THE KEG ROYALTIES INCOME FUND

YEAR END REPORT

For the three and twelve months ended December 31, 2016

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, 2016.

RESULTS

The Royalty Pool sales reported by the 100 Keg restaurants in the Royalty Pool were $147,837,000 for the quarter, a decrease of $6,691,000 or 4.3% from the comparable quarter of the prior year and for the year were $576,951,000, an increase of $2,903,000 or 0.5%. The fourth quarter of the prior year included an extra week of sales or $10,240,000 in Royalty Pool sales, which resulted from KRL's floating year-end date which occurs approximately every five years.

Royalty income decreased by $456,000 or 7.1% from $6,387,000 in the three months ended December 31, 2015 to $5,931,000 in the three months ended December 31, 2016, and by $150,000 or 0.6% from $23,251,000 for the year ended December 31, 2015 to $23,101,000 for the year ended December 31, 2016. The loss of the extra week of sales included in the fourth quarter of the prior year negatively impacted royalty income by approximately $410,000 in both the comparable quarter and for the year.

Distributable cash before SIFT tax decreased by $230,000 from $4,283,000 (37.7 cents/Fund unit) to $4,053,000 (35.7 cents/Fund unit) for the quarter and increased by $446,000 from $16,681,000 ($1.469/Fund unit) to $17,127,000 ($1.509/Fund unit) for the year. Distributable cash available to pay distributions to public unitholders decreased by $122,000 from $3,062,000 (27.0 cents/Fund unit) to $2,940,000 (25.9 cents/Fund unit) for the quarter and increased by $511,000 from $12,296,000 ($1.083/Fund unit) to $12,807,000 ($1.128/Fund unit) for the year. Distributions of $3,127,000 (27.5 cents/Fund unit) were paid to Fund unitholders during the fourth quarter of 2016, and a special distribution declared of $341,000 (3.0 cents/Fund unit), as compared with $2,946,000 (25.9 cents/Fund unit) paid during the fourth quarter of 2015 and a special distribution declared of $795,000 (7.0 cents/Fund unit). During 2016, distributions of $12,250,000 ($1.080/Fund unit) were paid to Fund unitholders (excluding the $341,000 special distribution declared in the fourth quarter of 2016) versus $11,365,000 ($1.001/Fund unit) during 2015 (excluding the $795,000 special distribution declared in the fourth quarter of 2015). The payout ratio was 118.0% for the fourth quarter of the current year and 98.3% for fiscal 2016.

The Fund remains financially well positioned with cash on hand of $1,990,000, and a positive working capital balance of $2,449,000 as at December 31, 2016.

OUTLOOK

In Canada, Restaurants Canada has estimated that sales in the full-service restaurant category, the category in which The Keg operates, increased by 5.0% in 2016 and has projected sales to increase by 4.0% in 2017. In the United States ("US"), the National Restaurant Association has estimated that sales in the full-service category increased by 4.8% in 2015, and has projected sales to increase by 4.9% in 2016. Given the close historical relationship between disposable income and foodservice spending, management of Keg Restaurants Ltd. ("KRL") expects that as economic conditions and consumer sentiment continue to improve in North America, sales for The Keg will also improve, leading it to once again outperform the full service category with respect to same store sales growth.

COMPETITIVE STRENGTH AND GROWTH

The Keg remains an industry leader in the full-service restaurant category in Canada; a 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
February 21, 2017

FINANCIAL HIGHLIGHTS

($000's except per unit amounts)	Oct. 1 to Dec. 31, 2016	Oct. 1 to Dec. 31, 2015	Jan. 1 to Dec. 31, 2016	Jan. 1 to Dec. 31, 2015
Restaurants in the Royalty Pool	**100**	**102**	**100**	**102**
Royalty Pool sales [(1)]	**$ 147,837**	**$ 154,528**	**$ 576,951**	**$ 574,048**
Royalty income [(2)]	$ 5,931	$ 6,387	$ 23,101	$ 23,251
Interest income [(3)]	1,076	1,079	4,279	4,281
Total income	**$ 7,007**	**$ 7,466**	**$ 27,380**	**$ 27,532**
Administrative expenses [(4)]	(98)	(138)	(384)	(435)
Interest and financing expenses [(5)]	(108)	(108)	(436)	(519)
Operating income	**$ 6,801**	**$ 7,220**	**$ 26,560**	**$ 26,578**
Distributions to KRL [(6)]	(2,408)	(2,511)	(9,485)	(9,491)
Profit before fair value gain (loss) and income taxes	**$ 4,393**	**$ 4,709**	**$ 17,075**	$ **17,087**
Fair value gain (loss) [(7)]	2,185	550	(11,408)	(1,324)
Income taxes [(8)]	(1,142)	(1,271)	(4,399)	(4,527)
Profit (loss) and comprehensive income (loss)	**$ 5,436**	**$ 3,988**	**$ 1,268**	**$ 11,236**
Distributable cash before SIFT tax [(9)]	**$ 4,053**	**$ 4,283**	**$ 17,127**	**$ 16,681**
Distributable cash [(10)]	**$ 2,940**	**$ 3,062**	**$ 12,807**	**$ 12,296**
Distributions to Fund unitholders [(11)]	**$ 3,468**	**$ 3,741**	**$ 12,591**	**$ 12,160**
Payout Ratio [(12)]	**118.0%**	**122.2%**	**98.3%**	**98.9%**
Per Fund unit information [(13)]				
Profit before fair value gain (loss) and income taxes	$ .387	$ .415	$ 1.504	$ 1.505
Profit (loss) and comprehensive income (loss)	$ .479	$ .351	$ .112	$ .990
Distributable cash before SIFT tax [(9)]	**$ .357**	**$ .377**	**$ 1.509**	**$ 1.469**
Distributable cash [(10)]	**$ .259**	**$ .270**	**$ 1.128**	**$ 1.083**
Distributions to Fund unitholders [(11)]	**$ .305**	**$ .330**	**$ 1.109**	**$ 1.071**
SSSG [(14)]				
Canada	0.2%	9.5%	1.3%	6.5%
United States	(2.0%)	9.1%	0.7%	7.0%
Consolidated	0.0%	11.1%	1.5%	8.0%
Restaurants in KRL System [(15)]				
# Beginning of Period	100	102	101	107
Opened	1	1	1	3
Closed	--	(2)	(1)	(9)
# End of Period	101	101	101	101

Notes:

(1) Royalty Pool sales are the gross sales reported by Keg Restaurants included in the Royalty Pool in any period. As of January 1, 2016, the Royalty Pool includes 100 Keg restaurants, 42 of which are owned and operated by KRL and its subsidiaries, (32 in Canada and 10 in the United Sates), and 58 Keg restaurants which are owned and operated by Keg franchisees (all of which are in Canada).

(2) The Fund, indirectly through The Keg Rights Limited Partnership (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, 2016, include SIFT tax expense of $1,113,000 (three months ended December 31, 2015 – $1,221,000) and a non-cash deferred income tax expense of $29,000 (three months ended December 31, 2015 – $50,000). Income taxes for the twelve months ended December 31, 2016, include SIFT tax expenses of $4,320,000 (twelve months ended December 31, 2015 – $4,385,000) and a non-cash deferred income tax expense of $79,000 (twelve months ended December 31, 2015 – $142,000).

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

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

(11) 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, 2016 were 11,353,500 (three months ended December 31, 2015 – 11,353,500), and for the twelve months ended December 31, 2016 were 11,353,500 (twelve months ended December 31, 2015 – 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

($000's except per unit amounts)	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Restaurants in the Royalty Pool	**100**	**100**	**100**	**100**
Royalty Pool sales [(1)]	**$ 147,837**	**145,525**	**136,803**	**$ 146,787**
Royalty income [(2)]	$ 5,931	$ 5,827	$ 5,472	$ 5,871
Interest income [(3)]	1,076	1,076	1,064	1,064
Total income	**$ 7,007**	**$ 6,903**	**$ 6,536**	**$ 6,935**
Administrative expenses [(4)]	(98)	(105)	(87)	(94)
Interest and financing expenses [(5)]	(108)	(113)	(108)	(106)
Operating income	**$ 6,801**	**$ 6,685**	**$ 6,341**	**$ 6,735**
Distributions to KRL [(6)]	(2,408)	(2,371)	(2,307)	(2,401)
Profit before fair value gain (loss) and income taxes	**$ 4,393**	**$ 4,314**	**$ 4,034**	**$ 4,334**
Fair value gain (loss) [(7)]	2,185	(12,411)	735	(1,917)
Income taxes [(8)]	(1,142)	(1,132)	(1,016)	(1,109)
Profit (loss) and comprehensive income (loss)	**$ 5,436**	**$ (9,229)**	**$ 3,753**	**$ 1,308**
Distributable cash before SIFT taxes [(9)]	**$ 4,053**	**$ 4,211**	**$ 4,140**	**$ 4,721**
Distributable cash [(10)]	**$ 2,940**	**$ 3,114**	**$ 3,121**	**$ 3,630**
Distributions to Fund unitholders [(11)]	**$ 3,468**	**$ 3,106**	**$ 3,037**	**$ 2,980**
Payout Ratio [(12)]	**118.0%**	**99.7%**	**97.3%**	**82.1%**
Per Fund unit information [(13)]				
Profit before fair value gain (loss) and income taxes	$ .387	$ .380	$ .355	$ .382
Profit (loss) and comprehensive income (loss)	$ .479	$ (.813)	$ .331	$ .115
Distributable cash before SIFT tax [(9)]	**$ .357**	**$ .371**	**$ .365**	**$ .416**
Distributable cash [(10)]	**$ .259**	**$ .274**	**$ .275**	**$ .320**
Distributions to Fund unitholders [(11)]	**$ .305**	**$ .274**	**$ .267**	**$ .262**
SSSG [(14)]				
Canada	0.2%	2.9%	2.4%	0.0%
United States	(2.0)%	1.2%	1.7%	2.2%
Consolidated	0.0%	2.6%	2.7%	1.1%
Restaurants in KRL System [(15)]				
# Beginning of Period	100	101	101	101
Opened	1	--	--	--
Closed	--	(1)	--	--
# End of Period	101	100	101	101

SUMMARY OF QUARTERLY RESULTS

($000's except per unit amounts)	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Restaurants in the Royalty Pool	**102**	**102**	**102**	**102**
Royalty Pool sales [1]	**$ 154,528**	**$ 138,849**	**$ 134,288**	**$ 146,383**
Royalty income [2]	$ 6,387	5,629	$ 5,376	$ 5,859
Interest income [3]	1,079	1,079	1,067	1,056
Total income	**$ 7,466**	**6,708**	**$ 6,443**	**$ 6,915**
Administrative expenses [4]	(138)	(105)	(96)	(96)
Interest and financing expenses [5]	(108)	(112)	(150)	(149)
Operating income	**$ 7,220**	**6,491**	**$ 6,197**	**$ 6,670**
Distributions to KRL [6]	(2,511)	(2,371)	(2,248)	(2,361)
Profit before fair value gain (loss) and income taxes	**$ 4,709**	**4,120**	**$ 3,949**	**$ 4,309**
Fair value gain (loss) [7]	550	3,642	2,995	(8,511)
Income taxes [8]	(1,271)	(1,056)	(987)	(1,213)
Profit (loss) and comprehensive income (loss)	**$ 3,988**	**$ 6,706**	**$ 5,957**	**$ (5,415)**
Distributable cash before SIFT tax [9]	**$ 4,283**	**$ 4,106**	**$ 3,901**	**$ 4,391**
Distributable cash [10]	**$ 3,062**	**$ 3,062**	**$ 2,909**	**$ 3,263**
Distributions to Fund unitholders [11]	**$ 3,741**	**$ 2,878**	**$ 2,793**	**$ 2,748**
Payout Ratio [12]	**122.2%**	**94.0%**	**96.0%**	**84.2%**
Per Fund unit information [13]				
Profit before fair value gain (loss) and income taxes	$ .415	$ .363	$ .348	$ .380
Profit (loss) and comprehensive income (loss)	$ .351	$ .591	$ .525	$ (.477)
Distributable cash before SIFT tax [9]	**$ .377**	**$ .362**	**$ .344**	**$ .387**
Distributable cash [10]	**$ .270**	**$ .270**	**$ .256**	**$ .287**
Distributions to Fund unitholders [11]	**$ .330**	**$ .253**	**$ .246**	**$ .242**
SSSG [14]				
Canada	9.5%	5.7%	3.8%	6.9%
United States	9.1%	5.7%	5.2%	7.9%
Consolidated	11.1%	7.5%	5.1%	8.2%
Restaurants in KRL System [15]				
# Beginning of Period	102	104	103	107
Opened	1	--	2	--
Closed	(2)	(2)	(1)	(4)
# End of Period	101	102	104	103

SELECTED ANNUAL INFORMATION

($000's except per unit amounts)	Jan. 1 to Dec. 31, 2016	Jan. 1 to Dec. 31, 2015	Jan. 1 to Dec. 31, 2014
Restaurants in the Royalty Pool	**100**	**102**	**103**
Royalty Pool sales [1]	**$ 576,951**	**$ 574,048**	**$ 520,701**
Royalty income [2]	$ 23,101	$ 23,251	$ 20,896
Interest income [3]	4,279	4,281	4,281
Total income	**$ 27,380**	**$ 27,532**	**$ 25,177**
Administrative expenses [4]	(384)	(435)	(408)
Interest and financing expenses [5]	(436)	(519)	(624)
Operating income	**$ 26,560**	**$ 26,578**	**$ 24,145**
Distributions to KRL [6]	(9,485)	(9,491)	(8,713)
Profit before fair value gain (loss) and income taxes	**$ 17,075**	**$ 17,087**	**$ 15,432**
Fair value gain (loss) [7]	(11,408)	(1,324)	(3,926)
Income taxes [8]	(4,399)	(4,527)	(3,983)
Profit (loss) and comprehensive income (loss)	**$ 1,268**	**$ 11,236**	**$ 7,523**
Distributable cash before SIFT tax [9]	**$ 17,127**	**$ 16,681**	**$ 15,304**
Distributable cash [10]	**$ 12,807**	**$ 12,296**	**$ 11,421**
Distributions to Fund unitholders [11]	**$ 12,591**	**$ 12,160**	**$ 10,899**
Payout Ratio [12]	**98.3%**	**98.9%**	**95.4%**
Per Fund unit information [13]			
Profit before fair value gain (loss) and income taxes	$ 1.504	$ 1.505	$ 1.359
Profit (loss) and comprehensive income (loss)	$ .112	$ .990	$ .663
Distributable cash before SIFT tax [9]	**$ 1.509**	**$ 1.469**	**$ 1.348**
Distributable cash [10]	**$ 1.128**	**$ 1.083**	**$ 1.006**
Distributions to Fund unitholders [11]	**$ 1.109**	**$ 1.001**	**$ .960**
SSSG [14]			
Canada	1.3%	6.5%	4.9%
United States	0.7%	7.0%	6.4%
Consolidated	1.5%	8.0%	5.8%
Restaurants in KRL System [15]			
# Beginning of Period	101	107	105
Opened	1	3	3
Closed	(1)	(9)	(1)
# End of Period	101	101	107

	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
Total assets	$ 226,468	$ 227,114	$ 222,510
Total liabilities	149,042	138,316	132,703

For the Three and Twelve Months Ended December 31, 2016
February 21, 2017

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 eighteen 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.

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 has increased from the 80 Keg restaurants in existence on March 31, 2002, to 102 as of December 31, 2015. Fifty-nine new Keg restaurants that opened during the period from April 1, 2002, through October 2, 2014, with annual gross sales of $291.8 million, have been added to the Royalty Pool. Thirty-seven permanently closed Keg restaurants with annual sales of $111.5 million have been removed from the Royalty Pool. This has resulted in a net increase in Royalty Pool sales of $180.3 million annually, and KRL receiving a cumulative Additional Entitlement equivalent to 5,752,680 Fund units as of December 31, 2015.

On January 1, 2016, an estimated $1.9 million in annual net sales were added to the Royalty Pool. Three new restaurants that opened during the period from October 3, 2014 through October 2, 2015, with estimated gross sales of $21.0 million annually, were added to the Royalty Pool. Five permanently closed Keg restaurants with annual sales of $19.1 million were removed from the Royalty Pool. The total number of restaurants in the Royalty Pool decreased to 100. The pre-tax yield of the Fund units was determined to be 7.37% calculated using a weighted average unit price of $18.01.

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 would be equivalent to 52,357 Fund units, being 0.35% of the Fund units on a fully diluted basis.

On January 1, 2016, KRL received 80% of this entitlement, representing the equivalent of 41,886 Fund units, being 0.28% of the Fund units on a fully diluted basis. KRL also received a proportionate increase in monthly distributions from the Partnership. Including the initial portion of the Additional Entitlement described above, KRL would have the right to exchange its units in the capital of the Partnership for 3,500,510 Fund units, representing 23.57% of the Fund units on a fully diluted basis.

Annually, on or before October 2nd of each year, in conjunction with the preparation of KRL's audited financial statements, management of KRL confirm the actual sales performance of the new restaurants added to the Royalty Pool, on the preceding January 1st.

On September 30, 2016, the actual annual net sales added to the Royalty Pool on January 1, 2016 were determined to be $0.3 million rather than the $1.9 million originally estimated. As a result, effective January 1, 2016, KRL was only entitled to 9,467 additional Exchangeable units, rather than 41,886 additional Exchangeable units originally estimated and issued, a shortfall of 32,419 Exchangeable units. These 32,419 Exchangeable units were not entitled to any distributions, nor did they have any market value until such time as they become entitled, which occurred as part of the January 1, 2017 Royalty Pool adjustment. Therefore, including the September 30, 2016 adjustment, KRL has the right to exchange its units in the capital of the Partnership for 3,468,091 Fund units, representing 23.40% of the Fund units on a fully diluted basis. This adjustment to the Additional Entitlement was finalized on December 31, 2016.

On January 1, 2016, KRL became entitled to the initial 80% of the Additional Entitlement for 2017. 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 23.35% as of December 31, 2015. The increase in KRL's effective ownership of the Fund is due to the cumulative Additional Entitlement received by KRL equivalent to 5,752,680 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, 2016, KRL became entitled to the initial 80% of the Additional Entitlement for 2016, consisting of 41,886 Exchangeable units, increasing its effective ownership of the Fund to 23.57%. On September 30, 2016, the Additional Entitlement for 2016 was reduced by 32,419 Exchangeable units to 9,467 Exchangeable units, thereby reducing KRL's effective ownership of the Fund to 23.40% effective January 1, 2016. See "Royalty Pool section".

On January 1, 2017, KRL became entitled to the initial 80% of the Additional Entitlement for 2017. See "Subsequent Event".

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 2015 and 2016.

DISTRIBUTIONS TO UNITHOLDERS

The Fund's objective is to provide consistent monthly distributions to unitholders at the highest sustainable level, and the Trustees of the Fund continue to review distribution levels on an ongoing basis to fulfill that objective. Since the inception of the Fund, monthly distributions to unitholders have been increased eleven times from the original level of $0.09 per unit at the time of the IPO, to $0.1216 per unit, on a pre-tax basis ($0.09 on an after-tax basis), an increase of 35.1%. In addition, a special distribution, attributable to 2015, of 7.0 cents/Fund unit was declared in December 2015, and paid in January 2016.

During 2016, monthly distributions to Fund unitholders have been increased twice; 2.9% from 8.75 cents/Fund unit to 9.00 cents/Fund unit commencing with the May 2016 distribution; and by 2.0% from 9.00 cents/Fund unit to 9.18 cents/Fund unit commencing with the August 2016 distribution.

As a result of the SIFT tax that came into effect on January 1, 2011, the Fund's Trustees had to adopt a new distribution policy which reflects the Fund's obligation to make these tax payments. Beginning with the distribution for the month of January 2011 (payable to unitholders on February 28, 2011), distributions were set at $0.08 per unit per month. This amounts to a distribution of $0.96 per unit annually. At this level, the eligible dividend portion of the Fund's distribution, combined with the return of capital component of the distribution, should provide taxable Canadian individuals with an effective after-tax cash return very closely comparable to the return that existed before the imposition of the SIFT tax.

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

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, 2015	January 29, 2016	8.75¢	$ 993,431	$ 993,431
January 1-31, 2016	February 29, 2016	8.75¢	$ 993,431	$ 1,986,862
February 1-29, 2016	March 31, 2016	8.75¢	$ 993,431	$ 2,980,293
March 1-31, 2016	April 29, 2016	8.75¢	$ 993,431	$ 3,973,725
April 1-30, 2016	May 31, 2016	9.00¢	$1,021,815	$ 4,995,540
May 1-31, 2016	June 30, 2016	9.00¢	$1,021,815	$ 6,017,355
June 1-30, 2016	July 29, 2016	9.00¢	$1,021,815	$ 7,039,170
July 1-31, 2016	August 31, 2016	9.18¢	$1,042,251	$ 8,081,421
August 1-31, 2016	September 30, 2016	9.18¢	$1,042,251	$ 9,123,672
September 1-30, 2016	October 31, 2016	9.18¢	$1,042,251	$10,165,923
October 1-31, 2016	November 30, 2016	9.18¢	$1,042,251	$11,208,174
November 1-30, 2016	December 30, 2016	9.18¢	$1,042,251	$12,250,425
Special Distribution	January 31, 2017	3.00¢*	$ 340,605*	$12,591,030*

*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 2016 and paid January 31, 2017 was treated as a distribution in 2016 for Fund reporting purposes.

Since inception, the Fund has generated $160,210,000 of distributable cash, and paid cumulative distributions of $158,793,000, and declared a special distribution in December 2016 of $341,000, which resulted in a cumulative surplus of $1,076,000. 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 99.3%.

DISTRIBUTABLE CASH

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

Distributable cash is calculated as follows:

($000's)	Oct. 1 to Dec, 31, 2016	Oct. 1 to Dec. 31, 2015	Jan. 1 to Dec. 31, 2016	Jan 1 to Dec. 31, 2015
Cash flow from operations [1]	$ 5,462	$ 5,898	$ 22,269	$ 22,329
SIFT tax paid on Fund units [2]	1,103	994	4,762	4,357
Interest and financing fees paid on term loan [3]	(104)	(98)	(419)	(514)
KRL's interest [4]	(2,408)	(2,511)	(9,485)	(9,491)
Distributable cash before current year SIFT tax	$ 4,053	$ 4,283	$ 17,127	$ 16,681
SIFT tax expense on Fund units [5]	(1,113)	(1,221)	(4,320)	(4,385)
Distributable cash [6]	$ 2,940	$ 3,062	$ 12,807	$ 12,296

Notes:

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

(2) Includes SIFT taxes actually paid during the respective period. During the fourth quarter of 2016, $1,103,000 was paid all on account for 2016 (fourth quarter of 2015 – $994,000 all on account for 2015). During 2016, $4,762,000 was paid consisting of $4,341,000 on account for 2016 and $421,000 for 2015 (2015 – $4,357,000 was paid consisting of $3,921,000 on account for 2015 and $436,000 for 2014).

(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 26.00% of taxable income for 2015 and 2016.

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

OWNERSHIP OF THE FUND

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

	December 31, 2016[1]		December 31, 2015	
	#	%	#	%
Fund units held by public unitholders [2]	11,353,500	76.60	11,353,500	76.65
Exchangeable Partnership units held by KRL: [3]				
Class A units [4]	905,944	6.11	905,944	6.12
Class B units [5]	176,700	1.19	176,700	1.19
Class D units [5]	2,385,447	16.10	2,375,980	16.04
Total Exchangeable Partnership units [6]	3,468,091	23.40	3,458,624	23.35
Total Fund and Exchangeable Partnership units	14,821,591	100.00	14,812,124	100.00

Notes:

(1) Information is current as of December 31, 2016. On January 1, 2016, KRL became entitled to the initial 80% of the Additional Entitlement for 2016 consisting of 41,886 Exchangeable units. The Additional Entitlement was reduced by 32,419 Exchangeable units to 9,467 Exchangeable units on December 31, 2016. As of the date of this report, there are 11,353,500 Fund units and 3,500,510 Exchangeable Partnership units issued and outstanding, of which 3,468,091 are entitled to distributions. On January 1, 2017, KRL became entitled to the initial 80% of the Additional Entitlement for 2017. See "Subsequent Event".

(2) Represents the public's total effective ownership of the Fund as of December 31, 2016 and 2015. 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 76.60% during the three and twelve months ended December 31, 2016 (three and twelve months ended December 31, 2015 – 76.65%). The weighted average number of Fund units outstanding for the three and twelve-month period ended December 31, 2016 were 11,353,500 (three and twelve-month period ended December 31, 2015 – 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, 2016, KRL is the registered holder of 176,700 Class B units and 2,417,866 Class D units, 2,385,447 of which are entitled (December 31, 2015 – 176,700 Class B units and 2,375,980 Class D units, all of which were entitled).

(6) Represents KRL's total effective ownership of the Fund as of December 31, 2016 and 2015. KRL's average effective ownership of the Fund (based on the weighted average number of Fund and Exchangeable units held by KRL during the respective period) was 23.40% during the three and twelve months ended December 31, 2016 (three and twelve months ended December 31, 2015 – 23.35%). The weighted average number of Exchangeable units held by KRL during the three and twelve-month period ended December 31, 2016 were 3,468,091 (three and twelve-month period ended December 31, 2015 – 3,458,624).

SYSTEM SALES

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

($000's)	13 weeks ended Jan.1, 2017	14 weeks ended Jan. 3, 2016	52 weeks ended Jan. 1, 2017	53 weeks ended Jan. 3, 2016
Corporate Keg restaurants [1]	$ 72,526	$ 76,914	$ 281,810	$ 283,704
Franchised Keg restaurants [2]	78,121	83,785	304,057	305,598
Total system sales	$ 150,647	$ 160,699	$ 585,867	$ 589,302

Notes:

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

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

FOURTH QUARTER

System sales for the 13 weeks ended January 1, 2017 were $150,647,000 compared to $160,699,000 for the 14 weeks ended January 3, 2016, a decrease of $10,052,000 or 6.3%. The decrease was due to the net impact of the loss of extra week of sales included in the fourth quarter of the prior year ($10,626,000 decrease in sales), the same store sales decreases at comparable restaurants during the quarter ($34,000 decrease in sales), the negative effect of the exchange rate decline on the translation of the US restaurant sales into their Canadian dollar equivalent ($16,000 decrease in sales), the sales of the new restaurants that operated during the quarter ($1,509,000 increase in sales), the sales of restaurants temporarily closed for renovation during the comparable quarter of the current year ($303,000 decrease in sales), and the loss of sales from permanently closed restaurants that did not operate during the comparable quarter ($582,000 decrease in sales).

During the 13 weeks ended January 1, 2017, one franchise restaurant in Canada was opened, and no restaurants were closed. During the 14 weeks ended January 3, 2016, one corporate restaurant in Canada was opened, and two restaurants in the United States were closed due to lease expiries. As of January 1, 2017, there were a total of 101 Keg restaurants as compared with 101 Keg restaurants at January 3, 2016.

After deducting the extra week of sales included in the fourth quarter of the prior year for comparative purposes, 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 decreased by 2.0% 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 were essentially flat. The average exchange rate moved from 1.3372 in KRL's 14-week period ended January 3, 2016, quarter of fiscal 2016 to 1.3356 in KRL's 13-week period ended January 1, 2017, slightly decreasing the Canadian dollar equivalent of the US restaurant sales.

YEAR

System sales for the 52 weeks ended January 1, 2017 were $585,867,000 compared to $589,302,000 for the 53 weeks ended January 3, 2016, a decrease of $3,435,000 or 0.6%. The decrease was due to the net impact of the loss of the extra week of sales included in the fourth quarter of the prior year ($10,626,000 decrease in sales), the same store sales increases at existing restaurants during the comparable period ($6,754,000 increase in sales), the positive effect of the exchange rate increase on the translation of the US restaurant sales into their Canadian dollar equivalent ($1,813,000 increase in sales), the sales of the new restaurants that operated during the period ($13,001,000 increase in sales), the sales of restaurants temporarily closed for renovation during the comparable period of the prior year ($765,000 increase in sales), the loss of sales from restaurants temporarily closed for renovation during the comparable period of the current year ($947,000 decrease in sales), the loss of sales from a restaurant temporarily closed due to the fire and related evacuation in Fort McMurray, Alberta ($1,150,000 decrease in sales), and the loss of sales from permanently closed restaurants that did not operate during the comparable period ($13,045,000 decrease in sales).

During the 52 weeks ended January 1, 2017, one new franchise restaurant was opened in Canada and one franchise restaurant was closed due to the expiry of its franchise agreement. During the 53 weeks ended January 3, 2016, one new corporate and one new franchise restaurant were opened, one franchise restaurant was relocated, and seven corporate and one franchise restaurant were closed. The seven corporate restaurants were closed due to lease expiries, and the franchise restaurant, due to the expiry of its franchise agreement.

After deducting the extra week of sales included in the fourth quarter of the prior year for comparative purposes, same store sales (sales of restaurants that operated during the entire 52-week periods of both the current and prior years) increased by 1.3% in Canada and by 0.7% in the US. After translating the sales of the US restaurants into their Canadian dollar equivalent, consolidated same store sales for the comparable 52-week periods increased by 1.5%. The average exchange rate moved from 1.2816 in KRL's 53-week period ended January 3, 2016, to 1.3250 in KRL's 52-week period ended January 1, 2017, significantly increasing the Canadian dollar equivalent of the US restaurant sales.

OPERATING RESULTS

FOURTH QUARTER

ROYALTY POOL SALES

Royalty Pool sales decreased by $6,691,000 from $154,528,000 to $147,837,000 for the comparable quarter. The decrease in Royalty Pool sales was due to the net impact of the loss of the extra week of sales included in the fourth quarter of the prior year ($10,240,000 decrease in Royalty Pool sales), same store sales decreases at comparable royalty pool restaurants during the comparable 13-week periods ($36,000 decrease in Royalty Pool sales), the negative effect of the exchange rate decline on the translation of the US restaurant sales into their Canadian dollar equivalent ($56,000 decrease in Royalty Pool sales), the sales of new restaurants added to the Royalty Pool on January 1, 2016 ($4,526,000 increase in Royalty Pool sales), the sales of restaurants temporarily closed for renovation during the comparable quarter of the current year ($303,000 decrease in Royalty Pool sales), and the loss of sales from permanently closed restaurants that did not operate during the comparable quarter ($582,000 decrease in Royalty Pool sales).

ROYALTY INCOME

Total royalty income decreased from $6,387,000 in the fourth quarter of 2015 to $5,931,000 in the fourth quarter of 2016. The decrease of $456,000 during the comparable quarter consists of a decrease in royalty fee income of $267,000, and a decrease in Make-whole fees of $189,000.

The decrease in royalty fee income was due to the net impact of the loss of the extra week of sales included in the fourth quarter of the prior year ($410,000 decrease in royalty fee income), same store sales decrease at comparable royalty pool restaurants during the comparable 13-week periods ($1,000 decrease in royalty fee income), the negative effect of the exchange rate decrease on the translation of US restaurant sales into their Canadian dollar equivalent ($2,000 decrease in royalty fee income), the sales of new restaurants added to the Royalty Pool on January 1, 2016 ($181,000 increase in royalty fee income), the sales of restaurants temporarily closed for renovations during the comparable quarter of the current year, ($12,000 decrease in royalty fee income), and the loss of sales from permanently closed restaurants that did not operate during the comparable quarter ($23,000 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 (closed for a total of 13 weeks during the comparable quarter), whereas in the comparable quarter of the prior year, five restaurants were subject to Make-whole payments (closed for a total of 70 weeks during the quarter).

INTEREST INCOME

Interest income earned by the Fund during the fourth quarter of the current year was $1,076,000, and was comprised of interest income on the Keg Loan of $1,075,000 and other interest income of $1,000. Interest income on the Keg Loan decreased by $3,000 during the quarter as it was calculated based on 92 days of a 366 day year, as 2016 is a leap year, rather than on 92 days of a 365 day year, as in the comparable quarter of the prior year. Other interest income earned by the Fund on surplus cash balances remained the same during the comparable quarter.

ADMINISTRATIVE EXPENSES

Expenses incurred by the Partnership for the quarter ended December 31, 2016 were $98,000, comprised entirely of general and administrative expenses. General and administrative expenses decreased by $40,000 from the comparable quarter of the prior year, as costs incurred during the fourth quarter of the prior year associated with historical Trustee remuneration were non-recurring in nature.

INTEREST AND FINANCING EXPENSES

Interest and financing expenses incurred by the Fund were $108,000 for the three months ended December 31, 2016, and included interest on the long-term debt of $104,000, and amortization of deferred financing charges of $4,000. Interest and financing expenses remained the same as in the comparable quarter of the prior year.

OPERATING INCOME

The Fund’s operating income decreased from $7,220,000 during the fourth quarter of 2015, to $6,801,000 during the fourth quarter of 2016. The decrease of $419,000 was due to the net impact of the decrease in royalty income of $456,000, the decrease in interest income of $3,000, and the decrease in administration expenses of $40,000.

DISTRIBUTIONS TO KRL

Distributions attributable to KRL during the three months ended December 31, 2016 were $2,408,000, which included distributions of $1,339,000 on the Exchangeable units and $1,069,000 on the Class C units. Distributions on the Exchangeable units decreased by $103,000 from the comparable quarter of the prior year, due to the net impact of a decrease in the operating income of the Fund during the fourth quarter of the current year, which was partially offset by a slight increase in KRL’s average effective ownership of the Fund during that period. KRL’s average effective ownership of the Fund increased from 23.35% during the fourth quarter of 2015 to 23.40% during the fourth quarter of 2016, as a result of the 2016 Additional Entitlement received by KRL on January 1, 2016 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 decreased by $316,000 from a profit of $4,709,000 (41.5 cents/Fund unit) in the fourth quarter of 2015, to a profit of $4,393,000 (38.7 cents/Fund unit) in the fourth quarter of 2016.

FAIR VALUE GAIN (LOSS)

The fair value of the Exchangeable unit liability decreased by $2,185,000 during the three months ended December 31, 2016, as compared with a decrease of $550,000 during the three months ended December 31, 2015.

During the three months ended December 31, 2016, the fair value of the 3,458,624 Exchangeable units held by KRL during that entire quarter increased, as the closing market price of a Fund unit (the basis upon which the Exchangeable units held by KRL are valued) decreased from $21.73 to $21.10, resulting in a non-cash gain to the Fund of $2,179,000. In addition, the fair value of the adjusted 9,467 Exchangeable units granted to KRL on January 1, 2016, as the Additional Entitlement for 2016, decreased from $21.73 to $21.10, resulting in a further non-cash gain to the Fund of $6,000.

During the comparable quarter of the prior year, the fair value of the 3,403,979 Exchangeable units held by KRL during that entire period decreased, as the closing market price of a Fund unit decreased from $17.99 to $17.81, resulting in a non-cash gain to the Fund of $613,000. In addition, the fair value of the 54,645 Exchangeable units granted to KRL on December 31, 2015 with effect from January 1, 2015 (the final 20% of the 2015 Additional Entitlement) increased, as the Exchangeable unit value increased from $16.66 (the roll-in price) to $17.81, resulting in a non-cash loss to the Fund of $63,000.

INCOME TAXES

Income taxes for the three-month period ended December 31, 2016, were $1,142,000, and included SIFT tax expense of $1,113,000 and a non-cash deferred income tax recovery of $29,000. SIFT tax expense decreased by $108,000, due to the decrease in taxable income of the Fund during the comparable quarter. The deferred income tax recovery decreased by $21,000 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 $1,448,000 from a profit of $3,988,000 (35.1 cents/Fund unit) in the fourth quarter of 2015, to a profit of $5,436,000 (47.9 cents/Fund unit) in the fourth quarter of 2016, mainly due to the change in the non-cash fair value adjustment of the Exchangeable unit liability.

DISTRIBUTABLE CASH

Distributable cash before SIFT tax decreased by $230,000 from $4,283,000 (37.7 cents/Fund unit) to $4,053,000 (35.7 cents/Fund unit) during the comparable quarter. Cash available for distribution to Fund unitholders decreased by $122,000 from $3,062,000 (27.0 cents/Fund unit) to $2,940,000 (25.9 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 2016, distributions to Fund unitholders included regular cash distributions paid of $3,127,000 (27.5 cents/Fund unit) and a special distribution declared of $341,000 (3.0 cents/Fund unit). In the fourth quarter of 2015, distributions to Fund unitholders included regular cash distributions paid of $2,946,000 (25.9 cents/Fund unit) and a special distribution of $795,000 (7.0 cents/Fund unit).

The total increase of $181,000 in cash distributions paid during the comparable quarters was the result of monthly distributions having been increased in November 2015 and twice in 2016.

YEAR

ROYALTY POOL SALES

Royalty Pool sales increased by $2,903,000 from $574,048,000 in the prior year to $576,951,000 in the current year. The increase in Royalty Pool sales was due to the net impact of the loss of the extra week of sales included in the fourth quarter of the prior year ($10,240,000 decrease in Royalty Pool sales), the same store sales increases at comparable royalty pool restaurants during the year ($6,754,000 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 ($2,120,000 increase in Royalty Pool sales), the sales of new restaurants added to the Royalty Pool on January 1, 2016 ($18,655,000 increase in Royalty Pool sales), the sales of restaurants temporarily closed for renovations during the comparable period of the prior year ($765,000 increase in Royalty Pool sales), the loss of sales from restaurants temporarily closed for renovation during the comparable period of the current year ($947,000 decrease in Royalty Pool sales), the loss of sales from a restaurant temporarily closed due to the fire and related evacuation in Fort McMurray, Alberta ($1,150,000 decrease in Royalty Pool sales), and the loss of sales from permanently closed restaurants that did not operate during the period ($13,054,000 decrease in Royalty Pool sales).

ROYALTY INCOME

Total royalty income decreased from $23,251,000 in 2015 to $23,101,000 in 2016. The decrease of $150,000 during the current year consists of an increase in royalty fee income of $116,000, net of a decrease in Make-whole fees of $266,000.

The increase in royalty fee income was due to the net impact loss of the extra week of sales included in the fourth quarter of the prior year ($410,000 decrease in royalty fee income), the same store sales increases at comparable restaurants during the current year ($270,000 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 ($85,000 increase in royalty fee income), the sales of the new restaurants added to the Royalty Pool on January 1, 2016 ($746,000 increase in royalty fee income), the sales of restaurants temporarily closed for renovations during the prior year, ($31,000 increase in royalty fee income), the loss of sales from restaurants temporarily closed for renovation during the current year ($38,000 decrease in royalty fee income), the loss of sales from a restaurant temporarily closed due to the fire and related evacuation in Fort McMurray, Alberta ($46,000 decrease in royalty fee income), and the loss of sales from permanently closed restaurants that did not operate during the entire year ($522,000 decrease in royalty fee income).

Make-whole fees decreased, as fewer restaurants were closed during 2016 than in 2015. During the current year one restaurant was subject to Make-whole payments, (closed for a total of 17 weeks during 2016), whereas during 2015, five restaurants were subject to Make-whole payments (closed for a total of 96 weeks during 2015). In addition, the comparable period of the prior year included proceeds from a business interruption claim.

INTEREST INCOME

Interest income earned by the Fund during the current year was $4,279,000, and was comprised of interest income on the Keg Loan of $4,275,000 and other interest income of $4,000. Other interest income earned by the Fund on surplus cash balances decreased by $2,000 due to lower surplus cash balances on hand during 2016.

ADMINISTRATIVE EXPENSES

Expenses incurred by the Partnership for the year ended December 31, 2016 were $384,000, comprised of administrative expenses of $385,000, net of other interest income of $1,000. The decrease in general and administrative expenses of $51,000 from the prior year, was primarily due to a reduction in legal and tax compliance costs during 2016 and costs incurred during 2015 associated with historical Trustee remuneration were non-recurring in nature. Other interest income remained the same during the year.

INTEREST AND FINANCING EXPENSES

Interest and financing expenses incurred by the Fund were $436,000 for the year ended December 31, 2016, and included interest on the long-term debt of $414,000, other finance charges of $5,000, and amortization of deferred financing charges of $17,000. Interest and financing expenses decreased by $83,000 from the prior year, consisting of a decrease in the interest expense on the long-term debt of $79,000, a decrease in other interest expense of $1,000, and a decrease in amortization of deferred finance charges of $3,000. Interest costs on the long-term debt decreased during the current year, as the average interest rate on the term loan decreased from 3.52% to 2.95%, due to the combined effect of two reductions in the bank's prime lending rate during the prior year, and a reduction in the Fund's borrowing rate by 1.0% effective June 26, 2015, as part of its amended banking agreement.

OPERATING INCOME

The Fund's operating income decreased from $26,578,000 during 2015, to $26,560,000 during 2016. The decrease of $18,000 is due to the net impact of the decrease in royalty income of $150,000, the decrease in interest income of $2,000, the decrease in administrative expenses of $51,000, and the decrease in interest and financing expenses of $83,000.

DISTRIBUTIONS TO KRL

Distributions attributable to KRL during the year ended December 31, 2016 were $9,485,000, which included distributions of $5,210,000 on the Exchangeable units and $4,275,000 on the Class C units. Distributions on the Exchangeable units decreased by $6,000 from the prior year, due to the net impact of a decrease in the operating income of the Fund during 2016, which was mostly offset by a slight increase in KRL's average effective ownership of the Fund during 2016. KRL's average effective ownership of the Fund increased slightly from 23.35% during 2015 to 23.40% during 2016, as a result of the 2016 Additional Entitlement received by KRL on January 1, 2016, 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 decreased by $12,000 from $17,087,000 ($1.505/Fund unit) in 2015, to $17,075,000 ($1.504/Fund unit) in 2016.

FAIR VALUE GAIN (LOSS)

The fair value of the Exchangeable unit liability increased by $11,408,000 during the year ended December 31, 2016, as compared with an increase of $1,324,000 during the year ended December 31, 2015.

During the current year, the fair value of the 3,458,624 Exchangeable units held by KRL during that entire year increased, as the closing market price of a Fund unit (the basis upon which the Exchangeable units held by KRL are valued) increased from $17.81 to $21.10, resulting in a non-cash loss to the Fund of $11,379,000. In addition, the fair value of the adjusted 9,467 Exchangeable units granted to KRL on January 1, 2016, as the Additional Entitlement for 2016, increased from $18.01 (the roll-in price) to $21.10, resulting in a further non-cash loss to the Fund of $29,000.

During the prior year, the fair value of the 3,275,225 Exchangeable units held by KRL during the entire year increased, as the closing market price of a Fund unit increased from $17.47 to $17.81, resulting in a non-cash loss to the Fund of $1,114,000. The fair value of the 128,754 Exchangeable units granted to KRL on January 1, 2015, as the initial 80% of the Additional Entitlement for 2015, increased from $16.66 (the roll-in price) to $17.81, resulting in a further non-cash loss to the Fund of $147,000. In addition, the fair value of the 54,645 Exchangeable units granted to KRL on December 31, 2015 with effect from January 1, 2015 (the final 20% of the 2015 Additional Entitlement) increased, as the Exchangeable unit value increased from $16.66 (the roll-in price) to $17.81, resulting in a non-cash loss to the Fund of $63,000.

INCOME TAXES

Income taxes for the year ended December 30, 2016, were $4,399,000 and included SIFT tax expense of $4,320,000 and a non-cash deferred income tax expense of $79,000. SIFT tax expense decreased by $65,000, due to the increased taxable income of the Fund during 2016. Deferred income taxes decreased by $63,000 due to changes in the temporary differences between the accounting and tax bases of the Keg Rights owned by the Partnership.

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Profit decreased by $9,968,000 from a profit of $11,236,000 (99.0 cents/Fund unit) during 2015 to a profit of $1,268,000 (11.2 cents/Fund unit) during 2016, entirely due to the increase in the non-cash fair value gain (loss) of the Exchangeable unit liability.

DISTRIBUTABLE CASH

Distributable cash before SIFT tax increased by $446,000 from $16,681,000 ($1.469/Fund unit) in 2015 to $17,127,000 ($1.509/Fund unit) in 2016. Cash available for distribution to Fund unitholders increased by $511,000 from $12,296,000 ($1.083/Fund unit) to $12,807,000 ($1.128/Fund unit) during the year. 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 2016, distributions to Fund unitholders included regular cash distributions paid of $12,250,000 ($1.080/Fund unit) and a special distribution declared of $341,000 (3.0 cents/Fund unit). In 2015, distributions to Fund unitholders included regular cash distributions paid of $11,365,000 ($1.001/Fund unit) and a special distribution declared of $795,000 (7.0 cents/Fund unit).

The total increase of $885,000 in cash distributions paid during 2016 was the result of monthly distributions having been increased three times during 2015 and twice in 2016.

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 2016, the Fund generated $2,940,000 in distributable cash, paid distributions of $3,127,000 and declared a special distribution of $341,000 to public unitholders, resulting in a shortfall of $528,000. During 2016, the Fund generated $12,807,000 in distributable cash, paid distributions of $12,250,000 to public unitholders, and declared a special distribution of $341,000, resulting in a surplus of $216,000.

The special distribution declared in December 2016, which was paid on January 31, 2017, was treated as a distribution in 2016 for Fund reporting purposes. The Fund has cash on hand of $1,990,000 and a positive working capital balance of $2,449,000 as at December 31, 2016.

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 June 26, 2015, the Fund amended the terms of this loan with its existing banking syndicate and the maturity date was extended to July 1, 2018 and the interest rate reduced from bank prime plus 1.25% to bank prime plus 0.25%. 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, 2016, 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, 2016, 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, 2016, 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, 2016, 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, 2016. During the year ended December 31, 2016, 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. In May 2013, COSO released *"Internal Control – Integrated Framework : 2013"* The Fund transitioned to the updated framework during the year ended December 31, 2014. The administrator of the Fund has assessed the impact of this transition and there were no significant changes to the Fund's internal controls 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 September 30, 2016.

As at December 31, 2016, the closing price of a Fund unit was $21.10 resulting in a market capitalization of $312.7 million. KRL's 23.40% ownership of the Fund (on a fully-diluted basis) was calculated to be $73.2 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.

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, 2017 ROLL-IN

On January 1, 2017, an estimated $6.3 million in annual net sales were added to the Royalty Pool. One new restaurant that opened during the period from October 3, 2015 through October 2, 2016, with estimated gross sales of $8.0 million annually, was added to the Royalty Pool. One permanently closed Keg restaurant with annual sales of $1.7 million was removed from the Royalty Pool. The total number of restaurants in the Royalty Pool remained the same at 100. The pre-tax yield of the Fund units was determined to be 6.79% calculated using a weighted average unit price of $20.82.

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 164,654 Fund units, being 1.10% of the Fund units on a fully diluted basis.

On January 1, 2017, KRL received 80% of this entitlement, representing the equivalent of 131,723 Fund units, being 0.88% of the Fund units on a fully diluted basis. KRL will also receive a proportionate increase in monthly distributions from the

Partnership. Including the initial portion of the Additional Entitlement described above, KRL will have the right to exchange its units in the capital of the Partnership for 3,599,814 Fund units, representing 24.07% of the Fund units on a fully diluted basis.

The balance of the additional entitlement will be adjusted on December 31, 2017, to be effective January 1, 2017, once the actual performance of the new restaurants has been confirmed. If KRL were to receive 100% of the estimated Additional Entitlement for 2017, it would have the right to exchange its Partnership units for 3,632,745 Fund units, representing 24.24% 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 3.3% in 2015 and has projected sales to increase by 3.5% in 2016. Restaurants Canada has also forecasted sales in the full-service category to increase by an average of 3.7% per year between 2015 and 2019 (1.2% 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 4.8% in 2015, and has projected sales to increase by 4.9% in 2016. The NRA has not yet 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 years. KRL has opened one franchise restaurant in Canada since October 2, 2016, which will be added to the Royalty Pool on January 1, 2018.

Management of KRL has also advised the Trustees of the Fund that it expects to open four additional restaurants prior to October 2, 2017, consisting of three corporate restaurants and one franchise restaurant in Canada. In addition, one franchise restaurant in Canada will be relocated during the same period. 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, 2016, 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 53 weeks ended October 2, 2016, 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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THE KEG ROYALTIES INCOME FUND

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

MANAGEMENT'S STATEMENT OF RESPONSIBILITIES

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

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

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

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

(signed) C.C. Woodward

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

February 21, 2017

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
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INDEPENDENT AUDITORS' REPORT

To the Unitholders of The Keg Royalties Income Fund

We have audited the accompanying consolidated financial statements of The Keg Royalties Income Fund ("the Fund"), which comprise the statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements other comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Fund as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

February 10, 2017
Vancouver, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of dollars)

	Note	December 31, 2016	December 31, 2015
ASSETS			
Current assets:			
Cash		$ 1,990	$ 2,770
Prepaid expenses and deposits		11	13
Royalty fee receivable from Keg Restaurants Ltd.	12	2,722	2,768
Income taxes receivable		12	-
Interest on note receivable from Keg Restaurants Ltd.	12	362	363
		5,097	5,914
Note receivable from Keg Restaurants Ltd.	5	57,000	57,000
Intangible assets, Keg Rights	6	164,371	164,200
		$ 226,468	$ 227,114
LIABILITIES AND UNITHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		$ 308	$ 322
Interest payable on term loan		35	35
Distributions payable to Fund unitholders	8	1,383	1,788
Distributions payable to Keg Restaurants Ltd.	12	922	1,022
Current income tax payable	11	-	430
		2,648	3,597
Term loan, net of deferred financing charges	10(a)	13,973	13,956
Deferred taxes	11	2,244	2,165
Class C Partnership units	9(a)	57,000	57,000
Exchangeable Partnership units	9(b)	73,177	61,598
Unitholders' equity:			
Fund units	7	123,275	123,275
Accumulated deficit		(45,849)	(34,477)
		77,426	88,798
		$ 226,468	$ 227,114

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, 2016	January 1 to December 31, 2015
Revenue:			
Royalty income	4	$ 23,101	$ 23,251
Interest income		4,279	4,281
		27,380	27,532
Expenses:			
General and administrative		(384)	(435)
Interest and financing fees		(419)	(499)
Amortization of deferred financing charges		(17)	(20)
		(820)	(954)
Profit before distributions, change in fair value adjustment and income taxes		26,560	26,578
Distributions recorded as interest:			
Class C Partnership units	9(a)	(4,275)	(4,275)
Exchangeable Partnership units	9(b)	(5,210)	(5,216)
		(9,485)	(9,491)
Profit before fair value adjustment and income taxes		17,075	17,087
Change in fair value of Exchangeable Partnership units	9(b)	(11,408)	(1,324)
Profit before income taxes		5,667	15,763
Income taxes:			
Current	11	(4,320)	(4,385)
Deferred	11	(79)	(142)
		(4,399)	(4,527)
Profit and comprehensive income for the year		$ 1,268	$ 11,236
Weighted average Fund units outstanding	3(k)	11,353,500	11,353,500
Weighted average diluted units outstanding	3(k)	14,821,591	14,812,124
Basic and diluted earnings per Fund unit	3(k)	$ 0.11	$ 0.99

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, 2015	$ 123,275	$ (33,468)	$ 89,807
Profit and comprehensive income for the year	-	11,236	11,236
Distributions declared to Fund unitholders	-	(12,245)	(12,245)
Balance, December 31, 2015	$ 123,275	$ (34,477)	$ 88,798
Balance, January 1, 2016	$ 123,275	$ (34,477)	$ 88,798
Profit and comprehensive income for the year	-	1,268	1,268
Distributions declared to Fund unitholders	-	(12,640)	(12,640)
Balance, December 31, 2016	$ 123,275	$ (45,849)	$ 77,426

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, 2016	January 1 to December 31, 2015
Cash provided by (used for):			
OPERATIONS:			
Profit for the year		$ 1,268	$ 11,236
Items not involving cash:			
Amortization of deferred financing charges		17	20
Deferred income tax expense	11	79	142
Change in fair value of Exchangeable Partnership units	9(b)	11,408	1,324
Distributions recorded as interest:			
Class C Partnership units	9(a)	4,275	4,275
Exchangeable Partnership units	9(b)	5,210	5,216
Changes in non-cash operating working capital:			
Royalty fee receivable from Keg Restaurants Ltd.		46	(430)
Prepaid expenses and deposits		2	1
Accounts payable and accrued liabilities		(14)	18
Interest income		(4,279)	(4,281)
Interest and financing fees		419	499
Current income tax expense	11	4,320	4,385
Interest received		4,280	4,281
Income taxes paid		(4,762)	(4,357)
		22,269	22,329
FINANCING:			
Distributions paid to Class C unitholder		(4,275)	(4,275)
Distributions paid to Exchangeable unitholder		(5,310)	(5,028)
Distributions paid to Fund unitholders		(13,045)	(11,365)
Deferred financing charges		-	(28)
Interest and financing fees paid		(419)	(514)
		(23,049)	(21,210)
Increase (decrease) in cash		(780)	1,119
Cash, beginning of year		2,770	1,651
Cash, end of year		$ 1,990	$ 2,770
Non-cash transactions:			
Increase in intangible assets on Royalty Pool net sales roll-in		$ 171	$ 3,056

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, 2016 and 2015

1. ORGANIZATION AND NATURE OF BUSINESS:

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

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

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

2. BASIS OF PREPARATION:

(a) Statement of compliance:

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

The consolidated financial statements were authorized for issue by the Fund's Board of Trustees on February 7, 2017.

(b) Functional and presentation currency:

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

(c) Use of estimates and judgements:

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

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

2. BASIS OF PREPARATION (CONTINUED):

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

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

(i) 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.

(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.

2. BASIS OF PREPARATION (CONTINUED):

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

(iv) Deferred taxes (note 11):

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

3. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Fund, its wholly-owned subsidiary The Keg Holdings Trust ("KHT"), 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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(e) Intangible assets (note 6):

Intangible assets consisting of the Keg Rights are recorded at their historical cost. The intangible assets are adjusted to record 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.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(h) Borrowings (note 10):

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

(i) Financial Instruments:

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

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

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

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

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

- Derivative financial instruments: The requirement of the Fund to settle its note receivable from KRL in exchange for Class C Partnership units is classified as a derivative instrument (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, 2016	December 31, 2015
Financial assets:		
Loans and receivables:		
Cash	$ 1,990	$ 2,770
Royalty fee receivable from Keg Restaurants Ltd.	2,722	2,768
Interest on note receivable from Keg Restaurants Ltd.	362	363
Note receivable from Keg Restaurants Ltd.	57,000	57,000
	$ 62,074	$ 62,901
Financial liabilities:		
Amortized cost:		
Accounts payable and accrued liabilities	$ 308	$ 322
Interest payable on term loan	35	35
Distributions payable to Fund unitholders	1,383	1,788
Distributions payable to Keg Restaurants Ltd.	922	1,022
Term loan, net of deferred financing charges	13,973	13,956
Class C Partnership units	57,000	57,000
Fair value through profit and loss:		
Exchangeable Partnership units	73,177	61,598
	$ 146,798	$ 135,721

(j) Impairment:

(i) Financial assets:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(j) Impairment (continued):

(i) Financial assets (continued):

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

(ii) 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.

(k) Earnings per unit:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(k) Earnings per unit (continued):

The following reconciles the basic profit to the diluted profit:

	January 1 to December 31, 2016	January 1 to December 31, 2015
Basic profit and comprehensive income for the year	$ 1,268	$ 11,236
Distributions on Exchangeable Partnership units	5,210	5,216
Increase in current tax expense	(1,355)	(1,356)
Change in fair value of Exchangeable Partnership units (note 9(b))	11,408	1,324
Diluted net profit for the period	$ 16,531	$ 16,420
Weighted average number of Fund units	11,353,500	11,353,500
Weighted average number of Exchangeable Partnership units	3,468,091	3,458,624
Weighted average number of units	14,821,591	14,812,124
Basic and diluted earnings per Fund unit	$ 0.11	$ 0.99

For the years ended December 31, 2016 and December 31, 2015, the Exchangeable Partnership units are anti-dilutive. Accordingly, the diluted earnings per Fund unit equals the basic earnings per Fund unit.

(l) Economic dependence:

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

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

The Fund has not yet assessed the impact of the following standards and amendments or determined whether they will be adopted early:

(i) On July 24, 2014, the IASB issued IFRS 9, *Financial Instruments*, and the IASB subsequently published amendments to IFRS 9. IFRS 9 introduces new requirements for the classification and measurement of financial assets. 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. IFRS 9 introduces additional changes relating to financial liabilities. IFRS 9 includes finalized guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment, and new general hedge accounting requirements.

The IASB has deferred the mandatory effective date of the existing chapters of IFRS 9 to annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Earlier application is permitted. The Fund does not anticipate any significant impact on it's financial statements or business as a result of the adoption of this new standard.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

(ii) On May 28, 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. IFRS 15 will replace IAS 18, *Revenue*. The standard 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 model features a contract-based, five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgemental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

(iii) 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*. KRL is currently evaluating the impact of IFRS 16 on its financial statements.

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, 2016 (January 1 to December 31, 2015 – five permanent closures).

4. ROYALTY POOL (CONTINUED):

On January 1, 2016, an estimated $1.9 million in annual net sales were added to the Royalty Pool. Three new restaurants that opened during the period from October 3, 2014 through October 2, 2015, with estimated gross sales of $21.0 million annually, were added to the Royalty Pool. Five permanently closed Keg restaurants with annual sales of $19.1 million were removed from the Royalty Pool. The total number of restaurants in the Royalty Pool decreased to 100. The pre-tax yield of the Fund units was determined to be 7.37% calculated using a weighted average unit price of $18.01.

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 would be equivalent to 52,357 Fund units, being 0.35% of the Fund units on a fully diluted basis.

On January 1, 2016, KRL received 80% of this entitlement, representing the equivalent of 41,886 Fund units, being 0.28% of the Fund units on a fully diluted basis. KRL also received a proportionate increase in monthly distributions from the Partnership. Including the initial portion of the Additional Entitlement described above, KRL would have the right to exchange its units in the capital of the Partnership for 3,500,510 Fund units, representing 23.57% of the Fund units on a fully diluted basis.

Annually, on or before October 2nd of each year, in conjunction with the preparation of KRL's audited financial statements, management of KRL confirm the actual sales performance of the new restaurants added to the Royalty Pool, on the preceding January 1st.

On September 30, 2016, the actual annual net sales added to the Royalty Pool on January 1, 2016 were determined to be $0.3 million rather than the $1.9 million originally estimated. As a result, effective January 1, 2016, KRL was only entitled to 9,467 additional Exchangeable units, rather than 41,886 additional Exchangeable units originally estimated and issued, a shortfall of 32,419 Exchangeable units. These 32,419 Exchangeable units were not entitled to any distributions, nor did they have any market value until such time as they become entitled, which occurred as part of the January 1, 2017 Royalty Pool adjustment (note 16). Therefore, including the September 30, 2016 adjustment, KRL has the right to exchange its units in the capital of the Partnership for 3,468,091 Fund units, representing 23.40% of the Fund units on a fully diluted basis. This adjustment to the Additional Entitlement was finalized on December 31, 2016.

One new franchise restaurant was opened subsequent to October 2, 2016 and will be added to the Royalty Pool on January 1, 2018. The one permanently closed corporate restaurant will remain in the Royalty Pool until December 31, 2016, at which time the lost sales from these closed restaurants will be replaced with the gross sales from the one new restaurant being added to the Royalty Pool on January 1, 2017 (note 16).

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

4. ROYALTY POOL (CONTINUED):

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

	January 1 to December 31, 2016	January 1 to December 31, 2015
Restaurants in Royalty Pool	100	102
Royalty Pool system sales	$ 576,951	$ 574,048
Royalty income at 4% of system sales reported above	23,078	22,962
Make-whole payment, based on 4% of lost system sales	23	289
Total royalty income	$ 23,101	$ 23,251

5. NOTE RECEIVABLE FROM KEG RESTAURANTS LTD.:

	December 31, 2016	December 31, 2015
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 Partnership units (“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, 2015	$	164,200
January 1, 2016 initial estimate of Additional Entitlement (80%)		754
2016 final Class D adjustment (note 4)		(583)
Balance, December 31, 2016	$	164,371

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, 2016, 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, 2016 and 2015

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, 2016, 11,353,500 Fund units are issued and outstanding (December 31, 2015 – 11,353,500).

8. DISTRIBUTIONS ON FUND UNITS:

	January 1 to December 31, 2016	January 1 to December 31, 2015
Distributions declared to Fund unitholders	$ 12,640	$ 12,245
Weighted average Fund units outstanding	11,353,500	11,353,500
Distributions declared per unit	$ 1.11	$ 1.08

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 20, 2016, a special distribution of $0.03 per unit was also declared payable to unitholders in January 2017. 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, 2016	Fair Value
Class A Partnership units	(i)	905,944	$ 19,116
Class B Partnership units	(ii)	176,700	3,728
Class D Partnership units	(iii)	2,385,447	50,333
		3,468,091	$ 73,177

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

		December 31, 2015	Fair Value
Class A Partnership units	(i)	905,944	$ 16,135
Class B Partnership units	(ii)	176,700	3,147
Class D Partnership units	(iii)	2,375,980	42,316
		3,458,624	$ 61,598

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, 2016 was $21.10 (December 31, 2015 – $17.81).

(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, 2016	3,458,624	$ 61,598
January 1 initial estimate of Class D unit entitlement (note 4)	41,886	754
December 31 final Class D unit entitlement (note 4)	(32,419)	(583)
Fair value adjustment	-	11,408
Fair value of Exchangeable Partnership units, December 31, 2016	3,468,091	$ 73,177

	Total number of Exchangeable Partnership units	Fair Value
Exchangeable Partnership units, January 1, 2015	3,275,225	$ 57,218
January 1 initial estimate of Class D unit entitlement (note 4)	128,754	2,146
December 31 final Class D unit entitlement (note 4)	54,645	910
Fair value adjustment	-	1,324
Fair value of Exchangeable Partnership units, December 31, 2015	3,458,624	$ 61,598

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, 2016. 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:

On June 26, 2015, the Fund amended the terms of its $14,000,000 term loan with its existing banking syndicate. The facility now 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. The maturity date of the facility was also extended from July 1, 2016 to July 1, 2018.

In accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, the amendment was considered a modification of debt.

The term loan is presented net of $27,000 in deferred financing charges at December 31, 2016 (December 31, 2015 – $44,000).

(b) Operating line of credit:

On June 26, 2015, the Partnership renegotiated the terms of its existing $1,000,000 demand operating facility with KRIF's banking syndicate. This facility now 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, 2016, the entire $1,000,000 remains available for use.

As at December 31, 2016, 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 2015 and later taxation years.

The components of income tax expense are as follows:

	January 1 to December 31, 2016	January 1 to December 31, 2015
Current income tax expense	$ (4,320)	$ (4,385)
Deferred income tax expense	(79)	(142)
	$ (4,399)	$ (4,527)

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, 2016	January 1 to December 31, 2015
Profit before income taxes	$ 5,667	$ 15,763
Combined Canadian federal and provincial rates	26.00%	26.00%
Computed "expected" income tax expense	1,473	4,098
Increased (reduced) by:		
Permanent and other differences	2,943	329
Change in tax base of the Keg Rights	(11)	47
Differences between current and future tax rates and other items	(6)	53
Total income tax expense per the statement of comprehensive income	$ 4,399	$ 4,527

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

	December 31, 2016	December 31, 2015
Temporary difference related to the Keg Rights	$ 2,244	$ 2,165
Deferred tax liability	$ 2,244	$ 2,165

The balance of the Fund's deferred tax liability increased to $2,244,000 as at December 31, 2016 (December 31, 2015 – $2,165,000). 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts expressed in thousands of dollars)

For the years ended December 31, 2016 and 2015

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, 2016	December 31, 2015
Royalty fee receivable from Keg Restaurants Ltd., including GST/HST	$ 2,722	$ 2,768
Interest on note receivable from Keg Restaurants Ltd.	362	363
Due from Keg Restaurants Ltd.	$ 3,084	$ 3,131

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, 2016	December 31, 2015
Distributions payable to Keg Restaurants Ltd.	$ 922	$ 1,022

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, 2016	January 1 to December 31, 2015
Remuneration of the Fund's Trustees, included in general and administrative expenses	$ 100	$ 116

(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 $60,084,000 at December 31, 2016 (December 31, 2015 – $60,131,000). Since its inception, the Fund has never failed to collect its receivables on a timely basis and as at December 31, 2016 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 $1,990,000 at December 31, 2016 (December 31, 2015 – $2,770,000). 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	$ 308	< 1 year
Interest payable on term loan	35	< 1 year
Distributions payable to Fund unitholders	1,383	< 1 year
Distributions payable to Keg Restaurants Ltd.	922	< 1 year
Term loan	14,000	2018
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, 2016, 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, 2016, a 100 basis point change in the US dollar exchange rate would result in an approximate $378,000 and $15,000 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, 2016	December 31, 2015
Term loan	10(a)	$ 14,000	$ 14,000
Fund units	7	$ 123,275	$ 123,275
Accumulated deficit		(45,849)	(34,477)
Unitholders' equity		$ 77,426	$ 88,798

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, 2016, 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, 2017, an estimated $6.3 million in annual net sales were added to the Royalty Pool. One new restaurant that opened during the period from October 3, 2015 through October 2, 2016, with estimated gross sales of $8.0 million annually, was added to the Royalty Pool. One permanently closed Keg restaurants with annual sales of $1.7 million was removed from the Royalty Pool. The total number of restaurants in the Royalty Pool remained the same at 100. The pre-tax yield of the Fund units was determined to be 6.79% calculated using a weighted average unit price of $20.82.

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 164,654 Fund units, being 1.10% of the Fund units on a fully diluted basis.

On January 1, 2017, KRL received 80% of this entitlement, representing the equivalent of 131,723 Fund units, being 0.88% of the Fund units on a fully diluted basis. KRL will also receive a proportionate increase in monthly distributions from the Partnership. Including the initial portion of the Additional Entitlement described above, KRL will have the right to exchange its units in the capital of the Partnership for 3,599,814 Fund units representing 24.07% of the Fund units on a fully diluted basis.

The balance of the additional entitlement will be adjusted on December 31, 2017 to be effective January 1, 2017 once the actual performance of the new restaurants has been confirmed. If KRL were to receive 100% of the estimated Additional Entitlement for 2017, it would have the right to exchange its Partnership units for 3,632,745 Fund units representing 24.24% of the Fund units on a fully diluted basis.