
SIR ROYALTY INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2018

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(FOR THE YEAR ENDED DECEMBER 31, 2018)

Executive Summary

Highlights for the three-month period ended December 31, 2018 ("Q4 2018") and the year ended December 31, 2018 ("Fiscal 2018") for SIR Royalty Income Fund (the "Fund") include:

Royalty Income and Equity Income from SIR Royalty Limited Partnership (the "Partnership")

- Royalty income in the Partnership increased by 4.3% to \$18.0 million in Fiscal 2018, compared to \$17.3 million in Fiscal 2017, as a result of an increase in Pooled Revenue to \$300.1 million in Fiscal 2018, compared to \$283.0 million in Fiscal 2017.
- Equity income from the Partnership, which represents the Fund's pro rata share of the residual distributions of the Partnership, increased by 4.0% to \$11.5 million in Fiscal 2018 from \$11.1 million in Fiscal 2017.
- Royalty income in the Partnership increased by 3.5% to \$4.4 million in Q4 2018, compared to \$4.2 million for the three-month period ended December 31, 2017 ("Q4 2017"), as a result of an increase in Pooled Revenue by 4.9% to \$72.9 million in Q4 2018, compared to \$69.5 million in Q4 2017. Equity income from the Partnership was \$2.7 million in both Q4 2018 and Q4 2017.

Net Earnings (Loss) and Adjusted Net Earnings⁽¹⁾

- Net loss was \$2.8 million for Q4 2018 and net earnings were \$5.1 million for Fiscal 2018, respectively, compared to net earnings of \$2.3 million and \$9.8 million for the three-month period ended December 31, 2017 ("Q4 2017") and the year ended December 31, 2017 ("Fiscal 2017"), respectively. Net earnings (loss) were impacted by the adoption of International Financial Reporting Standard 9 ("IFRS 9"), which resulted in a decrease in net earnings of \$4.9 million and \$5.2 million for Q4 2018 and Fiscal 2018, respectively. Adjusted net earnings⁽¹⁾ were \$2.2 million and \$10.3 million for Q4 2018 and Fiscal 2018, respectively (\$2.3 million and \$9.8 million for Q4 2017 and Fiscal 2017, respectively). Please refer to the Adjusted Net Earnings⁽¹⁾ section on page 13.
- Net loss per Fund unit was \$0.33 (basic and diluted) for Q4 2018 and net earnings per Fund unit was \$0.61 (basic and diluted) for Fiscal 2018, compared to net earnings per Fund unit of \$0.28 and \$1.17 for Q4 2017 and Fiscal 2017, respectively. Net earnings per Fund unit were also impacted by the adoption of IFRS 9. Adjusted Net Earnings per Fund unit⁽²⁾ were \$0.26 and \$1.23 for Q4 2018 and Fiscal 2018, respectively (\$0.28 and \$1.17 for Q4 2017 and Fiscal 2017, respectively).

(1) *Adjusted Net Earnings (Loss) is calculated by replacing the change in estimated fair value of the SIR Loan as reported in the statement of earnings with the interest received on the SIR Loan during the period and the corresponding deferred tax expense or recovery from the net earnings for the period. Adjusted Net Earnings (Loss) is a non-GAAP financial measure and does not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS"). Management believes that in addition to net earnings (loss), Adjusted Net Earnings (Loss) is a useful supplemental measure to evaluate the Fund's performance. The change in estimated fair value of the SIR Loan is a non-cash fair value adjustment resulting from the adoption of IFRS 9 on January 1, 2018 and varies with changes in a discount rate that fluctuates based on current market interest rates adjusted for SIR's credit risk. The replacement of the non-cash change in estimated fair value of the SIR Loan with the interest received, and the corresponding deferred tax amount, eliminates this non-cash impact. Management cautions investors that Adjusted Net Earnings (Loss) should not replace net earnings or loss or cash flows from operating, investing and financing activities (as determined in accordance with IFRS), as an indicator of the Fund's performance. The Fund's method of calculating Adjusted Net Earnings (Loss) may differ from the methods used by other issuers. Please refer to the reconciliations of net earnings (loss) for the period to Adjusted Net Earnings (Loss) on page 13 of this document.*

(2) *Adjusted Earnings per Fund unit represents the portion of net earnings adjusted for the change in estimated fair value of the SIR Loan and the deferred tax expense or recovery for the period allocated to each outstanding Fund unit.*

Distributable Cash⁽³⁾ and Payout Ratio

- Distributable cash⁽³⁾ per Fund unit was \$0.26 and \$1.23 (basic and diluted) for Q4 2018 and Fiscal 2018, respectively, compared to \$0.28 and \$1.18 for Q4 2017 and Fiscal 2017, respectively. Please refer to the Distributions section on page 8 and Distributable Cash⁽³⁾ on page 14.
- The Fund's payout ratio⁽³⁾ increased to 120.5% in Q4 2018 from 109.6% in Q4 2017, and decreased to 97.7% in Fiscal 2018 from 98.4% in Fiscal 2017. The payout ratio⁽³⁾ since the Fund's inception, up to and including Q4 2018, is 99.2%.

Same Store Sales⁽⁴⁾ ("SSS")

- SIR Corp. ("SIR") has reported to the Fund that the Royalty Pooled Restaurants reported a SSS⁽⁴⁾ decline of 1.0% in Q4 2018 and generated same store sales growth ("SSSG")⁽⁴⁾ of 1.2% in Fiscal 2018.
- Jack Astor's[®], which accounted for approximately 70% of Pooled Revenue in Q4 2018, had a SSS⁽⁴⁾ decline of 1.2% in Q4 2018 and generated SSSG⁽⁴⁾ of 2.1% in Fiscal 2018.
- Canyon Creek[®] had declines in SSS⁽⁴⁾ of 3.5% and 2.7% in Q4 2018 and Fiscal 2018, respectively.
- Scaddabush Italian Kitchen & Bar[®] ("Scaddabush") had SSS⁽⁴⁾ declines of 1.6% and 0.1% in Q4 2018 and Fiscal 2018, respectively.
- SIR's Signature Restaurants reported SSSG⁽⁴⁾ of 4.2% in Q4 2018 and a SSS⁽⁴⁾ decline of 3.3% in Fiscal 2018.

Investment in new and existing restaurants and closed restaurants

- During Q4 2018, SIR completed full renovations at two Jack Astor's locations (Mississauga and the location at the intersection of Yonge and Bloor streets in Toronto, Ontario). These locations were closed for a combined total of 18 days during the quarter.
- During Q4 2018, effective December 9, 2018, SIR permanently closed the Canyon Creek restaurant on Front Street in downtown Toronto. SIR was required to pay a Make-Whole Payment to the Fund, via the Partnership, for this location from the date of closure until it ceased to be a part of Royalty Pooled Restaurants on January 1, 2019.
- During Q3 2018, SIR completed a full renovation at one Jack Astor's location (Kanata, Ontario). This location was closed for 10 days during the quarter.
- During Q2 2018, the Reds[®] restaurant at the Square One shopping centre was closed for four days for renovations.
- During Q1 2018, SIR completed a full renovation at one Jack Astor's location (10 Dundas East entertainment complex in downtown Toronto), and a partial renovation at one other Jack Astor's location (Kingston, Ontario). These locations were closed for a combined total of 20 days during the quarter.
- On January 1, 2019, the Scaddabush restaurant in Etobicoke, Ontario (opened November 28, 2017) and the Reds restaurant in Mississauga (opened December 11, 2017) were added to Royalty Pooled Restaurants. The Canyon Creek restaurant on Front Street in downtown Toronto, which closed effective December 9, 2018, ceased to be part of Royalty Pooled Restaurants on January 1, 2019.

(3) *Distributable cash and payout ratio are non-GAAP financial measures and do not have standardized meanings prescribed by IFRS. However, the Fund believes that distributable cash and the payout ratio are useful measures as they provide investors with an indication of cash available for distribution. The Fund's method of calculating distributable cash and the payout ratio may differ from that of other issuers and, accordingly, distributable cash and the payout ratio may not be comparable to measures used by other issuers. Investors are cautioned that distributable cash and the payout ratio should not be construed as an alternative to the statement of cash flows as a measure of liquidity and cash flows of the Fund. The payout ratio is calculated as cash distributed for the period as a percentage of the distributable cash for the period. Distributable cash represents the amount of money which the Fund expects to have available for distribution to Unitholders of the Fund, and is calculated as cash provided by operating activities of the Fund, adjusted for the net change in non-cash working capital items including a reserve for income taxes payable and the net change in the distribution receivable from the SIR Royalty Limited Partnership.*

(4) *Same store sales ("SSS") and same store sales growth ("SSSG") are non-GAAP financial measures and do not have standardized meanings prescribed by IFRS. However, the Fund believes that SSS and SSSG are useful measures and provide investors with an indication of the change in year-over-year sales. The Fund's method of calculating SSS and SSSG may differ from those of other issuers and, accordingly, SSS and SSSG may not be comparable to measures used by other issuers. SSS includes revenue from all SIR Restaurants included in Pooled Revenue for the fiscal years 2018 and fiscal 2017, except for those locations that were not open for the entire comparable periods in fiscal 2018 and fiscal 2017. The seasonal Abbey's Bakehouse is not a SIR Restaurant. SSSG is the percentage increase in SSS over the prior comparable period. When a SIR Restaurant is closed, the revenue for the closed restaurant is excluded from the calculation of SSS and SSSG for both the quarter in which the restaurant is closed and the current year-to-date.*

Outlook

- SIR currently has one commitment in place to lease a new property in the Mimico neighbourhood of Etobicoke upon which it plans to build one new Scaddabush restaurant. There can be no assurance that this restaurant will be opened or will become part of Royalty Pooled Restaurants.
- Subsequent to December 31, 2018, SIR completed three restaurant renovations. A full renovation at the Jack Astor's location near Toronto Pearson International Airport in Etobicoke, Ontario resulted in the closure of this restaurant for 10 days. A major renovation at The Loose Moose on Front Street in downtown Toronto resulted in the closure of this restaurant for 15 days. A renovation at the Scaddabush location at the Square One shopping centre in Mississauga resulted in the closure of this restaurant for six days.
- Subsequent to December 31, 2018, effective February 4, 2019, SIR permanently closed the Jack Astor's restaurant in the St. Lawrence Market area of downtown Toronto. SIR is required to pay a Make-Whole Payment to the Fund, via the Partnership, for this location from the date of closure until it ceases to be part of Royalty Pooled Restaurants on January 1, 2020. SIR will reconvert the Class A GP Units received when this restaurant was added to Royalty Pooled Restaurants on January 1, 2013 into Class B GP Units on January 1, 2020. SIR is contemplating the future use of this site.
- While SIR is not owned by the Fund, the Fund is economically dependent upon SIR. SIR files its unaudited interim and audited annual consolidated financial statements and Management's Discussion and Analysis ("MD&A") on SEDAR under the Fund's SEDAR profile under the heading "Other". SIR's first quarter unaudited interim consolidated financial statements and MD&A were filed on SEDAR on December 20, 2018.
- SIR continues to monitor economic conditions and consumer confidence. SIR secured additional long-term financing in 2018 and has advised the Fund that it is considering new restaurant developments and renovations to existing restaurants. The timing of new restaurant construction and renovations, as well as related opening schedules, will be reviewed regularly by SIR and adjusted as necessary based on SIR's assessment of economic and industry conditions.

Same Store Sales Growth⁽⁴⁾

SIR reported to the Fund that the Royalty Pooled Restaurants had a cumulative SSS⁽⁴⁾ decline of 1.0% in Q4 2018 and generated SSSG⁽⁴⁾ of 1.2% in Fiscal 2018. SSS⁽⁴⁾ are typically impacted by changes in guest traffic and average cheque amount. Other factors are identified below. SSSG⁽⁴⁾ are detailed in the following table.

SSSG ⁽⁴⁾ for the Royalty Pooled Restaurants (unaudited)	Three-month period ended December 31, 2018	Three-month period ended December 31, 2017	12-month period ended December 31, 2018	12-month period ended December 31, 2017
Jack Astor's	(1.2%)	5.5%	2.1%	2.5%
Canyon Creek	(3.5%)	1.5%	(2.7%)	1.8%
Scaddabush	(1.6%)	10.6%	(0.1%)	13.1%
Signature Restaurants	4.2%	(5.4%)	(3.3%)	1.0%
Overall SSSG⁽⁴⁾	(1.0%)	4.6%	1.2%	3.0%

SIR believes that recent SSS⁽⁴⁾ have been impacted by specific factors impacting consumer behaviour related to spending at full-service restaurants, especially in Ontario.

SIR believes that the recent rapid growth of delivery services in commercial foodservice has impacted the number of full-service restaurant visits. In addition, due to the nature of take-out and delivery orders, guests who choose these options are unable to order alcoholic beverages, which has contributed to a decline in beverage sales at SIR restaurants.

Effective December 18, 2018, Ontario introduced new impaired driving laws, including higher mandatory fines and/or imprisonment for many alcohol-impaired driving offences. In addition, the new legislation gives police officers the authority to demand roadside breathalyzer tests from any driver without reasonable grounds. While SIR supports the initiative to eliminate impaired driving and remains dedicated to responsible alcohol service, SIR believes that the introduction of stricter legislation has contributed to lower alcoholic beverage sales in restaurants.

SIR believes that there was a slowing of growth in the Ontario full-service dining sector during 2018. On January 1, 2018, minimum wage in Ontario increased by 23%. At the same time, most Ontario restaurants increased their prices to mitigate the impact of this large wage increase on their earnings. Subsequent to these events, Ontario restaurant guests appear to be dining out less frequently, as evidenced by Statistics Canada data.

SIR also believes that growth in restaurant sales are correlated with consumer confidence, which declined in 2018, particularly in the last quarter.

Jack Astor's, which accounted for approximately 70% of Pooled Revenue in Q4 2018, had a decline in SSS⁽⁴⁾ of 1.2% in Q4 2018. SIR completed renovations at two Jack Astor's locations in both Q4 2018 (Mississauga and Toronto) and Q4 2017 (two locations in London, Ontario), which resulted in the closure of these restaurants for a combined total of 18 days in Q4 2018 and 15 days in Q4 2017. The 1.2% decline in SSS⁽⁴⁾ for Jack Astor's in Q4 2018 compares to Q4 2017 when Jack Astor's generated strong SSSG⁽⁴⁾ of 5.5%.

Jack Astor's SSSG⁽⁴⁾ of 2.1% in Fiscal 2018 reflects the improved sales performance at certain locations that have been renovated since 2016. SIR plans to continue its renovation program at additional Jack Astor's locations to drive SSSG⁽⁴⁾. Sales have also been positively impacted by the launch of delivery services at the majority of Jack Astor's locations. SIR completed renovations at three additional Jack Astor's locations in Fiscal 2018 (at the 10 Dundas East entertainment complex in downtown Toronto, in Kanata, Ontario, and a partial renovation in Kingston, Ontario). These renovations resulted in closures for an additional 30 days in Fiscal 2018, compared to the closure of six additional Jack Astor's locations for an additional 64 days in Fiscal 2017.

Canyon Creek had declines in SSS⁽⁴⁾ of 3.5% and 2.7% in Q4 2018 and Fiscal 2018. Effective December 9, 2018, SIR permanently closed the Canyon Creek location on Front Street in downtown Toronto, Ontario as the building is being demolished for redevelopment by the landlord. The sales from this location, and from the Canyon Creek location in Etobicoke, which was permanently closed effective October 15, 2017, have been excluded from the calculation of SSS⁽⁴⁾ for Q4 2018 and Fiscal 2018. SIR opened a new Scaddabush restaurant in November of 2017 on the site of the closed Canyon Creek in Etobicoke. SIR's Management continues to evaluate options for the Canyon Creek portfolio to improve performance.

Scaddabush SSS⁽⁴⁾ performance for Q4 2018 and Fiscal 2018 includes four Scaddabush locations (Richmond Hill, Mississauga, and Scarborough, Ontario, and Yonge and Gerrard in downtown Toronto). The new Scaddabush restaurants on Front Street in downtown Toronto and in Oakville, Vaughan, and Etobicoke, Ontario are excluded from the calculation of SSS⁽⁴⁾ in Q4 2018 and Fiscal 2018 as they were not open and included in Pooled Revenue for the entire comparable periods in 2018 and 2017. SSS⁽⁴⁾ declines of 1.6% and 0.1% for Q4 2018 and Fiscal 2018, respectively, compare to Q4 2017 and Fiscal 2017 when Scaddabush generated strong SSSG⁽⁴⁾ of 10.6% and 13.1%, respectively. Subsequent to December 31, 2018, SIR closed the Scaddabush location at the Square One shopping centre in Mississauga, Ontario for six days to complete a renovation. This location, which was the first Scaddabush location and opened in July 2013, received a décor refresh and a major menu update. The new food program implemented at this location was first tested at the Oakville, Ontario Scaddabush location and is expected to be rolled-out to the remainder of the Scaddabush locations in 2019 to drive SSSG⁽⁴⁾.

The downtown Toronto Signature Restaurants generated SSSG⁽⁴⁾ of 4.2% in Q4 2018, and had a SSS⁽⁴⁾ decline of 3.3% in Fiscal 2018. The Loose Moose benefitted from a slight increase in event attendance at major downtown Toronto sporting and entertainment venues in Q4 2018 compared to the same period a year ago, despite increased local competition. The Fiscal 2018 SSS⁽⁴⁾ decline is primarily attributable to an overall decline of more than 20% in event attendance at major downtown Toronto sporting and entertainment venues in Fiscal 2018 in the first nine months of 2018, compared to the same period a year ago. The Signature Restaurants were also impacted by increased local competition in downtown Toronto. The Q4 2018 and Fiscal 2018 SSS⁽⁴⁾ performance for the Signature Restaurants does not include the new Reds restaurant in Mississauga, Ontario ("Reds Square One") which opened during Q4 2017 on December 11, 2017.

Restaurant Renovations

During Q4 2018, SIR completed renovations at two Jack Astor's locations (one location in Mississauga and one location in Toronto). These locations were closed for a combined total of 18 days in the quarter.

Subsequent to Q4 2018, SIR completed three restaurant renovations. A renovation at the Jack Astor's location near Toronto Pearson International Airport resulted in the closure of this restaurant for 10 days. A major renovation at The Loose Moose resulted in the closure of this restaurant for 15 days. The Scaddabush restaurant at the Square One shopping centre in Mississauga, Ontario was closed for six days to complete a renovation. This location, which was the first Scaddabush location (opened in July 2013) received a décor refresh and a major menu update.

During Q3 2018, SIR completed a renovation at the Jack Astor's location in Kanata, Ontario. This location was closed for 10 days in the quarter.

During Q2 2018, Reds Square One was closed for four days for renovations.

During Q1 2018, SIR completed renovations to two Jack Astor's locations, including the location at the 10 Dundas East entertainment complex in downtown Toronto, which was closed for 12 days for a full renovation, and the location in Kingston, Ontario, which was closed for eight days for a partial renovation.

During 2017, SIR completed renovations to eight Jack Astor's locations:

- The locations in Barrie and Whitby, Ontario were closed for a combined total of 16 days in Q1 2017;
- The locations in Vaughan and Brampton, Ontario were closed for a combined total of 19 days in Q2 2017;
- The Front Street location was closed for 20 days during Q2 2017;
- The location in Dartmouth, Nova Scotia was closed for nine days in Q3 2017; and
- Two locations in London, Ontario were closed for a combined total of 17 days in Q4 2017.

SIR's Management is committed to maximizing the performance of all of its restaurants. SIR's Management is pleased with the performance of its recently renovated Jack Astor's locations and plans to continue to implement similar renovations at additional Jack Astor's locations in the future.

New and Closed Restaurants

Currently, SIR owns 59 restaurants and one seasonal retail outlet in Canada. Since the Fund's Initial Public Offering in October 2004, SIR has opened 34 new restaurants (22 Jack Astor's, four Canyon Creek restaurants, six Scaddabush restaurants, two Reds restaurants, one Duke's Refresher, and one seasonal Abbey's Bakehouse restaurant) and one seasonal Abbey's Bakehouse retail outlet, and closed 11 restaurants (four Jack Astor's restaurants, two Canyon Creek restaurants, three Alice Fazooli's restaurants, and two Signature restaurants) and the seasonal Abbey's Bakehouse retail outlet.

During the calendar year 2018, SIR closed the Canyon Creek location on Front Street in downtown Toronto, Ontario, effective December 9, 2018 (Q4 2018) after the landlord executed a demolition clause in the lease agreement. This restaurant ceased to be part of Royalty Pooled Restaurants on January 1, 2019.

Subsequent to December 31, 2018, effective February 4, 2019, SIR closed the Jack Astor's restaurant in the St. Lawrence Market area of downtown Toronto. SIR is required to pay a Make-Whole Payment to the Fund, via the Partnership, for this location from the date of closure until it ceases to be part of Royalty Pooled Restaurants on January 1, 2020, at which time SIR will reconvert the Class A GP Units received when this restaurant was added to Royalty Pooled Restaurants on January 1, 2013 into Class B GP Units. SIR is contemplating the future use of this site. SIR has also chosen not to renew the lease on the property for the seasonal Abbey's Bakehouse retail outlet in Port Carling, Ontario.

During the calendar year 2017, SIR closed three restaurants, including: the Alice Fazooli's location in Oakville, Ontario effective March 19, 2017 (Q1 2017), the Alice Fazooli's location in Vaughan, Ontario effective June 18, 2017 (Q2 2017), and the Canyon Creek restaurant in Etobicoke, Ontario effective October 15, 2017 (Q4 2017). SIR opened new Scaddabush restaurants at each of these locations: Oakville on April 5, 2017 (Q2 2017), Vaughan on July 5, 2017 (Q3 2017), and Etobicoke on November 28, 2017 (Q4 2017). SIR has elected, as is its option, under the License and Royalty Agreement, to treat the closed Alice Fazooli's locations and the closed Canyon Creek location as New Closed Restaurants and to treat the resulting new Scaddabush locations as New Additional Restaurants. The two closed Alice Fazooli's locations and the one closed Canyon Creek location ceased to be part of Royalty Pooled Restaurants on January 1, 2018. The two new Scaddabush restaurants in Oakville and Vaughan were added to Royalty Pooled Restaurants on January 1, 2018. The new Scaddabush restaurant in Etobicoke was added to Royalty Pooled Restaurants on January 1, 2019.

During Q4 2017, on December 11, 2017, SIR opened its new Reds Square One restaurant in Mississauga, Ontario. This Reds restaurant was added to Royalty Pooled Restaurants on January 1, 2019.

SIR has one commitment to lease a property in the Mimico neighbourhood of Etobicoke, Ontario upon which it plans to build one new Scaddabush restaurant. There can be no assurance that this restaurant will be opened or will become part of Royalty Pooled Restaurants.

SIR expects the impact to Royalty Pool Revenue in 2019 and beyond, resulting from the closure of the one Canyon Creek restaurant and one Jack Astor's restaurant, to be offset by the anticipated positive contributions from the addition of new restaurants to the Royalty Pool going forward, and from continued investments by SIR to drive future SSSG⁽⁴⁾.

SIR Management continues to monitor economic conditions and consumer confidence. Based on its assessment of these conditions, the timing of restaurant construction and opening schedules will be reviewed regularly by SIR Management and adjusted as necessary.

Distributions

Distributions to unitholders are intended to be made monthly in arrears based on distributable cash⁽³⁾ and cash redemptions of Fund units and subject to the Fund retaining such reasonable working capital and other reserves as may be considered appropriate by the Trustees of the Fund. It is the Fund's intention to pay even distributions and, if possible, allow the Fund to maintain consistent monthly distributions to unitholders. The Fund intends to make monthly distributions of its available distributable cash⁽³⁾ to the extent possible.

During Q4 2018, monthly distributions of \$0.9 million, or \$0.105 per unit, were declared and paid in each of the months of October, November and December 2018. Subsequent to December 31, 2018, distributions of \$0.105 per unit were declared and paid in the months of January and February 2019, and declared in the month of March 2019.

The payout ratio⁽³⁾ of cash distributed to distributable cash⁽³⁾ is intended to average 100% per annum over the long term. Since the Fund pays even monthly distributions when its underlying cash flow from the Partnership is subject to seasonal fluctuations (as experienced by SIR), there are times during the year when the payout ratio⁽³⁾ may exceed or could be lower than 100%. The payout ratio⁽³⁾ of cash distributed to distributable cash⁽³⁾ for Q4 2018 and Fiscal 2018 was 120.5% and 97.7%, respectively, compared to 109.6% and 98.4% in Q4 2017 and Fiscal 2017, respectively. The payout ratio⁽³⁾ since the Fund's inception in 2004 up to and including Q4 2018 is 99.2%, in line with Fund's target payout ratio of 100%.

Please refer to page 14 for distributable cash⁽³⁾ and a summary of monthly distributions since inception, and page 15 for a description of the Fund's payout ratio⁽³⁾.

Overview and Business of the Fund

On October 1, 2004, the Fund filed a final prospectus for a public offering of units of the Fund. The net proceeds of the Offering of \$51.2 million were used by the Fund to acquire, directly, certain bank debt of SIR and indirectly, through SIR Holdings Trust (the "Trust"), all of the Ordinary LP Units of the Partnership. The Partnership owns the Canadian trademarks (the "SIR Rights") formerly owned or licensed by SIR or its subsidiaries and used in connection with the operation of the majority of SIR's restaurants in Canada. The Partnership has granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenue of the Royalty Pooled Restaurants (the "License and Royalty Agreement"). The Partnership also issued its own securities to SIR in return for the SIR Rights acquired. The Fund indirectly participates in the revenue generated under the License and Royalty Agreement through its investment in the Partnership. The Partnership's financial statements are provided separately at www.sedar.com under the SIR Royalty Income Fund profile "Other" category and on SIR's website at www.sircorp.com.

The units of the Fund are publicly traded on the Toronto Stock Exchange under the symbol SRV.UN.

Overview and Business of SIR and the Partnership

SIR, which stands for Service Inspired Restaurants, is a private company amalgamated under the Business Corporations Act of Ontario. As at December 31, 2018, SIR owned 60 Concept Restaurants and Signature Restaurants in Canada (in Ontario, Quebec, Alberta, Nova Scotia, and Newfoundland). The Concept Restaurants are Jack Astor's Bar and Grill®, Canyon Creek®, and Scaddabush Italian Kitchen & Bar®. The Signature Restaurants are Reds® Wine Tavern, Reds® Midtown Tavern, Reds® Square One, and the Loose Moose Tap & Grill®. SIR also owns a Duke's Refresher® & Bar located in downtown Toronto, and one seasonal restaurant, Abbey's Bakehouse®, which are not part of Royalty Pooled Restaurants. SIR owns 100% of its Canadian restaurants. As at December 31, 2018, 57 SIR Restaurants were included in Royalty Pooled Restaurants (56 operating restaurants and one closed restaurant).

SIR believes that Duke's Refresher has multi-unit growth potential and has advised the Fund that Duke's Refresher should be considered as a potential New Concept Restaurant brand. As such, the earliest that any Duke's Refresher would be added to the Royalty Pool would be the Adjustment Date following the earlier of: (i) the date that four Duke's Refresher restaurants are open for business at the same time, and (ii) 90 days following the end of SIR's fiscal year in which revenues from all Duke's Refresher restaurants in Canada first exceed \$12.0 million (the "Trigger Event"). As neither of these events are expected to occur in 2019, Duke's Refresher is not expected to be added to the Royalty Pool on January 1, 2020.

The Partnership has the option for a period of six months following delivery of notice of the Trigger Event by SIR to purchase, effective on the next Adjustment Date, any and all associated Canadian trade-mark rights in respect of Duke's Refresher (the "Duke's Refresher Rights"), subject to the Partnership licensing the Duke's Refresher Rights back to SIR for a period of 99 years. SIR and the Partnership have the opportunity to negotiate and agree upon the amount of the consideration to be paid to SIR for the Duke's Refresher Rights. Under circumstances that are similar to those involving the SIR Rights, it is expected that the principles underlying the valuation of the Royalty and the Determined Amount as they relate to the SIR Rights shall apply, with necessary changes, to the extent deemed appropriate under the circumstances. If the Partnership

elects not to exercise its option, or if the Partnership and SIR fail to agree on the terms of the purchase of the Duke's Refresher Rights, the Partnership shall have a right of first refusal, so long as the License and Royalty Agreement concerning the SIR Rights remains in effect, and exercisable for a period of 30 days from the date the Partnership receives notice and details of the proposed terms of the third party offer, to purchase the Duke's Refresher Rights should SIR wish to sell, directly or indirectly, all or substantially all of the Duke's Refresher Rights to a third party dealing at arm's length with SIR.

If the Partnership elects not to exercise the foregoing option, then, subject to the right of first refusal, SIR shall be free to operate the business relating to Duke's Refresher and exploit the Duke's Refresher Rights on its own behalf or otherwise.

On January 1 of each year (the "Adjustment Date"), the restaurants subject to the Partnership Agreement are adjusted for new restaurants that have been open for at least 60 days prior to the Adjustment Date and which were not previously included in Royalty Pooled Restaurants. Under the formula as defined in the Partnership Agreement, the number of Class A GP Units issued to SIR on the Initial Adjustment date is equal to 80% of the estimated value of the additional Royalty revenue. Additional Class B GP Units may be converted to Class A GP Units in respect of these new SIR Restaurants if the actual revenues of the new SIR Restaurants exceed 80% of the Initial Adjustment Date's estimated revenue applied to the formula defined in the Partnership Agreement. Conversely, Class A GP Units would be converted to Class B GP Units by SIR if the actual revenues of the new SIR Restaurants are less than 80% of the Initial Adjustment Date's estimated revenue. On January 1 of each year, SIR will reconvert the Class A GP Units received to Class B GP Units for the permanent closure of a SIR Restaurant.

In December of each year, an additional distribution will be payable to the Class B GP Unitholders based on actual revenues of the new SIR Restaurants exceeding 80% of the Initial Adjustment Date's estimated revenue or there will be a reduction in the cash distributions to the Class A GP Unitholders if revenues are less than 80% of the Initial Adjustment Date's estimated revenue. The additional distribution results in an adjustment to SIR's share of the Partnership income to reflect the actual contribution of the revenues of the new SIR Restaurants for the fiscal year. As this amount is not declared until December 31st, when the actual revenues for the New Additional Restaurants are known, the effect of this adjustment is not included in the results of quarters one through three.

The Partnership has granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6.0% of the revenue of the Royalty Pooled Restaurants. The Partnership also issued its own securities to SIR in return for the SIR Rights acquired.

The Class A GP Units are entitled to receive a pro rata share of all residual distributions of the Partnership and are exchangeable into Units of the Fund on a one for one basis. SIR is obligated to pay the Partnership a "Make-Whole Payment", subject to certain terms, initially equal to the amount of the Royalty that otherwise would have been paid to the Partnership in the event of a permanent closure of a Royalty Pooled Restaurant. SIR is not required to pay a "Make-Whole Payment" in respect of a permanently closed Royalty Pooled Restaurant following the date on which the number of restaurants in Royalty Pooled Restaurants is equal to or greater than 68, or following October 12, 2019, whichever occurs first. However, other adjustments or payments may still be required in respect of permanently closed restaurants after such date by SIR, depending upon the circumstances.

On January 1, 2019, two (January 1, 2018 - three) new SIR Restaurants were added to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of two new SIR Restaurants on January 1, 2019 (January 1, 2018 - three), as well as the Second Incremental Adjustment for three new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2018 (January 1, 2017 - one), SIR converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. In addition, there was a re-conversion of Class A GP Units into Class B GP Units for the permanent closure of one (January 1, 2018 - three) SIR Restaurants during 2018. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 197,824 Class B GP Units into 197,824 Class A GP Units (January 1, 2018 - SIR converted 34,810 Class B GP Units into 34,810 Class A GP Units) on January 1, 2019 at a value of \$4.0 million (January 1, 2018 - \$2.8 million).

In addition, the revenues of the three (January 1, 2017 - one new restaurant) new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2018 exceeded 80% of the Initial Adjustment's estimated revenue (January 1, 2017 - revenue of the one new SIR Restaurant was less than 80% of the Initial Adjustment's estimated revenue) and, as a result, a special conversion distribution of \$0.09 million was declared on the Class B GP Units in December 2018 and paid in January 2019 (the distributions of the Class A GP Units were reduced by a special conversion refund of \$0.05 million in December 2017 and paid in January 2018). As a result of the permanent closure of one SIR Restaurant during the year, a Make-Whole Payment totaling \$0.01 million (year ended December 31, 2017 - \$0.3 million) was paid by SIR to the Partnership.

SIR's fiscal year is comprised of 13 periods of four weeks each, ending on the last Sunday in August. To preserve this year-end, an additional week must be added approximately every five years. Fiscal quarters of SIR consist of accounting periods of 12, 12, 12 and 16 (or 17) weeks. SIR's fiscal years for 2017 and 2018 both consist of 52 weeks.

Consolidated financial statements of SIR can be found at www.sedar.com under the SIR Royalty Income Fund profile, "Other" category and on SIR's website at www.sircorp.com.

Seasonality

The full-service restaurant sector of the Canadian foodservice industry, in which SIR operates, experiences seasonal fluctuations in revenues. Favourable summer weather generally results in increased revenues during SIR's fourth quarter (ending the last Sunday in August) when patios have been open for an extended period. Additionally, certain holidays and observances also affect guest dining patterns both favourably and unfavourably. Accordingly, equity income from the Partnership recognized by the Fund will vary in conjunction with the seasonality in revenue experienced by SIR. The Fund's intention is to pay even distributions in order to reduce the effect of seasonality, and if possible, allow the Fund to maintain consistent monthly distributions to unitholders.

Selected Consolidated Financial Information

The consolidated financial statements of the Fund are presented in Canadian dollars, and are prepared in accordance with IFRS. The consolidated financial statements include the accounts of the Fund and its subsidiaries, namely the Trust and SIR GP Inc. The information in this Management's Discussion and Analysis should be read in conjunction with the audited annual consolidated financial statements of the Fund, including the notes thereto. The Fund has been in existence since August 23, 2004, and began operating on October 12, 2004 upon closing of the Offering.

The following table sets out selected financial information of the Fund and the Partnership:

Financial Highlights

(in thousands of dollars or units, except restaurants and per unit amounts)

	Year ended December 31, 2018	Year ended December 31, 2017
Royalty Pooled Restaurants	57	57
Pooled Revenue generated by SIR	300,114	283,034
Royalty income to Partnership - 6% of Pooled Revenue	18,007	16,982
Make-Whole Payment ⁽⁵⁾	12	296
Total Royalty income to Partnership	18,019	17,278
Partnership other income	24	24
Partnership expenses	(80)	(82)
Partnership earnings	17,963	17,220
SIR's interest (Class A, B and C GP Units)	(6,473)	(6,169)
Partnership income allocated to Fund⁽⁶⁾	11,490	11,051
Interest income on SIR Loan ⁽⁷⁾	-	3,000
Change in estimated fair value of the SIR Loan ⁽⁷⁾	(3,500)	-
	7,990	14,051
General & administrative expenses	(443)	(439)
Net earnings before income taxes of the Fund	7,547	13,612
Income tax recovery (expense)	(2,432)	(3,798)
Net earnings for the period	5,115	9,814
Basic earnings per Fund unit	\$0.61	\$1.17
Weighted average number of Fund units outstanding – Basic	8,376	8,376
Net earnings for the period – Diluted	7,584	12,134
Weighted average number of Class A GP Units	N/A	1,981
Weighted average number of Fund units outstanding – Diluted	N/A	10,357
Diluted earnings per Fund unit	\$0.61	\$1.17

For the Fiscal 2018, the conversion of the Class A GP Units into Fund units is anti-dilutive. Therefore, the Class A GP Units are excluded from the calculation of diluted earnings per Fund unit.

(5) The Alice Fazooli's restaurants in Oakville and Vaughan, Ontario were closed effective March 19, 2017 and June 18, 2017, respectively, the Canyon Creek restaurant in Etobicoke, Ontario was closed effective October 15, 2017, and the Canyon Creek restaurant on Front Street in downtown Toronto, Ontario was closed effective December 9, 2018. Under the terms of the License and Royalty Agreement, SIR is required to pay a Make-Whole Payment for these locations equal to the amount of the royalty otherwise payable from the date of the closure until December 31st of the year of closure.

(6) The Fund, indirectly through the Trust, holds all of the Ordinary LP Units and Class A LP Units of the Partnership. The holders of the Ordinary LP Units and Class A LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership.

(7) Under IFRS 9, adopted on January 1, 2018, the SIR Loan will be recognized at fair value with changes in fair value being recorded in the consolidated statement of earnings. Prior year comparatives were not restated and accordingly continued to be reported as interest income on the SIR Loan.

Summary of Quarterly Financial Information

<i>(in thousands of dollars or units, except restaurants and per unit amounts)</i>	Three-month periods ended							
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Royalty Pooled Restaurants	57	57	57	57	57	57	57	57
Pooled Revenue generated by SIR	72,936	79,277	79,093	68,808	69,528	74,555	74,477	64,474
Royalty income to Partnership - 6% of Pooled Revenue	4,376	4,757	4,746	4,128	4,172	4,473	4,469	3,868
Make-Whole Payment ⁽⁵⁾	12	-	-	-	67	-	99	130
Total Royalty income to Partnership	4,388	4,757	4,746	4,128	4,239	4,473	4,568	3,998
Partnership other income	6	6	6	6	6	6	6	6
Partnership expenses	(17)	(22)	(20)	(21)	(17)	(21)	(21)	(23)
Partnership earnings	4,377	4,741	4,732	4,113	4,228	4,458	4,553	3,981
SIR's interest (Class A, B and C GP Units)	(1,652)	(1,650)	(1,645)	(1,526)	(1,498)	(1,583)	(1,599)	(1,489)
Partnership income allocated to Fund⁽⁶⁾	2,725	3,091	3,087	2,587	2,730	2,875	2,954	2,492
Interest income on SIR Loan ⁽⁷⁾	-	-	-	-	750	750	750	750
Change in estimated fair value of the SIR Loan ⁽⁷⁾	(5,250)	3,500	(250)	(1,500)	-	-	-	-
General & administrative expenses	(2,525)	6,591	2,837	1,087	3,480	3,625	3,704	3,242
Net earnings (loss) before income taxes of the Fund	(104)	(105)	(118)	(116)	(101)	(103)	(118)	(117)
Income tax recovery (expense)	(2,629)	6,486	2,719	971	3,379	3,522	3,586	3,125
Net earnings (loss) for the period	(124)	(1,962)	(774)	428	(1,062)	(941)	(961)	(834)
Net earnings (loss) for the period	(2,753)	4,524	1,945	1,399	2,317	2,581	2,625	2,291
Basic earnings (loss) per Fund unit	(\$0.33)	\$0.54	\$0.23	\$0.17	\$0.28	\$0.31	\$0.31	\$0.27
Weighted average number of Fund units outstanding – Basic	8,376	8,376	8,376	8,376	8,376	8,376	8,376	8,376
Net earnings (loss) for the period – Diluted	(2,160)	5,181	2,598	1,965	2,863	3,192	3,246	2,833
Weighted average number of Class A GP Units	N/A	2,016	N/A	N/A	1,981	1,981	1,981	1,981
Weighted average number of Fund units outstanding – Diluted	N/A	10,392	N/A	N/A	10,357	10,357	10,357	10,357
Diluted earnings (loss) per Fund unit	(\$0.33)	\$0.50	\$0.23	\$0.17	\$0.28	\$0.31	\$0.31	\$0.27

In Q1 2018, Q2 2018 and Q4 2018, the Class A GP Units are excluded from the calculation of diluted earnings per Fund unit, as the conversion is anti-dilutive.

Adjusted Net Earnings⁽¹⁾ and Adjusted Earnings per Fund unit⁽²⁾

Adjusted Net Earnings⁽¹⁾ and Adjusted Earnings per Fund unit⁽²⁾ are financial measures that do not have standardized meanings prescribed by IFRS. They are used by the Fund to supplement its reporting of net earnings (loss), net cash flow and earnings (loss) per Fund unit. Adjusted Net Earnings⁽¹⁾ consist of net earnings (loss) excluding the after-tax non-cash portion of the change in estimated fair value of the SIR Loan and including interest income on the SIR Loan. Adjusted Earnings per Fund unit⁽²⁾ is the portion of Adjusted Net Earnings⁽¹⁾ allocated to each outstanding Fund unit. The Fund believes that Adjusted Net Earnings⁽¹⁾ and Adjusted Earnings per Fund unit⁽²⁾ are useful estimates of the core business' contribution to cash flow from operations and uses these measures as a supplemental measure of the Fund's performance. Similarly, the Fund believes that certain investors may also find these non-GAAP financial measures to be useful measures for their independent evaluation of the Fund's performance.

The following table reconciles net earnings (loss) for the period to Adjusted Net Earnings⁽¹⁾ and calculates Adjusted Earnings per Fund unit⁽²⁾:

<i>(in thousands of dollars or units, except per unit amounts)</i>	Three-month period ended December 31, 2018	Three-month period ended December 31, 2017	12-month period ended December 31, 2018	12-month period ended December 31, 2017
Net earnings (loss) for the period	(2,753)	2,317	5,115	9,814
Change in estimated fair value of the SIR Loan	5,250	-	3,500	-
Interest received on SIR Loan	750	-	3,000	-
Deferred tax recovery	(1,071)	-	(1,338)	-
Adjusted Net Earnings⁽¹⁾	2,176	2,317	10,277	9,814
Adjusted Basic Earnings per Fund unit ⁽²⁾	\$0.26	\$0.28	\$1.23	\$1.17
Weighted average number of Fund units outstanding – Basic	8,376	8,376	8,376	8,376

The Fund declared and paid a distribution of \$0.095 per unit in each of the months of January to March 2018 inclusive, \$0.10 per unit in each of the months of April to August 2018, inclusive, and \$0.105 per unit in each of the months of September to December 2018, inclusive. Subsequent to December 31, 2018, a distribution of \$0.105 per unit was declared and paid in the months of January and February 2019. Another distribution of \$0.105 per unit was declared in March 2019 and scheduled to be paid at the end of the month.

Distributable Cash⁽³⁾

(in thousands of dollars or units, except per unit amounts and payout ratio⁽³⁾*)*

	Year ended December 31, 2018	Year ended December 31, 2017
Cash provided by operating activities	10,015	9,748
Add/(deduct):		
Net change in non-cash working capital items ⁽⁸⁾	(283)	217
Net change in income tax payable ⁽⁸⁾	360	(311)
Net change in distribution receivable from the Partnership ⁽⁸⁾	237	216
Distributable cash ⁽³⁾	10,329	9,870
Cash distributed for the period	10,093	9,716
Surplus/(shortfall) of distributable cash ⁽³⁾	236	154
Payout ratio ^{(3), (9)}	97.7%	98.4%
Weighted average number of Fund units outstanding –		
Basic	8,376	8,376
Distributable cash ⁽³⁾ per Fund unit – Basic	\$1.23	\$1.18
Distributable cash ⁽³⁾ for the period – Diluted ¹⁰	12,797	12,189
Weighted average number of Class A GP Units	2,016	1,981
Weighted average number of Fund units outstanding –		
Diluted	10,392	10,357
Distributable cash ⁽³⁾ per Fund unit – Diluted	\$1.23	\$1.18

(8) *Distributable cash is adjusted to exclude the net change in non-cash working capital items, the net change in income tax payable, and the net change in the distribution receivable from the Partnership, as the Fund's working capital requirements are not permanent and are primarily due to the timing of payments.*

(9) *It is the Fund's intention to pay even distributions to reduce the effect of seasonality. Higher payout ratios during the colder months of the year are expected with the pattern of seasonality in SIR's business, and it is anticipated that the payout ratio will decrease on average during the warm weather months.*

(10) *Diluted distributable cash per Fund unit is as follows: Distributable cash for the period, plus the distributions, net of income tax expense (recovery), related to the Class A GP Units, divided by the weighted average number of Fund units outstanding. The weighted average number of Fund units outstanding represents the weighted average number of Fund units outstanding (basic) plus the weighted average number of convertible Class A GP Units.*

**SIR ROYALTY INCOME FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

Distributable Cash⁽³⁾

(in thousands of dollars or units, except per unit amounts and payout ratio⁽³⁾)

	Three-month periods ended							
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Cash provided by operating activities	2,679	2,534	2,492	2,310	2,596	2,429	2,250	2,473
Add/(deduct): Net change in non-cash working capital items	407	(111)	(124)	(455)	571	(102)	50	(302)
Net change in income tax payable	(248)	55	39	514	(228)	(108)	(115)	140
Net change in distribution receivable from the Partnership	(649)	380	417	89	(608)	376	454	(6)
Distributable cash⁽³⁾	2,189	2,858	2,824	2,458	2,331	2,595	2,639	2,305
Cash distributed for the period	2,639	2,554	2,513	2,387	2,555	2,387	2,387	2,387
Surplus/(shortfall) of distributable cash⁽³⁾	(450)	304	311	71	(224)	208	252	(82)
Payout ratio⁽³⁾	120.5%	89.4%	89.0%	97.1%	109.6%	92.0%	90.4%	103.6%
Weighted average number of Fund units outstanding – Basic	8,376	8,376	8,376	8,376	8,376	8,376	8,376	8,376
Distributable cash ⁽³⁾ per Fund unit – Basic	\$0.26	\$0.34	\$0.34	\$0.29	\$0.28	\$0.31	\$0.32	\$0.28
Distributable cash ⁽³⁾ for the period – Diluted	2,781	3,515	3,477	3,024	2,876	3,206	3,260	2,847
Weighted average number of Class A GP Units	2,016	2,016	2,016	2,016	1,981	1,981	1,981	1,981
Weighted average number of Fund units outstanding – Diluted	10,392	10,392	10,392	10,392	10,357	10,357	10,357	10,357
Distributable cash ⁽³⁾ per Fund unit – Diluted	\$0.26	\$0.34	\$0.34	\$0.29	\$0.28	\$0.31	\$0.32	\$0.28

A history of distributions is as follows:

Months Paid	Distribution per Unit
Inception to May 2006	\$0.100
June 2006 to May 2007	\$0.105
June 2007 to May 2008	\$0.110
June 2008 to January 2011	\$0.115
February 2011 to May 2012	\$0.083 ⁽¹¹⁾
June 2012 to May 2013	\$0.088
June 2013 to March 2018	\$0.095
April 2018 to August 2018	\$0.100
September 2018 to date	\$0.105
December 2012 Special Distribution	\$0.05 ⁽¹²⁾
December 2017 Special Distribution	\$0.02 ⁽¹²⁾

Beginning with the payment in September 2018, the Fund raised its monthly unitholder distributions from \$0.010 per unit to \$0.105 per unit, representing \$1.26 per unit on an annualized basis.

(11) As a result of certain legislative changes to the tax treatment of income trusts, corporate income taxes became applicable to the taxable income of the Fund effective January 1, 2011. Accordingly, the distributions, starting with the January 2011 distribution (declared and paid in February 2011), were reduced for the impact of income taxes.

(12) The special year-end distributions of \$0.05 per unit declared in December 2012 (paid in January 2013) and \$0.02 per unit declared and paid in December 2017 were declared because the Fund expected that the taxable income generated in these calendar years would exceed the aggregate monthly distributions declared by the Fund.

The payout ratio⁽³⁾ of cash distributed to distributable cash⁽³⁾ for Q4 2018 was 120.5%, compared to 109.6% in Q4 2017. The payout ratio⁽³⁾ of cash distributed to distributable cash for Fiscal 2018 was 97.7%, compared to 98.4% in Fiscal 2017. The increase in the payout ratio⁽³⁾ for Q4 2018 is the result of a decrease in distributable cash, resulting primarily from an increase in income taxes paid, and an increase in the distributions of the Fund compared to the same period in the prior year. The decrease in the payout ratio⁽³⁾ for Fiscal 2018 is primarily the result of an increase in distributable cash, resulting primarily from an increase in distributions received from the Partnership, partially offset by an increase in the distributions of the Fund, compared to the same periods in the prior year. The payout ratio⁽³⁾ of cash distributed to distributable cash⁽³⁾ is intended to average 100% per annum over the long term. Since the Fund pays even monthly distributions when its underlying cash flow from the Partnership is subject to seasonal fluctuations (as experienced by SIR), there are times during the year when the payout ratio⁽³⁾ may exceed or could be lower than 100%. For example, the first quarter typically has lower sales volumes than the second and third quarters which include warmer summer months when patios are open.

Since the Fund's inception in October 2004 up to and including Q4 2018, the Fund has generated \$108.8 million in cumulative distributable cash⁽³⁾ and has paid cumulative cash distributions of \$107.9 million, representing a cumulative payout ratio⁽³⁾ (the ratio of cumulative cash distributions paid since inception to cumulative distributable cash⁽³⁾ generated) of 99.2%. Based on current business and economic conditions, the Fund's Trustees intend to maintain its current distribution levels at this time. However, should the distributions from the Partnership decline, or the expenses of the Fund increase, the Fund may have to reduce distributions.

The following table provides disclosure regarding the relationship between cash flows from operating activities and net earnings, and historical distributed cash amounts:

<i>(in thousands of dollars)</i>	Year ended December 31, 2018	Year ended December 31, 2017
Cash provided by operating activities	10,015	9,748
Net earnings for the period	5,115	9,814
Cash distributed for the period	10,093	9,716
Excess (shortfall) of cash provided by operating activities over cash distributed for the period⁽¹³⁾	(78)	32
Excess of net earnings for the period over cash distributed for the period⁽¹⁴⁾	(4,978)	98

The \$0.08 million shortfall of cash provided by operating activities over cash distributed for Fiscal 2018 is primarily attributable to an increase in distributions paid by the Fund, partially offset by an increase in distributions from the Partnership for the period. The \$5.0 million shortfall of net earnings over cash distributed for Fiscal 2018 is the result of a decrease in net earnings, primarily related to the impact of IFRS 9, partially offset by an increase in distributions from the Partnership for the period.

⁽¹³⁾ Excess (shortfall) of cash provided by operating activities over cash distributed for the period is calculated by subtracting the cash distributed for the period from cash provided by operating activities.

⁽¹⁴⁾ Excess of net earnings for the period over cash distributed for the period is calculated by subtracting cash distributed for the period from net earnings for the period.

Balance Sheet

The following table shows total assets and unitholders' equity of the Fund:

<i>(in thousands of dollars)</i>	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Total assets	91,479	98,171	95,023	95,605	95,317	95,861	95,460	95,160
Unitholders' equity	86,518	91,909	89,939	90,507	90,333	90,571	90,377	90,139

Results of Operations - Fund

The Fund's income for Q4 2018 comprises equity income from the Partnership of \$2.7 million (\$2.7 million for Q4 2017), interest income of \$nil (\$0.8 million for Q4 2017) and a change in estimated fair value of the SIR Loan of \$5.3 million (\$nil for Q4 2017). The Fund's income for Fiscal 2018 comprises equity income from the Partnership of \$11.5 million (\$11.1 million for Fiscal 2017), interest income of \$nil (\$3.0 million for Fiscal 2017) and a change in estimated fair value of the SIR Loan of \$3.5 million (\$nil for Fiscal 2017). Equity income from the Partnership is the pro rata share of the residual distributions of the Partnership for the three-month and 12-month periods ended December 31, 2018 and December 31, 2017. The increase in equity income from the Partnership is due to an increase in the earnings of the Partnership driven primarily by SSSG⁽⁴⁾ compared to Fiscal 2017. Interest income is interest earned for the three-month and 12-month periods ended December 31, 2017 from the \$40.0 million SIR Loan which bears interest at 7.5% per annum. The change in estimated fair value of the SIR Loan is related to the adoption of IFRS 9 on January 1, 2018, which requires the Fund to recognize the SIR Loan at fair value, with changes in the fair value being recorded in the statement of earnings.

The Fund's operating expenses, which are limited to general and administrative expenses, totaled \$0.1 million and \$0.4 million for Q4 2018 and Fiscal 2018, respectively (\$0.1 million and \$0.4 million for Q4 2017 and Fiscal 2017, respectively). These expenses include professional fees, directors' and officers' liability insurance premiums, Trustees' fees, certain public company costs and other administrative fees.

The Fund recorded an income tax expense of \$0.1 million and \$2.4 million for Q4 2018 and Fiscal 2018, respectively (\$1.1 million and \$3.8 million for Q4 2017 and Fiscal 2017, respectively).

Net loss was \$2.8 million for Q4 2018 and net earnings were \$5.1 million for Fiscal 2018 (net earnings of \$2.3 million and \$9.8 million for Q4 2017 and Fiscal 2017, respectively). Loss per Fund unit for Q4 2018 on a basic and diluted basis was \$0.33, and earnings per Fund unit on a basic and diluted basis were \$0.61 for Fiscal 2018 (basic and diluted earnings per Fund unit were \$0.28 and \$1.17 for Q4 2017 and Fiscal 2017, respectively). Adjusted Net Earnings⁽¹⁾ were \$2.2 million and \$10.3 million for Q4 2018 and Fiscal 2018, respectively (\$2.3 million and \$9.8 million for Q4 2017 and Fiscal 2017, respectively), and Adjusted Earnings per Fund unit⁽²⁾ were \$0.26 and \$1.23 for Q4 2018 and Fiscal 2018, respectively (\$0.28 and \$1.17 for Q4 2017 and Fiscal 2017, respectively).

Pooled Revenue

The Fund is indirectly dependent on the amount of the Royalty paid by SIR to the Partnership. The amount of this Royalty is dependent on Pooled Revenue. Pooled Revenue is the revenue of the SIR Restaurants included in Royalty Pooled Restaurants. As at December 31, 2018, there were 57 restaurants included in Royalty Pooled Restaurants (56 operating restaurants and one closed restaurant). Increases or decreases in Pooled Revenue are derived from SSS⁽⁴⁾ growth or declines, and new or permanently closed SIR Restaurants subject to the SIR Rights. Pooled Revenue is affected by the risks associated with the operations and financial condition of SIR, the commercial foodservice industry generally and the casual and fine dining segment of the commercial foodservice industry in particular.

The following table sets out Pooled Revenue for the three-month and 12-month periods ended December 31, 2018 and December 31, 2017:

Summary of Pooled Revenue

(in thousands of dollars except
number of restaurants
included in Pooled Revenue)
(unaudited)

	Three-month period ended December 31, 2018		Three-month period ended December 31, 2017		12-month period ended December 31, 2018		12-month period ended December 31, 2017	
	Restaurants included in		Restaurants included in		Restaurants included in		Restaurants included in	
	Pooled Revenue	Pooled Revenue	Pooled Revenue	Pooled Revenue	Pooled Revenue	Pooled Revenue	Pooled Revenue	Pooled Revenue
Jack Astor's	51,248	40	51,856	40	216,014	40	211,513	40
Canyon Creek	6,032	7	6,620	8	23,098	7	26,605	8
Scaddabush/Alice Fazooli's	10,557	7	6,159	6	41,760	7	25,021	6
Signature	5,099	3	4,893	3	19,242	3	19,895	3
Total included in Pooled Revenue	72,936	57	69,528	57	300,114	57	283,034	57

The Pooled Revenue decline for Jack Astor's in Q4 2018 is a result of a SSS⁽⁴⁾ decline in the quarter. The Pooled Revenue growth for Jack Astor's in Fiscal 2018 is a result of SSSG⁽⁴⁾, partially reflecting the closure of fewer restaurants for renovations in Fiscal 2018 compared to Fiscal 2017.

The declines in Pooled Revenue for Canyon Creek in Q4 2018 and Fiscal 2018 are the result of the removal of the Canyon Creek restaurant in Etobicoke, Ontario from the Royalty Pool on January 1, 2018 after its closure in 2017, the closure of the Canyon Creek restaurant on Front Street in downtown Toronto, Ontario during Q4 2018, and SSS⁽⁴⁾ declines.

Pooled Revenue from Scaddabush for Q4 2018 and Fiscal 2018 includes seven Scaddabush restaurants. The seven Scaddabush restaurants consist of five Scaddabush restaurants that opened as New Additional Restaurants (Yonge and Gerrard, and Front Street in downtown Toronto, and Scarborough, Oakville, and Vaughan, Ontario) and two Scaddabush restaurants that were converted from Alice Fazooli's restaurants (Richmond Hill and Mississauga, Ontario). Pooled Revenue growth for Scaddabush in Q4 2018 and Fiscal 2018 reflects one additional restaurant, compared to the corresponding periods a year ago, and overall strong sales performance. The Scaddabush Pooled Revenue for Q4 2018 and Fiscal 2018 excludes the revenue of the new Scaddabush restaurant in Etobicoke, Ontario, which was added to Royalty Pooled Restaurants on January 1, 2019.

Pooled Revenue from Scaddabush in Q4 2017 and Fiscal 2017 includes six Scaddabush restaurants: Yonge and Gerrard in downtown Toronto, Richmond Hill, Mississauga, and Scarborough, Ontario, as well as the now closed Alice Fazooli's locations in Oakville and Vaughan, Ontario. The Scaddabush location on Front Street in downtown Toronto was opened during Q4 2016 and is not included the calculation of Pooled Revenue for Q4 2017 and Fiscal 2017 as it was not added to the Royalty Pool until January 1, 2018.

The decline in Pooled Revenue for the Signature Restaurants in Fiscal 2018 is primarily the result of a SSS⁽⁴⁾ decline.

Liquidity and Capital Resources

The Fund has no third party debt. SIR currently has the \$40.0 million SIR Loan owed to the Fund (which SIR can surrender its Class C GP Units as consideration for principal payments under the loan) and a credit agreement ("Credit Agreement") with a Schedule I Canadian chartered bank (the Lender), a copy of which has been filed on SEDAR. The credit agreement is "permitted indebtedness" within the meaning of the agreements between the Fund, the Partnership and SIR, and as a result the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against SIR to the claims of the Lender. This subordination, which includes a subordination of the Partnership's rights under the License and Royalty Agreement between the Partnership and SIR whereby the Partnership licenses to SIR the right to use trade-marks and related intellectual property in return for royalty payments based on revenues, has been effected pursuant to the terms of the Intercreditor Agreement. A copy of the Intercreditor Agreement has also been filed on SEDAR.

The Credit Agreement between SIR and the Lender, as amended on December 8, 2017 and July 6, 2018, provides for a maximum principal amount of \$50.0 million consisting of a \$20.0 million revolving term credit facility (Credit Facility 1), and a \$30.0 million revolving term loan (Credit Facility 2). SIR and the Lender have also entered into a purchase card agreement providing credit of up to an additional \$5.0 million.

Credit Facility 1 is for general corporate and operating purposes, including capital spending on new and renovated restaurants, bearing interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%, principal repaid in one bullet repayment on July 6, 2021. A standby fee of 0.65% is charged on the undrawn balance of Credit Facility 1. Provided SIR is in compliance with the Credit Agreement, the principal amount of Credit Facility 1 can be repaid and reborrowed at any time during the term of the agreement. Credit Facility 2 bears interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%. Under the Credit Agreement, subsequent advances on Credit Facility 2 may be requested (subject to availability and lender approval), in minimum multiples of \$1.0 million, to finance capital spending on new and renovated restaurants. Each advance under Credit Facility 2 is repayable in equal quarterly instalments based on a seven-year amortization, with the remaining outstanding principal balance due on July 6, 2021.

The Credit Agreement is secured by substantially all of the assets of SIR and most of its subsidiaries, which are also guarantors. The Partnership and the Fund have not guaranteed the Credit Agreement.

Under the Intercreditor Agreement, absent a default or event of default under the Credit Agreement, ordinary payments to the Fund and the Partnership can continue and the Partnership can exercise any and all of its rights to preserve the trademarks and related intellectual property governed by the License and Royalty Agreement. However, if a default or an event of default were to occur, the Fund and the Partnership agree not to take actions on their security until the Lender has been repaid in full. However, payments by SIR, to the Fund and the Partnership, will be permitted for such amounts as are required to fund their monthly operating expenses, up to an annual limit. In addition, the Fund, the Partnership and SIR will have the right, acting cooperatively, to reduce payments of Royalties and/or interest on the SIR Loan without triggering a cross default under the Credit Agreement, by up to 50% for a period of up to nine consecutive months. SIR and each Obligor provided an undertaking to cooperate and explore all options with the Fund to maximize value to the Fund's unitholders and SIR and its shareholders in exchange for the Subordinating Parties not demanding repayment or enforcing security as a result of any such Related Party Obligation Default. The Intercreditor Agreement also contains various other typical covenants of the Fund and the Partnership.

SIR believes and has advised the Fund that it expects to be able to comply with the covenants under the debt and service the debt, as well as meet its other obligations. However, there can of course be no assurance of this. If SIR were to be unable to do so, this could have material adverse consequences on SIR and the Fund, and SIR in such circumstances would seek to cooperate with the Fund to protect stakeholder interests.

The Fund does not have bank lines of credit. The Fund therefore relies on the payments of the distributions from the Partnership and interest received from SIR to meet its obligations to pay the distributions. The Fund believes that the distributions from the Partnership and interest payments will be sufficient to meet its current distribution intentions, subject to seasonal fluctuations. However, the actual amounts distributed will depend upon numerous factors, including the payment of the distributions from the Partnership and interest by SIR, and could fluctuate based on performance. The Fund intends to maintain even distributions in order to reduce the effect of fluctuations in revenue and, if possible, allow the Fund to maintain consistent monthly distributions to unitholders. Under the terms of the License and Royalty Agreement, SIR is required to pay the 6.0% Royalty to the Partnership 21 days after the end of the four-week or five-week period for which the Royalty is determined.

The Fund did not have any capital expenditures in Q4 2018 and in Fiscal 2018 and by its nature is not expected to have significant capital expenditures in the future. Capital expenditures related to Royalty Pooled Restaurants are borne at the operating company (SIR) level. The Fund's operating and administrative expenses are expected to be fairly stable and predictable and are considered to be in the ordinary course of business.

Management currently believes that there are sufficient cash resources retained in the Partnership in order to meet its current obligations and pay distributions to its unitholders. The Fund intends to continue to pay monthly distributions consistent with the most recent distribution declared in March 2019 for the near future. However, should the distributions from the Partnership decline, or the expenses of the Fund increase, the Fund may have to reduce distributions.

While SIR is not owned by the Fund, the Fund's cash flows are derived from interest received on the SIR Loan and distributions from the Partnership and accordingly, the Fund is economically dependent upon SIR. Credit risk arises from the potential default of SIR on the SIR Loan. Management monitors the SIR Loan for credit risk and to date all interest payments have been made. The Fund also depends on the distributions from the Partnership, which are dependent upon SIR paying the Royalty to the Partnership. Information regarding SIR and its liquidity can be found in SIR's unaudited interim and audited annual consolidated financial statements and MD&A, which can be found on SEDAR under the Fund's listing named "Other". The most recent unaudited interim consolidated financial statements and MD&A for SIR's first quarter are listed having a filing date of December 20, 2018.

The following table is an excerpt of the previous eight quarters of SIR's consolidated statement of cash flows information:

<i>Selected Unaudited Consolidated Statement of Cash Flows Information</i> ⁽¹⁵⁾	1st Quarter Ended November 18, 2018 (12 weeks)	4th Quarter Ended August 26, 2018 (16 weeks)	3rd Quarter Ended May 6, 2018 (12 weeks)	2nd Quarter Ended February 11, 2018 (12 weeks)	1st Quarter Ended November 19, 2017 (12 weeks)	4th Quarter Ended August 27, 2017 (16 weeks)	3rd Quarter Ended May 7, 2017 (12 weeks)	2nd Quarter Ended February 12, 2017 (12 weeks)
	(in thousands of dollars) (unaudited)							
Cash provided by (used in) operations	(3,491)	11,241	5,440	(501)	(434)	10,672	4,334	(1,404)
Cash used in investing activities	(1,706)	(1,507)	(1,962)	(5,528)	(3,814)	(5,194)	(2,709)	(2,660)
Cash provided by (used in) financing activities	4,558	(7,910)	(3,568)	4,837	3,939	(3,528)	(1,928)	3,151
Increase (decrease) in cash and cash equivalents during the period	(639)	1,824	(90)	(1,192)	(309)	1,950	(303)	(913)
Cash and cash equivalents – Beginning of period	4,783	2,959	3,049	4,241	4,550	2,600	2,903	3,816
Cash and cash equivalents – End of period	4,144	4,783	2,959	3,049	4,241	4,550	2,600	2,903

⁽¹⁵⁾ Information presented is in accordance with IFRS and is derived solely from documents filed with the Canadian securities regulatory authorities by SIR in its interim Q1 2019 MD&A filed on December 20, 2018 and has not been approved by the Fund or its Trustees, officers, SIR GP Inc., or SIR Holdings Trust, or their respective Trustees, managing general partners, directors, or officers.

Controls and Procedures

Disclosure controls and procedures:

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and includes controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Management carried out an evaluation of the effectiveness of the design and operation of the Fund's disclosures controls and procedures, as defined in National Instrument 52-109, "Certification of Disclosure in Issuer's Annual and Interim Filings", as at December 31, 2018 under the supervision of and with the participation of the Fund's Chief Executive Officer and Chief Financial Officer.

Based on that evaluation, the Fund's Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective as at December 31, 2018.

Internal controls over financial reporting:

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS and includes those policies and procedures that:

- a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets;
- b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; and
- c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Management carried out an evaluation of the effectiveness of the design and operation of the Fund's internal controls over financial reporting, as defined in National Instrument 52-109, "Certification of Disclosure in Issuer's Annual and Interim Filings", as at December 31, 2018 and under the supervision and with the participation of the Fund's Chief Executive Officer and Chief Financial Officer. The evaluation was conducted using the framework and criteria established in Internal Control - Integrated Framework: 2013, issued by the Committee of Sponsoring Organizations of the Treadway Commission in May 2013.

Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that internal controls over financial reporting are effective and there are no material weaknesses in the Fund's internal controls over financial reporting as at December 31, 2018. There have been no substantive changes in the Fund's internal controls over financial reporting that occurred during the most recent interim period beginning October 1, 2018 and ending December 31, 2018, that have materially affected, or are reasonably likely to materially affect the Fund's internal control over financial reporting. The Fund does not own, control or consolidate SIR and therefore, the Fund's disclosure controls and procedures and the internal controls over financial reporting do not encompass SIR or SIR's disclosure controls and procedures or SIR's internal controls over financial reporting.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Off-Balance Sheet Arrangements

The Fund does not have any off-balance sheet arrangements.

Transactions with Related Parties

During the three-month and 12-month periods ended December 31, 2018, the Fund earned equity income of \$2.7 million and \$11.5 million, respectively, from the Partnership (\$2.7 million and \$11.1 million for the three-month and 12-month periods ended December 31, 2017, respectively). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. The Fund's equity income is dependent upon the revenue generated by the SIR Restaurants subject to the License and Royalty Agreement.

During the three-month and 12-month periods ended December 31, 2018, the Fund received interest payments of \$0.8 million and \$3.0 million, respectively, from the SIR Loan (\$0.8 million and \$3.0 million for the three-month and 12-month periods ended December 31, 2017, respectively). A description of the terms of the SIR Loan is included in the notes to the consolidated financial statements of the Fund for the 12-month period ended December 31, 2018.

As at December 31, 2018, the Fund had amounts receivable from SIR of \$0.3 million (December 31, 2017 – \$0.3 million) and distributions receivable from the Partnership of \$3.9 million (December 31, 2017 – \$3.7 million). The amount receivable from SIR relates to the interest owing to the Fund on the SIR Loan for the month of December. As at December 31, 2018, the Fund had advances payable to the Partnership of \$2.8 million (December 31, 2017 - \$2.5 million). All advances were conducted as part of the normal course of business operations.

Critical Accounting Estimates

The Fund makes estimates and assumptions concerning the future that will by definition seldom equal actual results. The following are estimates and judgments that could have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Investment in the Partnership/consolidation of structured entities

The Partnership receives royalties on the SIR Rights, which are licensed to SIR for use in Royalty Pooled Restaurants. The Fund and SIR each hold an investment in the Partnership. Generally, the Partnership units have no voting rights, except in certain specified conditions.

The determination of the entity having the ability to affect the returns on their investment in the Partnership required significant judgment. Based on an evaluation of the activities of the Partnership and the Partnership Agreement, management concluded the substance of the relationships between the Partnership, SIR and the Fund indicates the Partnership is controlled by SIR. In addition, the evaluation of whether or not the Fund has significant influence over the Partnership is a matter of significant judgment. Based on a review of the operating and financing activities of the Partnership, management has concluded that the Fund is able to significantly influence these activities.

Valuation of the SIR Loan and investment in the Partnership

Management reviews for objective evidence whether there may be an impairment of the SIR Loan or the investment in the Partnership. The review includes a review of the earnings, cash flows and available cash of SIR on a prospective basis to assess SIR's ability to meet its obligations to the Fund for interest payments on the SIR Loan and to the Partnership for the Royalty. Based on the analysis completed during the years ended December 31, 2018 and 2017, no impairments have been recorded in the consolidated financial statements.

Fair value of the SIR Loan

On January 1, 2018, the Fund adopted IFRS 9 which resulted in a change in accounting for the SIR Loan. The SIR Loan is now accounted for at fair value through the statement of earnings which required management to discount the cash flows using a market interest rate. Management has estimated the discount rate by considering comparable corporate bond rates, risk free rates and SIR's credit risk.

During the three-month period ended December 31, 2018, management adjusted the discount rate from 7.05% at September 30, 2018 to 8.46% at December 31, 2018. The adjustment primarily consists of an estimated increase in the corporate bond rate and the comparative risk-free rate of 1.69%, and a decrease of 0.30% in the Canadian risk-free rate.

During the 12-month period ended December 31, 2018, management adjusted the discount rate from 7.0% at January 1, 2018 to 8.46% at December 31, 2018. The adjustment primarily consists of an estimated increase in the corporate bond rate and the comparative risk-free rate of 1.61%, offset by an increase of 0.15% in the Canadian risk-free rate.

Management believes that there is no change in SIR's credit risk during Q4 2018 and Fiscal 2018. The fair value of the SIR Loan is sensitive to changes in the discount rate. A 0.25% increase or decrease in the discount rate will result in a \$1.0 million decrease or increase in the fair value of the SIR Loan

Changes in Accounting Policies, Including Initial Adoption

The following new pronouncements were adopted during Fiscal 2018.

IFRS 9, Financial Instruments – Classification and Measurement

In July 2014, the International Accounting Standards Board (IASB), issued the final version of IFRS 9, Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires the Fund to record a provision for the expected credit losses on its amounts due from related parties which management has determined is not material to the consolidated financial statements.

Due to the ability of SIR to exchange the SIR Loan with its Class C GP Units of the Partnership, the SIR Loan does not meet the solely principal and interest requirement. Accordingly, under IFRS 9, the SIR Loan will be recognized at fair value with changes in fair value being recorded in the consolidated statement of earnings. As at January 1, 2018, the estimated fair value of the SIR Loan was approximately \$42.5 million.

The total impact on the Fund's unitholders' equity is as follows:

<i>(in thousands)</i>	Number of Fund units	Amount \$	Deficit \$	Total \$
Balance – December 31, 2017	8,376	96,170	(5,836)	90,334
Change in fair value of SIR Loan	-	-	2,500	2,500
Deferred income taxes	-	-	(1,338)	(1,338)
Adjustment to unitholders' equity from adoption of IFRS 9 on January 1, 2018	-	-	1,162	1,162
Balance – January 1, 2018	8,376	96,170	(4,674)	91,496

As at December 31, 2018, the estimated fair value of the SIR Loan was approximately \$36.0 million. The difference between the estimated fair value of the SIR Loan at January 1, 2018 and the estimated fair value of the SIR Loan at December 31, 2018 is recorded in the consolidated statement of earnings.

<i>(in thousands of dollars)</i>	Three-month period ended December 31, 2018 \$	12-month period ended December 31, 2018 \$
Balance - Beginning of period as previously reported	42,000	40,000
Change in accounting policy	-	2,500
Balance - Beginning of period as restated	42,000	42,500
Interest received	(750)	(3,000)
Change in estimated fair value of the SIR Loan	(5,250)	(3,500)
	<u>36,000</u>	<u>36,000</u>

IFRS 7, Financial Instruments – Disclosure

IFRS 7, Financial Instruments: Disclosure has been amended to require additional disclosures on transition from IAS 39 to IFRS 9. The additional disclosures are included in notes 3 and 5 to the consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. The Partnership adopted IFRS 15 on January 1, 2018. Management has determined that the adoption of this standard has no impact on the consolidated financial statements.

Financial Instruments

The Fund's financial instruments consist of cash, amounts due from related parties, the SIR Loan, accounts payable and accrued liabilities, and amounts due to related parties. Management estimates that the fair values of these financial instruments approximate their carrying values due to their short-term maturity except for the SIR Loan. The fair value of the SIR Loan is estimated to be \$36.0 million. The fair value was estimated by discounting the expected cash flows using a current market interest rate adjusted for SIR's credit risk. The estimate of fair value is within level 3 of the fair value hierarchy.

Disclosure of Outstanding Unit Data

As at December 31, 2018 and March 12, 2019, the number of outstanding units of the Fund was 8,375,567.

Risks and Uncertainties

The performance of the Fund is directly dependent upon the interest payments the Fund receives from SIR under the SIR Loan and upon the Royalty received by the Partnership from SIR. The amount of the Royalty is dependent upon Pooled Revenue, which is subject to a number of factors that affect the restaurant industry generally and the casual and/or fine dining sectors of this industry in particular. The restaurant industry generally, and in particular, the casual and fine dining segment of this industry, is intensely competitive with respect to price, service, location, food quality and qualified staff. Increases in minimum wage rates and other labour legislation may affect the growth and profitability of SIR, as a significant portion of its restaurant employees are paid at wage rates related to minimum wage. SIR Restaurants are subject to laws that prohibit or limit smoking in enclosed workplaces and/or certain outdoor public places, such as restaurant patios.

In addition, factors such as business and economic conditions, changes in foreign exchange, availability of credit, inflation, increased food, labour and benefits costs, taxes, government regulations (including those governing alcoholic beverages and cannabis legalization), weather, seasonality, public safety issues and the availability and quality of food, services and products sold in the restaurants affect the restaurant industry in general and therefore SIR. There are many well-established competitors with greater financial and other resources than SIR. Competitors include national and regional chains, as well as individually owned restaurants. Recently, competition has increased in the mid-price, full-service, casual and fine dining sectors in which many of the SIR Restaurants operate. Some of SIR's competitors have been in existence for a substantially longer period than SIR and may be better established in the markets where SIR Restaurants are or may be located. If SIR is unable to successfully compete in the casual and fine dining sectors of the restaurant industry, Pooled Revenue may be adversely affected, the amount of the Royalty reduced and the ability of SIR to pay the Royalty or interest on the SIR Loan may be impaired. Please refer to the March 12, 2019 Annual Information Form for further discussion on risks and uncertainties related to the Fund and SIR.

The Fund's distributions are subject to change based on a number of factors, including the cash reserves of the Fund, the Trust and the Partnership. The Trustees will continue their practice of regularly reviewing the Fund's distribution levels.

Outlook

SIR is a privately held Canadian corporation in the business of creating, owning and operating full-service restaurants in Canada. All of SIR's restaurants are corporately owned. SIR does not franchise any of its existing brands. SIR remains committed to the corporately owned restaurant model as it believes this structure gives it greater control over its brands and improved agility to proactively respond to changes in market conditions. SIR expects its future sales growth to be driven similarly to its past growth through a combination of measured new restaurant growth and same store sales growth, over the long term.

SIR continues to monitor economic conditions and consumer confidence. SIR recently secured additional long-term financing and has advised the Fund that it is considering new restaurant developments and renovations to existing restaurants. The timing of new restaurant construction and renovations, as well as related opening schedules, will be reviewed regularly by SIR and adjusted as necessary based on SIR's assessment of economic and industry conditions.

SIR has one commitment to lease a property in the Mimico neighbourhood of Etobicoke, Ontario upon which it plans to build one new Scaddabush restaurant. There can be no assurance that this restaurant will be opened or will become part of Royalty Pooled Restaurants.

SIR completed renovations of eight Jack Astor's locations during calendar 2017 and five Jack Astor's locations during calendar 2018. SIR is pleased with the performance of the recently renovated Jack Astor's and intends to implement similar renovations at additional Jack Astor's locations as part of its ongoing focus on strengthening its flagship brand and driving same store sales growth. Subsequent to December 31, 2018, SIR completed major renovations at one additional Jack Astor's location. Effective February 4, 2019, SIR permanently closed the Jack Astor's restaurant in the St. Lawrence Market area of downtown Toronto. SIR is contemplating the future use of this site.

SIR has completed the conversion of its Alice Fazooli's concept brand into the more popular Scaddabush concept brand. Scaddabush has generated strong sales performance at each location to date, and SIR and the Fund should benefit from the positive future revenue contributions from the new Scaddabush restaurants opened in calendar years 2016 and 2017. Subsequent to December 31, 2018, SIR closed the Scaddabush location at the Square One shopping centre in Mississauga, Ontario for six days to complete a renovation. This location, which was the first Scaddabush location (opened in July 2013), received a décor refresh and a major menu update. The new food program implemented at this location was first tested at the Oakville, Ontario Scaddabush location and is expected to be rolled-out to the remainder of the Scaddabush locations throughout 2019.

Forward-Looking Information

Certain statements contained in this report, or incorporated herein by reference, including the information set forth as to the future financial or operating performance of the Fund or SIR, that are not current or historical factual statements may constitute forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). Statements concerning the objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates, and the business, operations, financial performance and condition of the Fund, the Trust, the Partnership, SIR, the SIR Restaurants or industry results, are forward-looking statements. The words "may", "will", "should", "would", "expect", "believe", "plan", "anticipate", "intend", "estimate" and other similar terminology and the negative of such expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Fund, the Trust, the Partnership, SIR, the SIR Restaurants or industry results, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. These statements reflect Management's current expectations, estimates and projections regarding future events and operating performance and speak only as of the date of this document. Readers should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. Risks related to forward-looking statements include, among other things, challenges presented by a number of factors, including: market conditions at the time of this filing; competition; changes in demographic trends; weather; changing consumer preferences and discretionary spending patterns; changes in consumer confidence; changes in national and local business and economic conditions; changes in foreign exchange; changes in availability of credit; legal proceedings and challenges to intellectual property rights; dependence of the Fund on the financial condition of SIR; legislation and governmental regulation, including the cost and/or availability of labour as it relates to changes in minimum wage rates or other changes to labour legislation; regulations (including those regarding employees, food safety, tobacco, cannabis and alcohol); accounting policies and practices; and the results of operations and financial condition of SIR. The foregoing list of factors is not exhaustive. Many of these issues can affect the Fund's or SIR's actual results and could cause their actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Fund or SIR. There can be no assurance that SIR will remain compliant in the future with all of its financial covenants under the Credit Agreement and imposed by the lender. Given these uncertainties, readers are cautioned that forward-looking statements are not guarantees of future performance, and should not place undue reliance on them. The Fund and SIR expressly disclaim any obligation or undertaking to publicly disclose or release any updates or revisions to any forward-looking statements, except as required by securities legislation. Forward-looking statements are based on Management's current plans, estimates, projections, beliefs and opinions, and the Fund and SIR do not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change, except as expressly required by applicable securities laws. This Management's Discussion and Analysis is provided as of March 12, 2019.

In formulating the forward-looking statements contained herein, Management has assumed that business and economic conditions affecting SIR's restaurants and the Fund will continue substantially in the ordinary course, including without limitation with respect to general industry conditions, competition, general levels of economic activity (including in downtown Toronto), regulations (including those regarding employees, food safety, tobacco, cannabis, and alcohol), weather, taxes, foreign exchange rates and interest rates, that there will be no pandemics or other material outbreaks of disease or safety issues affecting humans or animals or food products, and that there will be no unplanned material changes in its facilities, equipment, customer and employee relations, or credit arrangements. Recent changes in employment law, including announced increases in minimum wages, are factored into management's assumptions. These assumptions, although considered reasonable by Management at the time of preparation, may prove to be incorrect. In addition, Management has assumed that the tax effects on distributions will remain consistent with current regulations or pronouncements, and also in estimating the revenue for new restaurants, Management has assumed that they will operate consistent with other similar SIR restaurants, and has assumed that SIR will remain compliant in the future with all of its financial covenants under the Credit Agreement imposed by the lender. For more information concerning the Fund's risks and uncertainties, please refer to the March 12, 2019 Annual Information Form, for the period ended December 31, 2018, which is available under the Fund's profile at www.sedar.com.

All of the forward-looking statements made in this report are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Fund or SIR.

Additional information related to the Fund, the Partnership and SIR can be found at www.sedar.com under SIR Royalty Income Fund and on SIR's website at www.sircorp.com