased from 24.28% during the fourth quarter of 2017 to 26.45% during the fourth quarter of 2018, as a result of the 2018 Additional Entitlement received by KRL on January 1, 2018 from the roll-in of sales of net new restaurants on that date. The distributions declared on the Class C units remained the same during the comparable periods, which were $0.0625 per Class C unit per month.

PROFIT BEFORE FAIR VALUE GAIN (LOSS) AND INCOME TAXES

Profit before fair value gain (loss) and income taxes increased by $36,000 from a profit of $4,568,000 (40.2 cents/Fund unit) in the fourth quarter of 2017, to a profit of $4,604,000 (40.6 cents/Fund unit) in the fourth quarter of 2018.

FAIR VALUE GAIN (LOSS)

The fair value of the Exchangeable unit liability decreased by $6,872,000 during the three months ended December 31, 2018, as compared with a decrease of $2,013,000 during the three months ended December 31, 2017.

During the three months ended December 31, 2018, the fair value of the 4,030,068 Exchangeable units held by KRL during that entire quarter decreased, as the closing market price of a Fund unit (the basis upon which the Exchangeable units held by KRL are valued) decreased from $17.74 to $16.09, resulting in a non-cash gain to the Fund of $6,650,000. In addition, the fair value of the 52,996 Exchangeable units granted to KRL on December 31, 2018 (but effective January 1, 2018) as the remaining balance of the 2018 Additional Entitlement decreased from $20.28 (the roll-in price) to $16.09, resulting in a further non-cash gain to the Fund of $222,000.

During the three months ended December 31, 2017, the fair value of the 3,599,814 Exchangeable units held by KRL during that entire quarter decreased, as the closing market price of a Fund unit (the basis upon which the Exchangeable units held by KRL are valued) decreased from $20.54 to $19.99, resulting in a non-cash gain to the Fund of $1,980,000. In addition, the fair value of the 40,042 Exchangeable units granted to KRL on December 31, 2017 (but effective January 1, 2017) as the remaining balance of the 2017 Additional Entitlement, decreased from $20.82 (the roll-in price) to $19.99, resulting in a further non-cash gain to the Fund of $33,000.

INCOME TAXES

Income taxes for the three-month period ended December 31, 2018, were $1,244,000, and included SIFT tax expense of $1,218,000 and a non-cash deferred income tax expense of $26,000. Income taxes decreased by $40,000 due to the net impact of an increase in SIFT taxes of $55,000 and a decrease in deferred income taxes of $95,000. SIFT tax expense increased due to the combined impact of an increase in the SIFT tax rate from 26% to 27%, effective January 1, 2018, and an increase in the taxable income of the Fund during the comparable quarter. The deferred income tax expense decreased during the comparable quarter, due to changes in the temporary differences between the accounting and tax basis of the Keg Rights owned by the Partnership.

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Profit (loss) increased by $4,935,000 from a profit of $5,297,000 (46.7 cents/Fund unit) in the fourth quarter of 2017, to a profit of $10,232,000 (90.1 cents/Fund unit) in the fourth quarter of 2018, mainly due to the change in the non-cash fair value of the Exchangeable unit liability.

DISTRIBUTABLE CASH

Distributable cash before SIFT tax increased by $150,000 from $4,023,000 (35.4 cents/Fund unit) to $4,173,000 (36.8 cents/Fund unit) during the comparable quarter. Cash available for distribution to Fund unitholders increased by $95,000 from $2,860,000 (25.2 cents/Fund unit) to $2,955,000 (26.0 cents/Fund unit) during the comparable quarter. The difference between the Fund's profit (loss) and distributable cash is due to non-cash items such as amortization, fair value gain (loss), and deferred income taxes included in the Fund's profit (loss), as well as changes in non-cash working capital balances.

DISTRIBUTIONS TO FUND UNITHOLDERS

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

DISTRIBUTIONS TO FUND UNITHOLDERS (CONTINUED)

In the fourth quarter of 2018, distributions to Fund unitholders of $3,563,000 (31.4 cents/Fund unit) included regular cash distributions paid of $3,222,000 (28.4 cents/Fund unit), and a special distribution declared of $341,000 (3.0 cents/Fund unit). In the fourth quarter of 2017, distributions to Fund unitholders of $3,531,000 (31.1 cents/Fund unit) included regular cash distributions paid of $3,190,000 (28.1 cents/Fund unit), and a special distribution declared of $341,000 (3.0 cents/Fund unit). The total increase of $32,000 in cash distributions paid during the comparable quarter was the result of monthly distributions having been increased during the fourth quarter of 2017.

YEAR TO DATE

ROYALTY POOL SALES

Royalty Pool sales increased by $31,188,000 or 5.2% from $600,969,000 to $632,157,000 for the comparable twelve-month period. The increase in gross sales was due to the net impact of the same store sales increases at comparable Royalty Pool restaurants during the period ($8,695,000 increase in Royalty Pool sales), the negative effect of the exchange rate decrease on the translation of the US restaurant sales into their Canadian dollar equivalent ($171,000 decrease in Royalty Pool sales), the sales of new restaurants added to the Royalty Pool on January 1, 2018 ($26,031,000 increase in Royalty Pool sales), the sales of restaurants temporarily closed for renovation during the comparable period of the prior year ($5,517,000 increase in Royalty Pool sales), the loss of sales from restaurants temporarily closed for renovation during the comparable period of the current year ($5,252,000 decrease in Royalty Pool sales), and the loss of sales from permanently closed restaurants that did not operate during the period ($3,632,000 decrease in Royalty Pool sales).

ROYALTY INCOME

Total royalty income increased from $24,294,000 in 2017 to $25,359,000 in 2018. The increase of $1,065,000 during the current year consists of an increase in royalty fee income of $1,247,000, and a decrease in Make-whole fees of $182,000.

The increase in royalty fee income was due to the net impact of same store sales increases at comparable Royalty Pool restaurants during the current fiscal year ($348,000 increase in royalty fee income), the negative effect of the exchange rate decline on the translation of US restaurant sales into their Canadian dollar equivalent ($7,000 decrease in royalty fee income), the sales of the new restaurants added to the Royalty Pool on January 1, 2018 ($1,041,000 increase in royalty fee income), the sales of restaurants temporarily closed for renovation during the prior fiscal year ($221,000 increase in royalty fee income), the loss of sales from restaurants temporarily closed for renovation during the current fiscal year ($210,000 decrease in royalty fee income), and the loss of sales from permanently closed restaurants ($146,000 decrease in royalty fee income).

Make-whole fees decreased as fewer restaurants were closed during the comparable period and those restaurants were closed for less time. During the current fiscal year, one restaurant was subject to Make-whole payments (that restaurant was closed for a total of 28 weeks during the current fiscal year), whereas in the prior fiscal year, two restaurants were subject to Make-whole payments (those restaurants were closed for a total of 78 weeks).

INTEREST INCOME

Interest income earned by the Fund during the current year was $4,299,000 and was comprised of interest income on the Keg Loan of $4,275,000 and other interest income of $24,000. Interest income on the Keg Loan remained the same during the current year, while other interest income earned by the Fund on cash balances increased by $16,000. Interest income earned on cash balances increased as higher interest rates were applied to the cash balances on hand during 2018.

ADMINISTRATIVE EXPENSES

Expenses incurred by the Partnership for the year ended December 31, 2018 were $411,000, comprised of general and administrative expenses of $415,000, net of interest income of $4,000. Administrative expenses increased by $32,000 from the prior year, consisting of an increase in general and administrative expenses of $35,000 and an increase in interest income of $3,000. General and administrative expenses increased primarily as a result of fees paid to the TSX for listing the incremental exchangeable Class D units that were issued on January 1, 2018, but also, due to the timing of certain expenses. Other interest income earned by the Fund on surplus cash balances increased during the current year as higher interest rates applied to those surplus cash balances.

INTEREST AND FINANCING EXPENSES

Interest and financing expenses incurred by the Fund were $564,000 for the year ended December 31, 2018, and included interest on the long-term debt of $539,000, other finance charges of $5,000, and amortization of deferred financing charges of $20,000. The increase in interest and financing expenses of $101,000, was due to a $99,000 increase in interest expense on the long-term debt, and a $2,000 increase in amortization of deferred finance charges, as other finance charges remained the same during the comparable period. Interest expense on the long-term debt increased, as the effective interest rate on that debt increased from 3.15% to 3.85%, as a result of five changes to the prime lending rate totalling 1.25% since July 2017.

OPERATING INCOME

The Fund's operating income increased from $27,735,000 during 2017, to $28,683,000 during 2018. The increase of $948,000 is due to the net impact of the increase in royalty income of $1,065,000, the increase in interest income of $16,000, the increase in administrative expenses of $32,000, and the increase in interest and financing expenses of $101,000.

DISTRIBUTIONS TO KRL

Distributions attributable to KRL during the year ended December 31, 2018 were $10,729,000, which included distributions of $6,454,000 on the Exchangeable units and $4,275,000 on the Class C units. Distributions on the Exchangeable units increased by $760,000 from the prior year, due to the combination of an increase in the operating income of the Fund during 2018, and an increase in KRL's average effective ownership of the Fund during the year. KRL's average effective ownership of the Fund increased from 24.28% during 2017 to 26.45% during 2018, as a result of the 2018 Additional Entitlement received by KRL on January 1, 2018, from the roll-in of sales of net new restaurants on that date. The distributions declared on the Class C units remained the same during the comparable periods, which were $0.0625 per Class C unit per month.

PROFIT BEFORE FAIR VALUE GAIN (LOSS) AND INCOME TAXES

Profit before fair value gain (loss) and income taxes increased by $188,000 from $17,766,000 ($1.565/Fund unit) in 2017, to $17,954,000 ($1.581/Fund unit) in 2018.

FAIR VALUE GAIN (LOSS)

The fair value of the Exchangeable unit liability decreased by $16,054,000 during the year ended December 31, 2018, as compared with a decrease of $3,991,000 during the year ended December 31, 2017.

During the current fiscal year, the fair value of the 3,639,856 Exchangeable units held by KRL during that entire period decreased, as the closing market price of a Fund unit (the basis upon which the Exchangeable units held by KRL are valued) decreased from $19.99 to $16.09, resulting in a non-cash gain to the Fund of $14,196,000. The fair value of the 390,212 Exchangeable units granted to KRL on January 1, 2018 (as the initial 80% of the Additional Entitlement for 2018), decreased from $20.28 (the roll-in price) to $16.09, resulting in a non-cash gain to the Fund of $1,636,000. In addition, the fair value of the 52,996 Exchangeable units granted to KRL on December 31, 2018 (but effective January 1, 2018), as the remaining balance of the Additional Entitlement for 2018, decreased from $20.28 (the roll-in price) to $16.09, resulting in a further non-cash gain to the Fund of $222,000.

During the prior fiscal year, the fair value of the 3,468,091 Exchangeable units held by KRL during that entire period decreased, as the closing market price of a Fund unit (the basis upon which the Exchangeable units held by KRL are valued) decreased from $21.10 to $19.99, resulting in a non-cash gain to the Fund of $3,850,000. The fair value of the 131,723 Exchangeable units granted to KRL on January1, 2017 (the initial 80% estimate of 2017 Additional Entitlement) decreased, as the Exchangeable unit value decreased from $20.82 (the roll-in price) to $19.99, resulting in a non-cash gain to the Fund of $109,000. In addition, the fair value of the 40,042 Exchangeable units granted to KRL on December 31, 2017 (but effective January 1, 2017), as the remaining balance of the Additional Entitlement for 2017, decreased from $20.82 (the roll-in price) to $19.99, resulting in a further non-cash gain to the Fund of $32,000.

INCOME TAXES

Income taxes for the year ended December 31, 2018, were $4,791,000, and included SIFT tax expense of $4,764,000 and a non-cash deferred income tax expense of $27,000. Income taxes increased by $91,000 due to the net impact of an increase in SIFT taxes of $244,000 and a decrease in deferred income taxes of $153,000. SIFT tax expense increased due to the combined impact of an increase in the SIFT tax rate from 26% to 27%, effective January 1, 2018, and an increase in the taxable income of the Fund during 2018. The deferred income tax expense decreased during 2018 due to changes in the temporary differences between the accounting and tax basis of the Keg Rights owned by the Partnership.

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Profit increased by $12,160,000 from a profit of $17,057,000 ($1.502/Fund unit) during 2017 to a profit of $29,217,000 ($2.573/Fund unit) during 2018, mostly due to the change in the non-cash fair value gain (loss) of the Exchangeable unit liability.

DISTRIBUTABLE CASH

Distributable cash before SIFT tax increased by $245,000 from $17,649,000 ($1.554/Fund unit) to $17,894,000 ($1.576/Fund unit) during the comparable period. Cash available for distribution to Fund unitholders increased by $1,000 from $13,129,000 ($1.156/Fund unit) to $13,130,000 ($1.156/Fund unit) during the comparable period. The difference between the Fund’s earnings and distributable cash is due to non-cash items such as amortization, fair value gain (loss), and deferred income taxes included in the Fund’s net earnings, as well as changes in non-cash working capital balances.

DISTRIBUTIONS TO FUND UNITHOLDERS

In 2018, distributions to Fund unitholders of $13,229,000 ($1.165/Fund unit) included regular cash distributions paid of $12,888,000 ($1.135/Fund unit) and a special distribution declared of $341,00 (3.0 cents/Fund unit). In 2017, distributions to Fund unitholders of $12,911,000 ($1.137/Fund unit) included regular cash distributions paid of $12,570,000 ($1.107/Fund unit) and a special distribution declared of $341,000 (3.0 cents/Fund unit).

The total increase of $318,000 in cash distributions paid during 2018 was the result of monthly distributions having been increased during the fourth quarter of 2017.

LIQUIDITY & CAPITAL RESOURCES

It is the Fund's policy to distribute all available cash on a monthly basis in order to provide consistent returns to unitholders and to maximize those returns. Any increase in distributions in the future will be implemented in such a manner so as to maintain uniform monthly distributions.

During the fourth quarter of 2018, the Fund generated $2,955,000 in distributable cash, paid distributions of $3,222,000 to public unitholders, and declared a special distribution of $341,000, resulting in a shortfall of $608,000. During the year ended December 31, 2018, the Fund generated $13,130,000 in distributable cash, paid distributions of $12,888,000 to public unitholders, and declared a special distribution of $341,000, resulting in a shortfall of $99,000.

The special distribution declared in December 2018, which was paid on January 31, 2019, was treated as a distribution in 2018 for Fund reporting purposes.

TERM LOAN

The Trust has a $14 million non-revolving term loan facility, which bears interest at bank prime plus 0.25% per annum. The facility was originally arranged during the IPO to partially finance the purchase of the Keg Rights from KRL, and to provide term debt as part of the capital structure. On September 15, 2017, the Fund amended the terms of this loan with its existing banking syndicate and extended the maturity date to July 2, 2020. The term loan held by the Trust is subject to certain financial covenants, including minimum equity amounts in both the Trust and the Partnership, and a minimum Partnership cash flow level defined as profit (loss) before interest, fair value gain (loss), taxes, depreciation and amortization ("EBITDA"). As at December 31, 2018, the Trust and Partnership are in compliance with all financial covenants associated with this facility.

OPERATING LINE OF CREDIT

The Partnership, a subsidiary of the Fund, has a $1 million operating line of credit, which bears interest at bank prime plus 0.25% per annum. This facility is used primarily to bridge timing differences between the receipt of the royalty payments and distributions on the Partnership securities. This operating line is also available for general working capital purposes or, if required, to help finance periodic differences between receipt of the royalty payment (which may vary due to small seasonal variations in the gross sales of those restaurants in the Royalty Pool), and distributions to unitholders. As at December 31, 2018, the entire $1 million facility is available for use.

CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that relevant information is gathered and reported to Senior Management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of The Keg GP Ltd., managing general partner of the Partnership and administrator of the Fund, on a timely basis so that the appropriate decisions can be made regarding public disclosure. As of December 31, 2018, an evaluation of the effectiveness of the Fund's disclosure controls and procedures, as defined under Multilateral Instrument 52-109 ("MI 52-109") issued by the Canadian Securities Administrators ("CSA"), was carried out under the supervision of and with the participation of management including the CEO and CFO. Based on the evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

The administrator of the Fund assessed the effectiveness of the Fund's internal control over financial reporting as of December 31, 2018, based on the framework established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on this assessment, the administrator concluded that the Fund maintained effective internal control over financial reporting as of December 31, 2018. During the year ended December 31, 2018, there has been no change in the Fund's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

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

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

CONSOLIDATION

Applying the criteria outlined in IFRS 10, *"Consolidated Financial Statements"*, judgement is required in determining whether the Fund controls the Partnership. Making this judgement involves taking into consideration the concept of power over the Partnership, exposure to variable returns, and the ability to use power to direct the relevant activities of the Partnership so as to generate economic returns. Using these criteria, management has determined that the Fund ultimately controls the Partnership through its 90% ownership of the managing general partner, The Keg GP Ltd.

KEG RIGHTS

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

The Fund tests the Keg Rights for impairment annually, which requires that the Fund use a valuation technique to determine if impairment exists. This valuation technique may not represent the actual fair value less costs to sell that the Fund expects the Keg Rights to generate.

EXCHANGEABLE UNIT FAIR VALUE GAIN (LOSS)

The Fund is required under IFRS to classify the Exchangeable units as a financial liability at fair value. This requires that the Fund uses a valuation technique to determine the fair value of the Exchangeable units at the applicable reporting dates. The Fund estimates the fair value of this financial liability using the Fund's market capitalization at the end of the applicable period and allocating KRL's entitlement based upon its percentage ownership of the Fund on a fully-diluted basis as at December 31, 2018.

As at December 31, 2018, the closing price of a Fund unit was $16.09 resulting in a market capitalization of $248.4 million. KRL's 26.45% ownership of the Fund (on a fully-diluted basis) was calculated to be $65.7 million. This valuation technique may not represent the actual value of the financial liability should such Exchangeable units be extinguished, and changes in the distribution rate on the Exchangeable units and the yield of the Fund's units could materially impact the Fund's financial position and results of operations.

DEFERRED INCOME TAX EXPENSE

The Fund uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred income tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of such changes.

The determination of deferred income taxes requires the use of judgement and estimates. If certain judgements or estimates prove to be inaccurate, or if certain tax rates or laws change, the Fund's results of operations and financial position could be materially impacted.

NEW ACCOUNTING STANDARDS

IFRS 9

On July 24, 2014, the International Accounting Standards Board ("IASB") issued IFRS 9, *Financial Instruments* ("IFRS 9"), and subsequently published amendments. The new standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions.

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39").

Classification and measurement of financial assets and financial liabilities:

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans, and receivables and available for sale.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Financial liabilities are classified and measured on two categories: amortized costs or fair value through profit or loss ("FVTPL"). Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Fund's financial assets and liabilities. The adoption of the new classification requirements under IFRS 9 did not result in any changes in measurement or the carrying amount of financial assets and liabilities.

Financial Asset / Liability	Classification under IAS 39	Classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Royalty fee receivable from Keg Restaurants Ltd.	Loans and receivables	Amortized cost
Interest on note receivable from Keg Restaurants Ltd.	Loans and receivables	Amortized cost
Note receivable from Keg Restaurants Ltd.	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Interest payable on term loan	Other financial liabilities	Amortized cost
Distributions payable to Fund unitholders	Other financial liabilities	Amortized cost
Distributions payable to Keg Restaurants Ltd.	Other financial liabilities	Amortized cost
Term loan, net of deferred financing charges	Other financial liabilities	Amortized cost
Class C partnership units	Other financial liabilities	Amortized cost
Exchangeable Partnership units	FVTPL	FVTPL

NEW ACCOUNTING STANDARDS (CONTINUED)

IFRS 9 (CONTINUED)

Impairment of financial assets:

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (“ECL”) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI. Under IFRS 9 credit losses are recognized earlier than under IAS 39.

Financial assets measured at amortized cost are assessed at each reporting date to determine the credit risk of the financial asset to apply the relevant impairment requirements. There are generally 3 stages of credit risk:

1. Financial assets that are expected to perform in line with their contractual terms and which have no signs of increased credit risk;
2. Financial assets that have significantly increased in credit risk since initial recognition but are not credit-impaired; and
3. Credit-impaired financial instruments.

A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Fund on terms that the Fund would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

The Fund considers evidence of impairment of financial assets measured at amortized cost at both a specific asset and collective level. All individually significant financial assets measured at amortized cost are assessed for specific impairment. All individually significant financial assets measured at amortized cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Such assets that are not individually significant are collectively assessed for impairment by grouping together financial assets measured at amortized cost with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is measured through a loss allowance at an amount equal to:

- 12-month expected credit losses (ECLs): these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through comprehensive income.

Derivative financial instruments:

The requirement of the Fund to settle its note receivable from KRL in exchange for Class C Partnership units is classified as a derivative financial instrument. The Fund has reviewed the net impact of this potential exchange requirement on its cash flows and has determined there is no significant value applicable to this feature.

The Fund adopted IFRS 9 in its annual consolidated financial statements for the period beginning on January 1, 2018, aside from classification, the impact of adopting IFRS 9 has had no material impact on measurement of the fund’s financial assets and liabilities.

NEW ACCOUNTING STANDARDS (CONTINUED)

IFRS 15

On May 28, 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. IFRS 15 replaced IAS 11, *Construction* Contracts, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers*, and SIC 31, *Revenue – Barter Transactions Involving Advertising Services*.

The new standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized and contains a single model that applies to contracts with customers and two approaches to recognizing revenue: as a point in time or over time. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. identify the contract with a customer;
2. identify the performance obligations in the contract;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations in the contract; and
5. recognize revenue when (or as) the entity satisfies a performance obligation.

New estimates and judgemental thresholds have been introduced, which may affect the amount and / or timing of revenue recognized.

The Fund performed an analysis to assess the impact of this standard. The Fund's primary sources of revenue are royalty and distribution income which are recognized on an accrual basis as earned. There is no impact on the Fund's revenue recognition policies or cash flows as a result of the adoption of this standard.

The Fund adopted IFRS 15 in its annual consolidated financial statements for the period beginning on January 1, 2018

ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET ADOPTED

IFRS 16

On January 13, 2016, the IASB issued IFRS 16, *Leases*, which supersedes IAS 17, *Leases*. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single model for lessees to bring leases on-balance sheet while lessor accounting remains largely unchanged and retains the finance and operating lease distinctions. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted but only if also applying IFRS 15, *Revenue from Contracts with Customers*.

The Fund performed an analysis to assess the impact of this standard and developed a comprehensive plan to guide the implementation. The Fund does not anticipate a material impact on the assets and liabilities of the consolidated balance sheet as a result of the adoption of this standard since it does not have operating lease arrangements of more than 12 months in which it is considered the lessee. The impact of the adoption of this new standard is non-cash in nature and, as such, the Fund does not anticipate an impact on cash flows.

FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash and cash equivalents, royalty fee receivable from KRL, interest on note receivable from KRL, note receivable from KRL, accounts payable and accrued liabilities, interest payable on the term loan, distributions payable to Fund unitholders, distributions payable to KRL, Class C Partnership unit liability and the term loan. The requirement for the Fund to settle its note receivable from KRL in exchange for Class C Partnership units is classified as a derivative instrument. The Fund has reviewed the net impact of this potential exchange requirement on its cash flows and has determined that there is no significant value applicable to this feature.

The fair values of the amount due from KRL, accounts payable and accrued liabilities, interest payable on the term loan and the distributions payable to Fund unitholders approximate their carrying amounts, largely due to the short-term maturities of these instruments. The fair value of the note receivable from KRL and the Class C unit liability approximate their carrying values due to the requirement of the Fund to settle the note receivable from KRL in exchange for Class C Partnership units equal to $10.00 per Class C unit transferred. The fair value of the term loan is not materially different from its carrying value as the variable rate of interest on the facility would not be significantly different from the current market rate of interest due to the considerable security held by the banking syndicate.

SUBSEQUENT EVENT

January 1, 2019 Roll-In

On January 1, 2019, an estimated $12.6 million in annual net sales were added to the Royalty Pool. Three new restaurants that opened during the period from October 3, 2017 through October 2, 2018, with estimated gross sales of $16.0 million annually, were added to the Royalty Pool. One permanently closed Keg restaurants with annual sales of $3.4 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 31, 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 2019, 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.

OUTLOOK

In Canada, Restaurants Canada has estimated that sales in the full-service restaurant category, the category in which The Keg operates, increased by 6.9% in 2017 and has projected sales to increase by 5.7% in 2018. 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 US, the National Restaurant Association has estimated that sales in the full-service category increased by 2.8% in 2016, and has projected sales to increase by 3.5% in 2017. The NRA has not yet updated 2017 and 2018 data nor released a long-term forecast. Given the close historical relationship between disposable income and foodservice spending, management of KRL expects that as economic conditions continue to improve in North America, so will sales in the full-service category of the restaurant industry.

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

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

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

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

KRL continues to refurbish, and in some cases, relocate existing Keg restaurants in order to better serve its guests and to protect and enhance the strong leadership position The Keg brand has enjoyed for over forty-seven years. KRL has relocated one franchise restaurant since October 2, 2018, and this restaurant will be added to the Royalty Pool on January 1, 2020.

Management of KRL expects to open one additional corporate, and two additional franchise restaurants, and relocate one corporate and two additional franchise restaurants prior to October 2, 2019. The scheduled opening of these new restaurants remains conditional upon the timely receipt of municipal approvals, construction permits, and ongoing evaluation of the current economic environment.

RISKS AND UNCERTAINTIES

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

THE RESTAURANT INDUSTRY

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

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

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

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

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

AVAILABILITY AND QUALITY OF RAW MATERIALS

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

FLUCTUATIONS IN FOREIGN EXCHANGE RATES

As at December 31, 2018, KRL has 10 restaurants located in the US, all of which are corporately owned through its wholly owned subsidiaries. Keg restaurants located in the US generate sales in US dollars, which must be translated into their Canadian dollar equivalent for Fund reporting purposes. Fluctuations in foreign exchange rates will affect the Canadian dollar equivalent of the sales of the restaurants located in the US, which will affect the amount of the royalty.

FORWARD LOOKING INFORMATION

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

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

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

The foregoing list of factors is not exhaustive and should be considered in conjunction with the risks and uncertainties set out in KRL's Management's Discussion and Analysis for the 52 weeks ended December 30, 2018, which are available on SEDAR at www.sedar.com.

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

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

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

ADDITIONAL INFORMATION

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

UNITHOLDER INFORMATION

CORPORATE HEAD OFFICE

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

BOARD OF TRUSTEES

C. C. Woodward

George Killy

Tim Kerr

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

C. C. Woodward*
Chairman and Director

David Aisenstat
President and Director

Neil Maclean
Secretary, Treasurer and Director

George Killy*
Director

Tim Kerr*
Director

* Audit Committee and Governance Committee Member

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

STOCK EXCHANGE LISTING

Toronto Stock Exchange: KEG.UN

INVESTOR ENQUIRIES

Neil Maclean

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E-mail:	neilm@kegrestaurants.com
Website:	www.kegincomefund.com

THE KEG ROYALTIES INCOME FUND

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

MANAGEMENT'S STATEMENT OF RESPONSIBILITIES

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Directors of The Keg GP Ltd. and the Trustees of The Keg Royalties Income Fund (the "Fund"). The consolidated financial statements have been prepared by management, in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgements. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements.

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

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

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

(signed) C.C. Woodward

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

March 12, 2019

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Unitholders of The Keg Royalties Income Fund

Opinion

We have audited the consolidated financial statements of The Keg Royalties Income Fund (the Fund), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in unitholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Fund as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Konstantin Polyakov.

KPMG LLP

Chartered Professional Accountants
Vancouver, Canada
March 12, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of dollars)

	Note	December 31, 2018	December 31, 2017
ASSETS			
Current assets:			
Cash		$ 2,567	$ 2,490
Prepaid expenses and deposits		9	9
Royalty fee receivable from Keg Restaurants Ltd.	12	2,962	2,863
Interest on note receivable from Keg Restaurants Ltd.	12	363	363
		5,901	5,725
Note receivable from Keg Restaurants Ltd.	5	57,000	57,000
Intangible assets, Keg Rights	6	176,936	167,946
		$ 239,837	$ 230,671
LIABILITIES AND UNITHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		$ 318	$ 307
Interest payable on term loan		50	41
Distributions payable to Fund unitholders	8	1,415	1,415
Distributions payable to Keg Restaurants Ltd.	12	1,172	1,058
Current income tax payable	11	239	178
		3,194	2,999
Term loan, net of deferred financing charges	10(a)	13,967	13,947
Deferred taxes	11	2,451	2,424
Class C Partnership units	9(a)	57,000	57,000
Exchangeable Partnership units	9(b)	65,697	72,761
Unitholders' equity:			
Fund units	7	123,275	123,275
Accumulated deficit		(25,747)	(41,735)
		97,528	81,540
		$ 239,837	$ 230,671

Subsequent event (note 16)

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board of Trustees

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

"George Killy"
George Killy, Trustee

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Note	January 1 to December 31, 2018	January 1 to December 31, 2017
Revenue:			
Royalty income	4	$ 25,359	$ 24,294
Interest income		4,299	4,283
		29,658	28,577
Expenses:			
General and administrative		(411)	(379)
Interest and financing fees		(544)	(445)
Amortization of deferred financing charges		(20)	(18)
		(975)	(842)
Profit before distributions, fair value gain and income taxes		28,683	27,735
Distributions recorded as interest:			
Class C Partnership units	9(a)	(4,275)	(4,275)
Exchangeable Partnership units	9(b)	(6,454)	(5,694)
		(10,729)	(9,969)
Profit before fair value gain and income taxes		17,954	17,766
Fair value gain on Exchangeable Partnership units	9(b)	16,054	3,991
Profit before income taxes		34,008	21,757
Income taxes:			
Current	11	(4,764)	(4,520)
Deferred	11	(27)	(180)
		(4,791)	(4,700)
Profit and comprehensive income for the year		$ 29,217	$ 17,057
Weighted average Fund units outstanding	3(l)	11,353,500	11,353,500
Weighted average diluted units outstanding	3(l)	15,436,564	14,993,356
Basic earnings per Fund unit	3(l)	$ 2.57	$ 1.50
Diluted earnings per Fund unit	3(l)	$ 1.16	$ 1.15

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

(Expressed in thousands of dollars)

	Fund units	Accumulated deficit	Unitholders' equity
Balance, January 1, 2017	$ 123,275	$ (45,849)	$ 77,426
Profit and comprehensive income for the year	-	17,057	17,057
Distributions declared to Fund unitholders	-	(12,943)	(12,943)
Balance, December 31, 2017	$ 123,275	$ (41,735)	$ 81,540
Balance, January 1, 2018	$ 123,275	$ (41,735)	$ 81,540
Profit and comprehensive income for the year	-	29,217	29,217
Distributions declared to Fund unitholders	-	(13,229)	(13,229)
Balance, December 31, 2018	$ 123,275	$ (25,747)	$ 97,528

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of dollars)

	Note	January 1 to December 31, 2018	January 1 to December 31, 2017
Cash provided by (used for):			
OPERATIONS:			
Profit for the year		$ 29,217	$ 17,057
Items not involving cash:			
Amortization of deferred financing charges		20	18
Deferred income tax expense	11	27	180
Fair value gain of Exchangeable Partnership units	9(b)	(16,054)	(3,991)
Distributions recorded as interest:			
Class C Partnership units	9(a)	4,275	4,275
Exchangeable Partnership units	9(b)	6,454	5,694
Changes in non-cash operating working capital:			
Royalty fee receivable from Keg Restaurants Ltd.		(99)	(141)
Prepaid expenses and deposits		-	2
Accounts payable and accrued liabilities		11	(1)
Interest income		(4,299)	(4,283)
Interest and financing fees		544	445
Current income taxes	11	4,764	4,520
Interest received		4,299	4,282
Income taxes paid		(4,703)	(4,330)
		24,456	23,727
FINANCING:			
Distributions paid to Class C unitholder		(4,275)	(4,275)
Distributions paid to Exchangeable unitholder		(6,339)	(5,558)
Distributions paid to Fund unitholders		(13,229)	(12,911)
Deferred financing charges		-	(44)
Interest and financing fees paid		(536)	(439)
		(24,379)	(23,227)
Increase in cash		77	500
Cash, beginning of year		2,490	1,990
Cash, end of year		$ 2,567	$ 2,490
Non-cash transactions:			
Increase in intangible assets on Royalty Pool net sales roll-in	6, 9	$ 8,990	$ 3,575

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts expressed in thousands of dollars)

For the years ended December 31, 2018 and 2017

1. ORGANIZATION AND NATURE OF BUSINESS:

The Keg Royalties Income Fund (the "Fund") is an unincorporated open-ended limited purpose trust established under the laws of Ontario, with the authority to issue an unlimited number of trust units and is governed by the Declaration of Trust signed May 31, 2002 and as amended on December 20, 2010. The Fund is registered and domiciled in Canada and its principal business office is located at 10100 Shellbridge Way, Richmond, British Columbia.

The Fund was established to invest in The Keg Rights Limited Partnership (the "Partnership"), which owns the trademarks, trade names, operating procedures and systems and other intellectual property (collectively, the "Keg Rights") used in connection with the operation of Keg steakhouse restaurants and bars.

The business of the Partnership is the ownership of the Keg Rights and through a Licence and Royalty Agreement (the "Licence and Royalty Agreement") with Keg Restaurants Ltd. ("KRL") to exploit the use of the Keg Rights and the collection of the royalty payable under the Licence and Royalty Agreement equal to 4% of gross sales of Keg restaurants included in a specific pool (the "Royalty Pool") . KRL's principal activity is the operation and franchising of Keg steakhouse restaurants and bars in Canada and the United States.

On February 22, 2018, Recipe Unlimited Corporation ("RECP") (formerly Cara Operations Limited) and KRL completed the merger previously announced on January 23, 2018. The Fund will remain in its current form and will continue to receive royalty payments from Keg restaurants included in the Royalty Pool. There are no changes to the contractual relationships between KRL, the Fund and the Partnership arising out of the completion of the RECP and KRL merger.

2. BASIS OF PREPARATION:

(a) Statement of compliance:

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

The consolidated financial statements were authorized for issue by the Fund's Board of Trustees on March 12, 2019.

(b) Functional and presentation currency:

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

2. BASIS OF PREPARATION (CONTINUED):

(c) Use of estimates and judgements:

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

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

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

(i) Consolidation:

Applying the criteria outlined in IFRS 10, *Consolidated Financial Statements*, judgement is required in determining whether the Fund controls the Partnership. Making this judgement involves taking into consideration the concept of power over the Partnership, exposure to variable returns, and the ability to use power to direct the relevant activities of the Partnership so as to generate economic returns. Using these criteria, management has determined that the Fund ultimately controls the Partnership through its 90% ownership of the managing general partner, The Keg GP Ltd ("KGP").

(ii) Intangible assets (note 6):

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

The Fund tests the Keg Rights for impairment annually, which requires that the Fund use a valuation technique to determine if impairment exists. This valuation technique may not represent the actual fair value less costs to sell that the Fund expects the Keg Rights to generate.

2. BASIS OF PREPARATION (CONTINUED):

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

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

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

(iv) Deferred taxes (note 11):

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

3. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Fund, its wholly-owned subsidiary The Keg Holdings Trust ("KHT"), its 90% owned subsidiary KGP and the Partnership (collectively, the "Companies"). KGP is the managing general partner of the Partnership. All residual ownership of the Companies is either directly or indirectly held by KRL (note 9). All significant intercompany transactions and balances have been eliminated on consolidation.

(b) Basis of measurement:

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

(c) Cash:

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(d) Revenue recognition:

Royalty income is recognized on the accrual basis and is accrued for when earned. Royalty payments from KRL to the Partnership is four percent of system sales for such period reported by Keg restaurants in the Royalty Pool plus a make-whole payment, if required by a restaurant closure, based on four percent of lost system sales. System sales for any period and for any Keg restaurant located in Canada and the United States, as defined in the Licence and Royalty Agreement, means the gross sales by such Keg restaurants for such period (note 4).

Interest income is recognized and accrued for when earned.

Refer to note 3(n)(ii) for further information.

(e) Intangible assets (note 6):

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

(f) Distributions on Fund units (note 8):

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

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

(g) Income taxes (note 11):

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(g) Income taxes (note 11) (continued):

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

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

(h) Borrowings (note 10):

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

(i) Financial Instruments:

The Fund has adopted IFRS 9, *Financial Instruments* ("IFRS 9"), with a date of initial application of January 1, 2018. As permitted under IFRS 9, the Fund has elected not to restate comparative figures. IFRS 9 had no impact on the measurement of the Fund's financial assets and liabilities as at January 1, 2018, it only eliminated the previous IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"), categories of classification for financial assets of held to maturity, loans and receivables and available for sale. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

<u>Financial instruments – policy applicable from January 1, 2018:</u>

(i) Recognition, classification and measurement:

All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit and loss ("FVTPL").

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold the asset to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI only it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(i) Financial Instruments (continued):

(i) Recognition, classification and measurement (continued):

On initial recognition of an equity instrument that is not held for trading, the Fund may irrevocably elect to present subsequent changes in fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

All financial liabilities are initially recorded at fair value and subsequently classified as measured at amortized cost or FVTPL. On initial recognition, the Fund may irrevocably designate a financial liability at FVTPL when doing so results in more relevant information, because either:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed with its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

For financial assets classified as measured at FVTPL or designated at FVTPL, changes in fair value are recognized in the consolidated statement of comprehensive income. For financial assets classified as measured at FVOCI or an irrevocable election has been made, changes in fair value are recognized in the consolidated statement of comprehensive loss. For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense is calculated using the effective interest method and is recognized in the consolidated statement of income.

(ii) Business model assessment:

The Fund makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the asset is managed, and information is provided to management. The information considered includes:

- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated;
- whether the assets are held for trading purposes;
- the risks that affect the performance of the financial assets held within the business model and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sale activity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(i) Financial Instruments (continued):

(iii) Contractual cash flow characteristics assessment:

In assessing whether the contractual cash flows are solely payments of principal and interest, "principal" is defined as the fair value of the financial asset on initial recognition and "interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

The Fund consider the contractual terms of the financial asset and whether the asset contains contractual terms that could change the timing or amount of cash flows such that it would not meet the condition of principal and interest. Contractual terms considered in this assessment include contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the claim to cash flows from specified assets, and features that modify the consideration from time value of money.

Financial instruments – policy applicable before January 1, 2018:

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

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

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

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

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

- Derivative financial instruments: The requirement of the Fund to settle its note receivable from KRL in exchange for Class C Partnership units ("Class C units") is classified as a derivative instrument (note 5). The Fund has reviewed the net impact of this potential exchange requirement on its cash flows and has determined there is no significant value applicable to this feature.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(i) Financial Instruments (continued):

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

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

The carrying value of current financial assets and liabilities approximate their fair value due to their short-term nature. The note receivable from KRL and the Class C Partnership unit liability approximate their fair values due to the requirement of the Fund to settle the note receivable from KRL in exchange for Class C Partnership units (note 5). The term loan approximates fair value based on prevailing market interest rates in effect at the statement of financial position dates.

The Fund must classify fair value measurements according to a hierarchy that reflects the significance of the inputs used in performing such measurements. The Fund's fair value hierarchy comprises the following levels:

- Level 1 – quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 – pricing inputs are other than quoted in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date.

- Level 3 – valuations in this level are those with inputs for the asset or liability that are not based on observable data.

The fair value of the Exchangeable Partnership unit liability is determined using Level 2 inputs.

(Tabular amounts expressed in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(i) Financial Instruments (continued):

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

	December 31, 2018	December 31, 2017
Financial assets:		
Loans and receivables:		
Cash	$ 2,567	$ 2,490
Royalty fee receivable from Keg Restaurants Ltd.	2,962	2,863
Interest on note receivable from Keg Restaurants Ltd.	363	363
Note receivable from Keg Restaurants Ltd.	57,000	57,000
	$ 62,892	$ 62,716
Financial liabilities:		
Amortized cost:		
Accounts payable and accrued liabilities	$ 318	$ 307
Interest payable on term loan	50	41
Distributions payable to Fund unitholders	1,415	1,415
Distributions payable to Keg Restaurants Ltd.	1,172	1,058
Term loan, net of deferred financing charges	13,967	13,947
Class C Partnership units	57,000	57,000
Fair value through profit and loss:		
Exchangeable Partnership units	65,697	72,761
	$ 139,619	$ 146,529

Refer to note 3(n)(i) for further information on IFRS 9 and IAS 39.

(j) Impairment of financial assets:

Impairment of financial assets – policy applicable from January 1, 2018:

IFRS 9 replaced the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model (“ECL”).

Credit-impaired financial assets

At each reporting date, the Fund assesses whether financial assets carried at amortized cost are credit impaired. A financial asset is ‘credit impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(j) Impairment of financial assets (continued):

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Fund on terms that the Fund would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets.

Financial instruments and contract assets

The Fund recognizes loss allowances for ECLs on:

- financial assets measured at amortized cost;
- debt investments measured at fair value through other comprehensive income; and
- contracted assets

The Fund measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which the credit risk has not increased significantly since initial recognition.

Loss allowances for trade receivables are measured at an amount equal to lifetime ECLs. Lifetime ECLs are the ECL that result from all possible default events over the expected life of a financial instrument. ECLs are probability-weighted estimate of credit losses, and credit losses are measured as the present value of cash shortfalls from a financial asset.

The Fund determines whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating lifetime ECLs, by considering reasonably available quantitative and qualitative information based on the Fund's credit risk experience, forward looking information, and other reasonable estimates.

The Fund has reviewed its royalty fee receivable and interest on note receivable from KRL and has determined that no indicators of impairment exist.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(j) Impairment of financial assets (continued):

Impairment of financial assets – policy applicable before January 1, 2018:

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

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

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

(k) Impairment of non-financial assets

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

Intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGU"s). The Fund defines a CGU as the Keg Rights (note 6). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(l) Earnings per unit:

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

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

The following reconciles the basic profit to the diluted profit:

	January 1 to December 31, 2018	January 1 to December 31, 2017
Basic profit and comprehensive income for the year	$ 29,217	$ 17,057
Distributions on Exchangeable Partnership units	6,454	5,694
Increase in current income tax expense	(1,743)	(1,480)
Change in fair value of Exchangeable Partnership units (note 9(b))	(16,054)	(3,991)
Diluted net profit for the period	$ 17,874	$ 17,280
Weighted average number of Fund units	11,353,500	11,353,500
Weighted average number of Exchangeable Partnership units	4,083,064	3,639,856
Weighted average number of units	15,436,564	14,993,356
Basic earnings per Fund unit	$ 2.57	$ 1.50
Diluted earnings per Fund unit	$ 1.16	$ 1.15

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(m) Economic dependence:

The Fund is entirely dependent upon the operations and assets of KRL to pay the royalty and make-whole payments to the Partnership and the interest payments to the Fund. Accordingly, it is subject to the risks encountered by KRL in the operation of its business (note 1).

(n) New accounting standards:

Effective January 1, 2018, the Fund has adopted IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15").

(i) IFRS 9, *Financial Instruments*:

On July 24, 2014, the IASB issued IFRS 9, *Financial Instruments*, and subsequently published amendments. The new standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39, *Financial Instruments: Recognition and Measurement*.

Classification and measurement of financial assets and financial liabilities:

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans, and receivables and available for sale.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Financial liabilities are classified and measured on two categories: amortized cost or FVTPL. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(n) New accounting standards (continued):

(i) IFRS 9, *Financial Instruments* (continued):

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI. Under IFRS 9 credit losses are recognized earlier than under IAS 39.

Financial assets measured at amortized cost are assessed at each reporting date to determine the credit risk of the financial asset to apply the relevant impairment requirements. There are generally 3 stages of credit risk:

1. Financial assets that are expected to perform in line with their contractual terms and which have no signs of increased credit risk;
2. Financial assets that have significantly increased in credit risk since initial recognition but are not credit-impaired; and
3. Credit-impaired financial instruments.

An impairment loss in respect of a financial asset measured at amortized cost is measured through a loss allowance at an amount equal to:

- For stage 1 and 2 assets: 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- For stage 3 assets: Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(n) New accounting standards (continued):

(i) IFRS 9, *Financial Instruments* (continued):

The Fund performed an analysis to assess the impact of this standard. The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Fund's financial assets and liabilities. The adoption of the new classification requirements under IFRS 9 did not result in any changes in measurement or the carrying amount of financial assets and liabilities.

Financial Asset / Liability	Classification under IAS 39	Classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Royalty fee receivable from Keg Restaurants Ltd.	Loans and receivables	Amortized cost
Interest on note receivable from Keg Restaurants Ltd.	Loans and receivables	Amortized cost
Note receivable from Keg Restaurants Ltd.	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Interest payable on term loan	Other financial liabilities	Amortized cost
Distributions payable to Fund unitholders	Other financial liabilities	Amortized cost
Distributions payable to Keg Restaurants Ltd.	Other financial liabilities	Amortized cost
Term loan, net of deferred financing charges	Other financial liabilities	Amortized cost
Class C partnership units	Other financial liabilities	Amortized cost
Exchangeable Partnership units	FVTPL	FVTPL

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(n) New accounting standards (continued):

(ii) IFRS 15, *Revenue from Contracts with Customers*:

On May 28, 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. IFRS 15 replaced IAS 11, *Construction* Contracts, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers*, and SIC 31, *Revenue – Barter Transactions Involving Advertising Services*.

The new standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized and contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. identify the contract with a customer;
2. identify the performance obligations in the contract;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations in the contract; and
5. recognize revenue when (or as) the entity satisfies a performance obligation.

New estimates and judgemental thresholds have been introduced, which may affect the amount and / or timing of revenue recognized.

The Fund performed an analysis to assess the impact of this standard. The Fund’s primary sources of revenue are royalty and distribution income which are recognized on an accrual basis as earned. There is no impact on the Fund’s revenue recognition policies or cash flows as a result of the adoption of this standard.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

In January 2016, the IASB issued IFRS 16, *Leases*, which supersedes IAS 17, *Leases*. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single model for lessees to bring leases on-balance sheet while lessor accounting remains largely unchanged and retains the finance and operating lease distinctions. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted but only if also applying IFRS 15, *Revenue from Contracts with Customers*.

The Fund performed an analysis to assess the impact of this standard and developed a comprehensive plan to guide the implementation. The Fund does not anticipate a material impact on the assets and liabilities of the consolidated balance sheet as a result of the adoption of this standard since it does not have operating lease arrangements of more than 12 months in which it is considered the lessee. The impact of the adoption of this new standard is non-cash in nature and, as such, the Fund does not anticipate an impact on cash flows.

4. ROYALTY POOL:

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

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

The make-whole payment is based on one permanent closure from January 1 to December 31, 2018 (January 1 to December 31, 2017 – two permanent closures).

On January 1, 2018, an estimated $20,159,000 in annual net sales were added to the Royalty Pool. Five new restaurants that opened during the period from October 3, 2016 through October 2, 2017, with estimated gross sales of $28,250,000 annually, were added to the Royalty Pool. Two permanently closed restaurants with annual sales of $8,091,000 were removed from the Royalty Pool. The total number of restaurants in the Royalty Pool increased to 103. The pre-tax yield of the Fund units was determined to be 7.54% calculated using a weighted average unit price of $20.28.

(Tabular amounts expressed in thousands of dollars, except number of restaurants)

4. ROYALTY POOL (CONTINUED):

On January 1, 2018, KRL received 80% of this entitlement, representing the equivalent of 390,212 Fund units, being 2.54% of the Fund units on a fully diluted basis. KRL also received a proportionate increase in monthly distributions from the Partnership. On December 31, 2018, but effective January 1, 2018, KRL received the balance of the 2018 Additional Entitlement. The actual sales generated by the five new restaurants added to the Royalty Pool on January 1, 2018, were confirmed to be $26,408,000, approximately $1,842,000 or 6.5% less than the amount originally estimated. This resulted in KRL receiving an additional entitlement equivalent to 52,996 Fund units, and KRL having the right to exchange its units in the capital of the Partnership for 4,083,064 Fund units, representing 26.45% of the Fund units on a fully diluted basis.

Two new corporate and one new franchised restaurant were opened subsequent to October 2, 2017 and will be added to the Royalty Pool on January 1, 2019 (note 16). One permanently closed corporate restaurant will be removed from the Royalty Pool.

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

	January 1 to December 31, 2018	January 1 to December 31, 2017
Restaurants in Royalty Pool	103	100
Royalty Pool system sales	$ 632,157	$ 600,969
Royalty income at 4% of system sales reported above	25,286	24,039
Make-whole payment, based on 4% of lost system sales	73	255
Total royalty income	$ 25,359	$ 24,294

5. NOTE RECEIVABLE FROM KEG RESTAURANTS LTD.:

	December 31, 2018	December 31, 2017
Note receivable with interest payable monthly at 7.5% per annum and principal amount due May 31, 2042	$ 57,000	$ 57,000

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

KRL, the holder of the Class C units, has the right to transfer Class C units to KHT, in consideration for the assumption by KHT of an amount of the note receivable from KRL equal to $10.00 per Class C unit transferred. If all 5,700,000 Class C units were transferred, then the entire $57,000,000 note receivable from KRL would be retired. The Class C units are entitled to a preferential monthly distribution equal to $0.0625 per Class C unit issued and outstanding.

(Tabular amounts expressed in thousands of dollars)

6. INTANGIBLE ASSETS:

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

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

Balance, December 31, 2017	$	167,946
January 1, 2018 initial estimate of Additional Entitlement (80%)		7,915
2018 final remaining Additional Entitlement (note 4)		1,075
Balance, December 31, 2018	$	176,936

Each year on December 31, the Fund tests the carrying value of the Keg Rights for impairment. Impairment exists if the carrying value of the Keg Rights exceeds the fair value less costs to sell (the "recoverable amount").

The Fund determines the recoverable amount of the Keg Rights based on its fair value less costs to sell. Management first determines the fair value of the Fund, and then deducts from this value the fair value of all of the Fund's other assets and liabilities. The fair value of the Fund is determined based on the current market price of the outstanding Fund units. Based on the nature of the other assets and liabilities, management has determined that there are no material differences between the book value and the fair value of these other assets and liabilities. Management estimates the costs to sell based on past experience with previous exchanges and sales of its Exchangeable Partnership units.

As at December 31, 2018, the Fund has tested the Keg Rights for impairment in the manner described above and has determined that the recoverable amount exceeds the carrying value. The Fund has determined that no impairment exists.

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

For the years ended December 31, 2018 and 2017

7. FUND UNITS:

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

Fund units are redeemable at any time at the option of the holder at a price based on market value as defined in the trust agreement, subject to a maximum of $50,000 in cash redemptions by the Fund in any one month. The limitation may be waived at the discretion of the Trustees of the Fund. Redemption in excess of these amounts, assuming no waiving of the limitation, shall be paid by way of a pro-rata distribution of Partnership securities held by the Fund. As at December 31, 2018, 11,353,500 Fund units are issued and outstanding (December 31, 2017 – 11,353,500).

8. DISTRIBUTIONS ON FUND UNITS:

	January 1 to December 31, 2018	January 1 to December 31, 2017
Distributions declared to Fund unitholders	$ 13,229	$ 12,943
Weighted average Fund units outstanding	11,353,500	11,353,500
Distributions declared per unit	$ 1.17	$ 1.14

Annually, two distributions are expected to be declared during the first quarter, three distributions in each of the second and third quarters and four distributions in the fourth quarter. This is done to ensure that the distribution based on December KRL Royalty Pool system sales, which is paid the following month in January, is recorded in the period it was earned for income tax purposes. On December 18, 2018, a special distribution of $0.03 per unit was also declared payable to unitholders in January 2019 (a special distribution of $0.03 per unit was declared on December 19, 2017 payable to unitholders in January 2018). The determination to declare and make payable distributions from the Fund are at the discretion of the Board of Trustees of the Fund and until declared payable, the Fund has no requirement to pay cash distributions to Fund unitholders.

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

9. PARTNERSHIP UNIT LIABILITIES:

(a) Class C Partnership unit liability:

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

The requirement of the Fund to settle its note receivable from KRL in exchange for Class C units represents an embedded derivative. The Fund has reviewed the net impact of this potential exchange requirement on its cash flows and has determined there is no significant value applicable to this feature.

(b) Exchangeable Partnership unit liability:

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

		December 31, 2018	Fair Value
Class A Partnership units	(i)	905,944	$ 14,577
Class B Partnership units	(ii)	176,700	2,843
Class D Partnership units	(iii)	3,000,420	48,277
		4,083,064	$ 65,697

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

		December 31, 2017	Fair Value
Class A Partnership units	(i)	905,944	$ 18,110
Class B Partnership units	(ii)	176,700	3,532
Class D Partnership units	(iii)	2,557,212	51,119
		3,639,856	$ 72,761

The Exchangeable Partnership units are presented in the Fund's financial statements as a financial liability and measured at fair value. Changes in fair value are recognized in profit or loss in the period they occur. The fair value of the Exchangeable Partnership units is determined by using Level 2 inputs being the closing market price of the Fund units on the TSX at the respective reporting date as Exchangeable Partnership units have similar distribution and voting rights as the Fund units. The closing unit price as at December 31, 2018 was $16.09 (December 31, 2017 – $19.99).

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

9. PARTNERSHIP UNIT LIABILITIES (CONTINUED):

(b) Exchangeable Partnership unit liability (continued):

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

	Total number of Exchangeable Partnership units	Fair Value
Exchangeable Partnership units, January 1, 2018	3,639,856	$ 72,761
January 1 initial estimate of Class D unit entitlement (note 4)	390,212	7,915
December 31 final Class D unit entitlement (note 4)	52,996	1,075
Fair value adjustment	-	(16,054)
Fair value of Exchangeable Partnership units, December 31, 2018	4,083,064	$ 65,697

	Total number of Exchangeable Partnership units	Fair Value
Exchangeable Partnership units, January 1, 2017	3,468,091	$ 73,177
January 1 initial estimate of Class D unit entitlement (note 4)	131,723	2,742
December 31 final Class D unit entitlement (note 4)	40,042	833
Fair value adjustment	-	(3,991)
Fair value of Exchangeable Partnership units, December 31, 2017	3,639,856	$ 72,761

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

(i) The Class A units are entitled to a preferential proportionate distribution equal to the distribution on the Class C units, multiplied by the number of Class A units divided by the number of LP Partnership units ("LP units") issued and outstanding. KHT holds all of the 8,153,500 LP units issued and outstanding at December 31, 2018. In addition, the Class A units receive a residual distribution proportionately with the Class B units, Class D units, LP units and GP units relative to the aggregate number of each class issued and outstanding (or in the case of the Class B units and Class D units, the number issued and outstanding multiplied by the Class B and Class D current distribution entitlement, respectively). Class A units are exchangeable for Fund units on the basis of one Class A unit for one Fund unit and represent KRL's initial 10% effective ownership of the Fund prior to the entitlement of Class B and Class D units.

9. PARTNERSHIP UNIT LIABILITIES (CONTINUED):

(b) Exchangeable Partnership unit liability (continued):

(ii) The Class B units were issued to KRL in return for adding net sales from new Keg restaurants to the Royalty Pool and are entitled to a preferential proportionate distribution and a residual distribution based on the incremental royalty paid to the Partnership. The distribution entitlements of the Class B units were adjusted annually on January 1 until the January 1, 2008 roll-in when the Class B Termination Date was reached and the last of the Class B units became entitled. Class B units held by KRL are exchangeable for Fund units on the basis of one Class B unit for one Fund unit. Class B units held by KRL receive a distribution entitlement.

(iii) The Class D units were issued to KRL in return for adding net sales from new Keg restaurants to the Royalty Pool and are entitled to a preferential proportionate distribution and a residual distribution based on the incremental royalty paid to the Partnership. The distribution entitlements of the Class D units are adjusted annually on January 1. Class D units held by KRL are exchangeable for Fund units on the basis of one Class D unit for one Fund unit and receive the same distribution entitlement as the Class B units.

10. BORROWINGS:

(a) Term loan:

The Fund has a $14,000,000 term loan with a syndicate of Canadian Chartered banks. This facility bears interest at prime plus 0.25%, requires monthly interest only payments and is secured by a general security agreement over the assets of the Fund.

On September 15, 2017, the maturity date of this loan was further extended from July 2, 2018 to July 2, 2020.

The amendment was considered a modification of debt.

The term loan is presented net of $33,000 in deferred financing charges at December 31, 2018 (December 31, 2017 – $53,000).

(b) Operating line of credit:

The Partnership also has a $1,000,000 demand operating facility with KRIF's banking syndicate. This facility bears interest at prime plus 0.25% and is secured by a general security agreement over the assets of the Partnership, an assignment of the royalty earned under the Licence and Royalty Agreement and a guarantee from KRL. As at December 31, 2018, the entire $1,000,000 remains available for use.

On September 15, 2017, the maturity date of this facility was extended from July 2, 2018 to July 2, 2020.

As at December 31, 2018, the Fund is in compliance with all covenants associated with these facilities.

(Tabular amounts expressed in thousands of dollars)

11. INCOME TAXES:

The Fund is subject to income tax at a rate of 26.0% for the 2017 taxation year. Effective January 1, 2018, the British Columbia general corporate income rate increased from 11.0% to 12.0%, resulting in the Fund being subject to an income tax rate of 27.0% for the 2018 and later taxation years.

The components of income tax expense are as follows:

	January 1 to December 31, 2018	January 1 to December 31, 2017
Current income tax expense	$ 4,764	$ 4,520
Deferred income tax expense	27	180
	$ 4,791	$ 4,700

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

	January 1 to December 31, 2018	January 1 to December 31, 2017
Profit before income taxes	$ 34,008	$ 21,757
Combined Canadian federal and provincial rates	27.00%	26.00%
Computed "expected" income tax expense	9,182	5,657
Increased (reduced) by:		
Permanent and other differences	(4,352)	(1,057)
Change in tax base of the Keg Rights	(54)	6
Differences between current and future tax rates and other items	15	94
Total income tax expense per the statement of comprehensive income	$ 4,791	$ 4,700

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

	December 31, 2018	December 31, 2017
Temporary difference related to the Keg Rights	$ 2,451	$ 2,424
Deferred tax liability	$ 2,451	$ 2,424

The balance of the Fund's deferred tax liability increased to $2,451,000 as at December 31, 2018 (December 31, 2017 – $2,424,000). The deferred tax liability arises as a result of the Fund recording, in the current period, its cumulative share of the temporary differences between the accounting and tax bases of the Keg Rights, owned by the Partnership, generated since inception of the Fund.

(Tabular amounts expressed in thousands of dollars)

12. RELATED PARTY TRANSACTIONS AND BALANCES:

KRL is considered to be a related party of the Fund by virtue of common directors of KRL and KGP, the General Partner of the Partnership and administrator of the Fund. The Fund has entered into an administrative agreement with its subsidiary, the Partnership, whereby the Partnership will provide, or arrange for the provision of, services required in the administration of the Fund. In turn, the Partnership has arranged for certain of these services to be provided by KRL in its capacity as a partner of the Partnership. KRL provided these services at no cost to the Partnership or the Fund.

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

	December 31, 2018	December 31, 2017
Royalty fee receivable from Keg Restaurants Ltd., including GST/HST	$ 2,962	$ 2,863
Interest on note receivable from Keg Restaurants Ltd.	363	363
Due from Keg Restaurants Ltd.	$ 3,325	$ 3,226

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

	December 31, 2018	December 31, 2017
Distributions payable to Keg Restaurants Ltd.	$ 1,172	$ 1,058

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

13. COMPENSATION OF KEY MANAGEMENT:

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

	January 1 to December 31, 2018	January 1 to December 31, 2017
Remuneration of the Fund's Trustees, included in general and administrative expenses	$ 97	$ 94

(Tabular amounts expressed in thousands of dollars)

14. FINANCIAL RISK MANAGEMENT:

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

(a) Credit risk:

Credit risk is defined as the risk of financial loss to the Fund if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Fund's amounts due from KRL and the note receivable from KRL. The Fund monitors this risk through its regular review of the operating and financing activities of KRL. The Fund's maximum exposure to credit risk is the combined value of its royalty fee receivable from KRL, interest on note receivable from KRL and note receivable from KRL of $60,325,000 at December 31, 2018 (December 31, 2017 – $60,226,000). Since its inception, the Fund has never failed to collect its receivables on a timely basis and as at December 31, 2018 there are no past-due accounts.

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

Credit risk also arises from cash balances on deposit with financial institutions of $2,567,000 at December 31, 2018 (December 31, 2017 – $2,490,000). The Fund has placed its cash balances on deposit with a Canadian chartered bank of high creditworthiness.

(b) Liquidity risk:

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

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

	Value	Maturity
Account payable and accrued liabilities	$ 318	< 1 year
Interest payable on term loan	50	< 1 year
Distributions payable to Fund unitholders	1,415	< 1 year
Distributions payable to Keg Restaurants Ltd.	1,172	< 1 year
Term loan	14,000	2020
Class C Partnership unit liability	57,000	2042

The Fund is subject to certain guarantor covenants and reporting requirements arising from the Partnership's undrawn $1,000,000 operating line of credit and KHT's $14,000,000 term loan. As at December 31, 2018, the Fund is in compliance with all covenants associated with these facilities.

(Tabular amounts expressed in thousands of dollars)

14. FINANCIAL RISK MANAGEMENT (CONTINUED):

(c) Interest rate risk:

The Fund's interest rate risk exposure is mainly related to an interest-bearing note receivable from KRL and the $14,000,000 term loan. As the note receivable from KRL has a fixed interest rate of 7.5%, is from a related party and is due on May 31, 2042, the Fund does not perform interest rate risk management to minimize the overall financial interest rate risk on this financial instrument. The term loan requires interest payments at bank prime plus 0.25% and profit or loss would change by approximately $140,000 annually if the prime rate changed by 1.0%.

(d) Foreign currency exchange rate risk:

The Fund is exposed to foreign currency exchange rate risk as a result of the translation of KRL's US dollar restaurant sales into Canadian dollars for the purposes of calculating the monthly royalty. Based on the US dollar sales of Keg restaurants included in the Royalty Pool for the year ended December 31, 2018, a 100 basis point change in the US dollar exchange rate would result in an approximate $413,000 and $17,000 change in Royalty Pool sales and royalty revenue, respectively.

15. CAPITAL DISCLOSURES:

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

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

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

The following summarizes the Fund's managed capital:

	Note	December 31, 2018	December 31, 2017
Term loan	10(a)	$ 14,000	$ 14,000
Fund units	7	$ 123,275	$ 123,275
Accumulated deficit		(25,747)	(41,735)
Unitholders' equity		$ 97,528	$ 81,540

15. CAPITAL DISCLOSURES (CONTINUED):

The term loan held by KHT is subject to certain financial covenants, including minimum equity amounts in both KHT and the Partnership and a minimum Partnership cash flow level, defined as profit (loss) before interest, change in fair value adjustment, taxes, depreciation and amortization ("EBITDA"). As at December 31, 2018, the Fund was in compliance with all financial covenants associated with this facility.

The Fund is not subject to any statutory capital requirements and has no commitments to sell or otherwise issue units, other than the commitment to exchange Class A, Class B and Class D units held by KRL for Fund units (note 9).

16. SUBSEQUENT EVENT:

On January 1, 2019, an estimated $12.6 million in annual net sales were added to the Royalty Pool. Three new restaurants that opened during the period from October 3, 2017 through October 2, 2018, with estimated gross sales of $16.0 million annually, were added to the Royalty Pool. One permanently closed Keg restaurants with annual sales of $3.4 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 31, 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 2019, 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.