SIR ROYALTY INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

FIRST QUARTER
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2018

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(FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2018)

Executive Summary

Highlights for the three-month period ended March 31, 2018 ("Q1 2018") for SIR Royalty Income Fund (the "Fund") include:

Net Earnings and Adjusted Net Earnings(1)

- Net earnings for Q1 2018 were $1.4 million, compared to $2.3 million for Q1 2017. Net earnings for Q1 2018 were impacted by the adoption of International Financial Reporting Standard 9 ("IFRS 9"), which resulted in a reduction in net earnings of $1.0 million. Adjusted net earnings(1) for Q1 2018 were $2.4 million.
- Net earnings per Fund unit were $0.17 for Q1 2018 and $0.27 for Q1 2017. Adjusted Net Earnings per Fund unit(7) were $0.29 for Q1 2018.

Distributable Cash(2) and Payout Ratio

- Distributable cash(2) per Fund unit, both on a basic and diluted basis, was $0.29 and $0.28 for Q1 2018 and Q1 2017, respectively. Please refer to the Distributions section on page 6 and Distributable Cash(2) on page 11.
- The Fund's payout ratio(2) decreased to 97.1% in Q1 2018 from 103.6% in Q1 2017. The payout ratio(2) since the Fund's inception, up to and including Q1 2018, is 99.3%.
- Subsequent to Q1 2018, on April 10, 2018, the Fund announced an increase to unitholder cash distributions, raising the Fund's monthly unitholder distributions 5.3% from $0.095 per unit to $0.10 per unit, representing an annualized distribution of $1.20 per unit. The increase was effective for the Fund's monthly cash distribution paid in April 2018.

Pooled Revenue and Same Store Sales Growth(3) ("SSSG")

- Pooled Revenue increased by 6.7% to $68.8 million, compared to $64.5 million for the three-month period ended March 31, 2017 ("Q1 2017").
- SIR Corp. ("SIR") has reported to the Fund that the Royalty Pooled Restaurants generated SSSG(3) of 3.3% in Q1 2018.

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(1) Adjusted Net Earnings (Loss) is calculated by replacing the gain or loss on 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 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 gain or loss on 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 gain or loss on 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 10 of this document.

(2) Distributable cash and payout ratio are non-GAAP financial measures and do not have standardized meanings prescribed by International Financial Reporting Standards ("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.

(3) 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 and Abbey's Bakehouse retail outlet are not SIR Restaurants. 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.

- Jack Astor's®, which accounted for approximately 71% of Pooled Revenue in Q1 2018, generated SSSG(3) of 3.7% in Q1 2018. Canyon Creek® generated SSSG(3) of 1.7% in Q1 2018. Scaddabush Italian Kitchen & Bar® ("Scaddabush") generated SSSG(3) of 3.5% in Q1 2018. SIR's Signature Restaurants generated SSSG (3) of 0.9% in Q1 2018.

Investment in new and existing restaurants

- During Q1 2018, SIR completed a full renovation at one Jack Astor's location (10 Dundas East 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, 2018, the Scaddabush restaurants on Front Street in Toronto (opened November 3, 2016), Oakville, Ontario (opened April 5, 2017), and Vaughan, Ontario (opened July 5, 2017) were added to Royalty Pooled Restaurants.
- The Scaddabush restaurant in Etobicoke, Ontario (opened November 28, 2017) and the Reds® restaurant in Mississauga (opened December 11, 2017) will be added to Royalty Pooled Restaurants on January 1, 2019.
- The former Alice Fazooli's restaurants in Oakville and Vaughan, and the former Canyon Creek restaurant in Etobicoke, which were replaced by the aforementioned new Scaddabush locations, ceased to be part of Royalty Pooled Restaurants on January 1, 2018.

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.
- 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 second quarter unaudited interim consolidated financial statements and MD&A were filed on SEDAR on March 26, 2018.
- SIR continues to monitor economic conditions and consumer confidence and has advised the Fund that it is considering new restaurants developments and renovations to existing restaurants where appropriate and subject to availability of acceptable long-term financing. Based on its assessment of these conditions, the timing of new restaurant construction and renovations as well as related opening schedules will be reviewed regularly by SIR and adjusted as necessary.

Same Store Sales Growth(3)

SIR reported to the Fund that the Royalty Pooled Restaurants generated SSSG(3) of 3.3% in Q1 2018. SSSG(3) by operating segment are summarized in the following table.

SSSG(3) for the Royalty Pooled Restaurants (unaudited)	**Three-month period ended March 31, 2018**	**Three-month period ended March 31, 2017**
Jack Astor's	3.7%	2.6%
Canyon Creek	1.7%	(2.8%)
Scaddabush	3.5%	10.1%
Signature Restaurants	0.9%	5.1%
Overall SSSG(3)	**3.3%**	**2.7%**

Jack Astor's, which accounted for approximately 71% of Pooled Revenue in Q1 2018, generated SSSG(3) of 3.7% in Q1 2018. SSSG(3) continues to be favourably impacted by improved sales performance at certain locations that were renovated in 2016 and 2017, including increases in beverage sales at these locations. SIR has implemented an enhanced beverage program as part of its renovation program, including the rollout of a new craft beer offering during Q4 2017, which has partially contributed to increases in beverage sales at the renovated locations. SIR plans to continue its renovation programs at additional Jack Astor's locations to drive SSSG(3). SIR completed renovations at two Jack Astor's locations in Q1 2018, including a full renovation at the Jack Astor's location at the 10 Dundas East entertainment complex in downtown Toronto, and a partial renovation at the Jack Astor's location in Kingston, Ontario. These two locations were closed for a combined total of 20 days in Q1 2018, compared to the closure of two Jack Astor's locations for renovations in Q1 2017 for a combined total of 16 days.

Canyon Creek had SSSG(3) of 1.7% in Q1 2018. During Q4 2017, effective October 15, 2017, the Canyon Creek location in Etobicoke, Ontario, which had been impacted by a competitive intrusion, was permanently closed. A new Scaddabush restaurant was opened at this location on November 28, 2017.

Scaddabush SSSG(3) for Q1 2018 includes four Scaddabush locations (Richmond Hill, Mississauga, and Scarborough, Ontario, and Yonge and Gerrard in downtown Toronto). Scaddabush generated SSSG(3) of 3.5% in Q1 2018, reflecting the continued strong performance of the Scaddabush brand. The new Scaddabush restaurants on Front Street in downtown Toronto and in Oakville, Vaughan, and Etobicoke, Ontario are excluded from the calculation of SSSG(3) in Q1 2018 as they were not open and included in Pooled Revenue for the entire comparable periods in 2018 and 2017.

The downtown Toronto Signature Restaurants generated SSSG(3) of 0.9% in Q1 2018. The Q1 2018 SSSG(3) for the Signature Restaurants does not include the new Reds restaurant at the Square One shopping centre in Mississauga, Ontario ("Reds Square One") which opened during Q4 2017 on December 11, 2017.

Restaurant 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, including:

- 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 61 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 nine restaurants (three Jack Astor's restaurants, one Canyon Creek restaurant, three Alice Fazooli's restaurants, and two Signature restaurants).

During the calendar year 2017, SIR closed three restaurants: the Alice Fazooli's location in Oakville, Ontario was closed during Q1 2017 effective March 19, 2017, the Alice Fazooli's location in Vaughan, Ontario was closed during Q2 2017 effective June 18, 2017, and the Canyon Creek restaurant in Etobicoke, Ontario was closed during Q4 2017 effective October 15, 2017. SIR opened new Scaddabush restaurants at each of these locations: Oakville on April 5, 2017, Vaughan on July 5, 2017, and Etobicoke on November 28, 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 will be added to Royalty Pooled Restaurants on January 1, 2019.

During Q4 2017, on December 11, 2017, SIR opened a new Reds restaurant in the Square One shopping centre in Mississauga, Ontario. This Reds restaurant will be 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 2018 and beyond, resulting from the closure of the two Alice Fazooli's restaurants and one Canyon Creek restaurant, to be offset by the anticipated positive contributions from the addition of new Scaddabush restaurants to the Royalty Pool going forward, and from continued investments by SIR to drive future SSSG(3).

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(2) 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(2) to the extent possible.

During Q1 2018, monthly distributions of $0.8 million, or $0.095 per unit, were declared and paid in each of the months of January, February, and March. Subsequent to March 31, 2018, distributions of $0.10 per unit were declared and paid in the month of April, and declared in the month of May 2018.

The payout ratio(2) of cash distributed to distributable cash(2) 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(2) may exceed or could be lower than 100%. The payout ratio(2) of cash distributed to distributable cash(2) for Q1 2018 was 97.1%, compared to 103.6% in Q1 2017. The payout ratio(2) since the Fund's inception in 2004 up to and including Q1 2018 is 99.3%, in line with Fund's target payout ratio of 100%.

Please refer to page 11 for distributable cash(2) and a summary of monthly distributions since inception, and page 12 for a description of the Fund's payout ratio(2).

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 trade-marks (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 is a private company amalgamated under the Business Corporations Act of Ontario. As at March 31, 2018, SIR owned 61 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. Duke's Refresher is not part of the Royalty Pooled Restaurants. SIR also owns one seasonal restaurant: Abbey's Bakehouse®, in addition to one seasonal Abbey's Bakehouse retail outlet, which are not part of Royalty Pooled Restaurants. SIR owns 100% of its Canadian restaurants. As at March 31, 2018, 57 SIR Restaurants were included in Royalty Pooled Restaurants.

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 2018, Duke's Refresher is not expected to be added to the Royalty pool on January 1, 2019.

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, 2018, three (January 1, 2017 - one) 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 three new SIR Restaurants on January 1, 2018 (January 1, 2017 - one), as well as the Second Incremental Adjustment for one new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2017 (January 1, 2016 - two), 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 three (January 1, 2017 – one) SIR Restaurants during the prior year. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 34,810 Class B GP Units into 34,810 Class A GP Units (January 1, 2016 – SIR exchanged 79,481 Class A GP Units into 79,481 Class B GP Units) on January 1, 2018 at a fair value of $2.8 million (January 1, 2017 - $0.015 million).

In addition, the revenues of the one (January 1, 2016 – two) new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2017 was less than 80% of the Initial Adjustment's estimated revenue and, as a result, the distributions on the Class A GP Units were reduced by a special conversion refund of $0.05 million in December 2017 and paid in January 2018 (December 31, 2016 - $0.0005 million, paid in January 2017).

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, distribution income 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:

Summary of Quarterly Financial Information

(in thousands of dollars or units, except restaurants and per unit amounts) *(unaudited)*	Three-month periods ended							
	March 31, 2018	**December 31, 2017**	**September 30, 2017**	**June 30, 2017**	**March 31, 2017**	**December 31, 2016**	**September 30, 2016**	**June 30, 2016**
Royalty Pooled Restaurants	57	57	57	57	57	57	57	57
Pooled Revenue generated by SIR	68,808	69,528	74,555	74,477	64,474	67,534	72,489	74,757
Royalty income to Partnership - 6% of Pooled Revenue	4,128	4,172	4,473	4,469	3,868	4,053	4,349	4,485
Make-Whole Payment[(4)]	-	67	-	99	130	77	-	-
Total Royalty income to Partnership	4,128	4,239	4,473	4,568	3,998	4,130	4,349	4,485
Partnership other income	6	6	6	6	6	6	6	6
Partnership expenses	(21)	(17)	(21)	(21)	(23)	(14)	(20)	(12)
Partnership earnings	4,113	4,228	4,458	4,553	3,981	4,122	4,335	4,479
SIR's interest (Class A, B and C GP Units)	(1,526)	(1,498)	(1,583)	(1,599)	(1,489)	(1,544)	(1,768)	(1,927)
Partnership income allocated to Fund[(5)]	2,587	2,730	2,875	2,954	2,492	2,578	2,567	2,552
Interest income on SIR Loan[(6)]	-	750	750	750	750	750	750	750
Loss on SIR Loan[(6)]	(1,500)	-	-	-	-	-	-	-
	1,087	3,480	3,625	3,704	3,242	3,328	3,317	3,302
General & administrative expenses	(116)	(101)	(103)	(118)	(117)	(102)	(99)	(108)
Net earnings before income taxes of the Fund	971	3,379	3,522	3,586	3,125	3,226	3,218	3,194
Income tax recovery (expense)	428	(1,062)	(941)	(961)	(834)	(1,016)	(860)	(854)
Net earnings for the period	1,399	2,317	2,581	2,625	2,291	2,210	2,358	2,340
Basic earnings per Fund unit	$0.17	$0.28	$0.31	$0.31	$0.27	$0.26	$0.30	$0.31
Weighted average number of Fund units outstanding – Basic	8,376	8,376	8,376	8,376	8,376	8,376	7,935	7,626
Net earnings for the period – Diluted	1,399	2,863	3,192	3,246	2,833	2,754	3,105	3,203
Weighted average number of Class A GP Units	N/A	1,981	1,981	1,981	1,981	2,061	2,502	2,811
Weighted average number of Fund units outstanding – Diluted	N/A	10,357	10,357	10,357	10,357	10,437	10,437	10,437
Diluted earnings per Fund unit	$0.17	$0.28	$0.31	$0.31	$0.27	$0.26	$0.30	$0.31

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

(4) *The Far Niente/FOUR/Petit Four restaurant in Toronto, Ontario was closed effective October 15, 2016, the Alice Fazooli's restaurants in Oakville and Vaughan, Ontario were closed effective March 19, 2017 and June 18, 2017, respectively, and the Canyon Creek restaurant in Etobicoke, Ontario was closed effective October 15, 2017. 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.*

(5) *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.*

(6) *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.*

Adjusted Net Earnings(1) and Adjusted Earnings per Fund unit(7)

Adjusted Net Earnings(1) and Adjusted Earnings per Fund unit(7) 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, net cash flow and earnings per Fund unit. Adjusted Net Earnings(1) consist of net earnings excluding the after tax non-cash portion of the gain or loss on the SIR Loan and including interest income on the SIR Loan. Adjusted Earnings per Fund unit 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(7) 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 for the period to Adjusted Net Earnings(1) and calculates Adjusted Earnings per Fund unit(7):

(in thousands of dollars or units, except per unit amounts) *(unaudited)*	**Three-month period ended March 31, 2018**	**Three-month period ended March 31, 2017**
Net earnings for the period	1,399	2,291
Loss on SIR Loan	1,500	-
Interest income on SIR Loan	750	-
Deferred tax recovery	(1,204)	-
Adjusted Net Earnings(1)	**2,445**	**2,291**
Adjusted Basic Earnings per Fund unit(7)	$0.29	$0.27
Weighted average number of Fund units outstanding – Basic	8,376	8,376

(7) *Adjusted Earnings per Fund unit represents the portion of net earnings adjusted for the gain or loss on the SIR Loan and the deferred tax expense or recovery for the period allocated to each outstanding Fund unit.*

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

Distributable Cash[2]

(in thousands of dollars or units, except per unit amounts and payout ratio[2]) *(unaudited)*	Three-month periods ended							
	March 31, 2018	**December 31, 2017**	**September 30, 2017**	**June 30, 2017**	**March 31, 2017**	**December 31, 2016**	**September 30, 2016**	**June 30, 2016**
Cash provided by operating activities	2,310	2,596	2,429	2,250	2,473	2,214	2,484	2,137
Add/(deduct): Net change in non-cash working capital items[8]	(455)	571	(102)	50	(302)	482	(358)	(108)
Net change in income tax payable[8]	514	(228)	(108)	(115)	140	(93)	(17)	(21)
Net change in distribution receivable from the Partnership[8]	89	(608)	376	454	(6)	(245)	262	344
Distributable cash[2]	**2,458**	**2,331**	**2,595**	**2,639**	**2,305**	**2,358**	**2,371**	**2,352**
Cash distributed for the period	**2,387**	**2,555**	**2,387**	**2,387**	**2,387**	**2,388**	**2,244**	**2,173**
Surplus/(shortfall) of distributable cash[2]	**71**	**(224)**	**208**	**252**	**(82)**	**(30)**	**127**	**179**
Payout ratio[2],[9]	97.1%	109.6%	92.0%	90.4%	103.6%	101.2%	94.7%	92.4%
Weighted average number of Fund units outstanding – Basic	8,376	8,376	8,376	8,376	8,376	8,376	7,935	7,626
Distributable cash[2] per Fund unit – Basic	$0.29	$0.28	$0.31	$0.32	$0.28	$0.28	$0.30	$0.31
Distributable cash[2] for the period – Diluted[10]	3,024	2,876	3,206	3,260	2,847	2,902	3,117	3,215
Weighted average number of Class A GP Units[10]	2,016	1,981	1,981	1,981	1,981	2,061	2,502	2,811
Weighted average number of Fund units outstanding – Diluted[10]	10,392	10,357	10,357	10,357	10,357	10,437	10,437	10,437
Distributable cash[2] per Fund unit – Diluted[10]	$0.29	$0.28	$0.31	$0.32	$0.28	$0.28	$0.30	$0.31

(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.*

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 date	$0.10
December 2012 Special Distribution	$0.05(12)
December 2017 Special Distribution	$0.02(12)

Beginning with the payment in April 2018, the Fund raised its monthly unitholder distributions from $0.095 per unit to $0.10 per unit, representing $1.20 per unit on an annualized basis.

The payout ratio(2) of cash distributed to distributable cash(2) for Q1 2018 was 97.1%, compared to 103.6% in Q1 2017. The decrease in the payout ratio(2) is primarily the result of an increase in distributable cash(2) compared to Q1 2017 while the distributions of the Fund remained the same. The payout ratio(2) of cash distributed to distributable cash(2) 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 experience by SIR), there are times during the year when the payout ratio(2) 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 Q1 2018, the Fund has generated $101.0 million in cumulative distributable cash(2) and has paid cumulative cash distributions of $100.2 million, representing a cumulative payout ratio(2) (the ratio of cumulative cash distributions paid since inception to cumulative distributable cash(2) generated) of 99.3%. 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.

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

(in thousands of dollars) *(unaudited)*	**Three-month period ended March 31, 2018**	**Three-month period ended March 31, 2017**
Cash provided by operating activities	2,310	2,473
Net earnings for the period	1,399	2,291
Cash distributed for the period	2,387	2,387
Excess (shortfall) of cash provided by operating activities over cash distributed for the period(13)	**(77)**	**86**
Excess (shortfall) of net earnings for the period over cash distributed for the period(14)	**(988)**	**(96)**

The $0.1 million shortfall of cash provided by operating activities over cash distributed for the three-month period ended March 31, 2018 is primarily due to an increase in income taxes paid, partially offset by an increase in net earnings for the period.

The $1.0 million shortfall of net earnings for the period over cash distributed for the three-month period ended March 31, 2018 is primarily due to the adjustment for the change in the fair value of the SIR Loan from January 1, 2018 to March 31, 2018. The $0.1 million shortfall of net earnings for the period over cash distributed for the three-month period ended March 31, 2017 is primarily due to an increase in distributions paid to Fund unitholders, partially offset by an increase in net earnings for the period.

Balance Sheet

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

(in thousands of dollars) *(unaudited)*	**March 31, 2018**	**December 31, 2017**	**September 30, 2017**	**June 30, 2017**	**March 31, 2017**	**December 31, 2016**	**September 30, 2016**	**June 30, 2016**
Total assets	95,605	95,317	95,861	95,460	95,160	95,069	95,463	84,366
Unitholders' equity	90,507	90,333	90,571	90,377	90,139	90,235	90,411	79,685

(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 (shortfall) 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.

Results of Operations - Fund

The Fund's income comprises equity income from the Partnership of $2.6 million ($2.5 million for Q1 2017), interest income of $nil ($0.8 million for Q1 2017) and a loss on the SIR Loan of $1.5 million ($nil for Q1 2017). Equity income from the Partnership is the pro rata share of the residual distributions of the Partnership for the three-month periods ended March 31, 2018 and March 31, 2017. The increase in equity income from the Partnership is due to an increase in the earnings of the Partnership driven by SSSG(3). Interest income is interest earned for the three-month period ended March 31, 2017 from the $40.0 million SIR Loan which bears interest at 7.5% per annum. The loss on 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 administration expenses, totaled $0.1 million for Q1 2018 ($0.1 million for Q1 2017). These expenses include professional fees, directors' and officers' liability insurance premiums, Trustees' fees, certain public company costs and other administrative fees.

The Fund recorded a current income tax recovery of $0.4 million for Q1 2018 (income tax expense of $0.8 million for Q1 2017).

Net earnings were $1.4 million for Q1 2018 ($2.3 million for Q1 2017). Earnings per Fund unit on a basic and diluted basis were $0.17 for Q1 2018 (basic and diluted earnings per Fund unit were $0.27 for Q1 2017). Adjusted Net Earnings(1) were $2.4 million for Q1 2018 ($2.3 million for Q1 2017), and Adjusted Earnings per Fund unit(7) were $0.29 for Q1 2018 ($0.27 for Q1 2017).

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 March 31, 2018, there were 57 restaurants included in Royalty Pooled Restaurants. Increases or decreases in Pooled Revenue are derived from SSS(3) 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 period ended March 31, 2018 and March 31, 2017:

(in thousands of dollars except number of restaurants included in Pooled Revenue) (unaudited)	**Three-month period ended March 31, 2018**		**Three-month period ended March 31, 2017**	
	Pooled Revenue	Restaurants included in Pooled Revenue	Pooled Revenue	Restaurants included in Pooled Revenue
Jack Astor's	48,611	40	46,897	40
Canyon Creek	5,974	7	6,792	8
Scaddabush	9,460	7	6,065	6
Signature	4,763	3	4,720	3
Total included in Pooled Revenue	68,808	57	64,474	57

Pooled Revenue growth for Jack Astor's is a result of SSSG(3) in Q1 2018.

The Pooled Revenue decrease for Canyon Creek in Q1 2018 is 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.

Pooled Revenue from Scaddabush for Q1 2018 includes seven Scaddabush restaurants. The seven Scaddabush restaurants consist of five Scaddabush restaurants that opened as New Additional Restaurants (Yonge and Gerrard in downtown Toronto, Scarborough, Oakville, Vaughan, and Front Street in downtown Toronto, Ontario) and two Scaddabush restaurants that were converted from Alice Fazooli's restaurants (Richmond Hill and Mississauga, Ontario).

Pooled Revenue from Scaddabush in Q1 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 Q1 2017 as it was not added to the Royalty Pool until January 1, 2018. The Scaddabush Pooled Revenue for the three-month period ended March 31, 2018 excludes the revenue of the new Scaddabush restaurant in Etobicoke, Ontario, which will be added to Royalty Pooled Restaurants on January 1, 2019. The increase in Pooled Revenue for Scaddabush for Q1 2018 reflects the continued strong SSSG[(3)] of the Scaddabush brand.

Pooled Revenue growth for the Signature restaurants is primarily the result of slight SSSG[(3)] in Q1 2018.

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 provides for a three-year facility for a maximum principal amount of $30.0 million consisting of a $20.0 million revolving term credit facility (Credit Facility 1), and a $10.0 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. On December 8, 2017, SIR extended the Credit Agreement from July 6, 2018 to July 6, 2020 under substantially the same terms and conditions. The Credit Agreement as amended provides for a new $2.2 million leasing facility.

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, 2020. 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%. The initial advance on Credit Facility 2 is repayable in quarterly instalments of $0.5 million, with the remaining outstanding principal balance due on July 6, 2020. Under the amended 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 subsequent advance will be repayable in equal quarterly instalments based on a five year amortization, with the remaining outstanding principal balance due on July 6, 2020. On December 15, 2017, SIR drew an additional $4.5 million on Credit Facility 2. This advance is repayable in quarterly instalments of $0.2 million, with the remaining principal balance due on July 6, 2020.

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 income 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 Q1 2018 and in Fiscal 2017 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 and commencing with the April 2018 distribution, the monthly distribution was increased to $0.10 per unit. 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 income is derived from interest income 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. Due to the change in accounting policy on the adoption of IFRS 9 on January 1, 2018, no provision on the SIR Loan will be booked in the future. 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 second quarter are listed having a filing date of March 26, 2018.

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

Selected Unaudited Consolidated Statement of Cash Flows Information[(15)]	**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)**	**1st Quarter Ended November 20, 2016 (12 weeks)**	**4th Quarter Ended August 28, 2016 (16 weeks)**	**3rd Quarter Ended May 8, 2016 (12 weeks)**
				(in thousands of dollars) (unaudited)				
Cash provided by (used in) operations	(501)	(434)	10,672	4,334	(1,404)	(1,478)	8,313	3,110
Cash used in investing activities	(5,528)	(3,814)	(5,194)	(2,709)	(2,660)	(3,245)	(3,611)	(2,092)
Cash provided by (used in) financing activities	4,837	3,939	(3,528)	(1,928)	3,151	4,651	(3,725)	(1,463)
Decrease in cash and cash equivalents during the period	(1,192)	(309)	1,950	(303)	(913)	(72)	977	(445)
Cash and cash equivalents – Beginning of period	4,241	4,550	2,600	2,903	3,816	3,888	2,911	3,356
Cash and cash equivalents – End of period	3,049	4,241	4,550	2,600	2,903	3,816	3,888	2,911

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 ("CEO") and Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required disclosures.

Internal controls over financial reporting are designed by management, under the supervision of, and with the participation of, the Fund's CEO and CFO, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management carried out an evaluation of the appropriateness of the financial disclosure, the design and effectiveness of the Fund's disclosure controls and procedures, and the design and effectiveness of 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, 2017 and under the supervision and with the participation of the Fund's CEO and CFO. 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 CEO and CFO 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, 2017. There have been no substantive changes in the Fund's internal controls over financial reporting that occurred during the most recent interim period beginning January 1, 2018 and ending March 31, 2018, that have materially affected, or are reasonably likely to materially affect the Fund's internal control over financial reporting, with the exception of the Fund implementing new processes and controls to account for the SIR Loan at fair value through the statement of earnings upon the adoption of IFRS 9. 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.

(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 Q2 2018 MD&A filed on March 26, 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.

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

During the three-month period ended March 31, 2018, the Fund earned equity income of $2.6 million from the Partnership ($2.5 million for the three-month period ended March 31, 2017). 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 period ended March 31, 2018, the Fund received interest payments of $0.8 million from the SIR Loan ($0.8 million for the three-month period ended March 31, 2017). A description of the terms of the SIR Loan is included in the notes to the unaudited interim consolidated financial statements of the Fund for three-month period ended March 31, 2018.

As at March 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 $3.8 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 March. As at March 31, 2018, the Fund had advances payable to the Partnership of $3.0 million (December 31, 2017 - $2.5 million). All advances were conducted as part of the normal course of business operations.

Critical Accounting Estimates

Management believes there have been no substantial changes in the nature of the critical accounting estimates as described in the annual MD&A for the year ended December 31, 2017, except for the following:

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 Q1 2018, management adjusted the discount rate from 7.0% at January 1, 2018 to 7.45% at March 31, 2018. The adjustment consists of an estimated increase in the corporate bond rate and the comparative risk free rate of 0.541%, offset by a reduction of 0.073% in the Canadian risk free rate. Management believes that there is no change in SIR's credit risk during Q1 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 $1.25 million decrease or increase in the fair value of the SIR Loan.

Changes in Accounting Policies, Including Initial Adoption

The accounting policies applied in the interim financial statements are consistent with those followed in the 2017 audited annual financial statements, except for the adoption of the following new pronouncements.

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:

	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 March 31, 2018, the estimated fair value of the SIR Loan was approximately $40.25 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 March 31, 2018 is recorded in the consolidated statement of earnings.

	Three-month period ended March 31, 2018 $
Balance - Beginning of period as previously reported	40,000
Change in accounting policy (note 2)	2,500
Balance - Beginning of period as restated	42,500
Interest received	(750)
Loss on SIR Loan	(1,500)
	40,250

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 interim 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 interim financial statements.

Financial Instruments

There have been no changes in the Fund's financial instruments for the three-month period ended March 31, 2018 as described in the Fund's MD&A for the year ended December 31, 2017. Effective January 1, 2018, the Fund records the SIR Loan at fair value through the statement of earnings. See Critical Accounting Estimates and Changes In Accounting Policies, Including Initial Adoption for further information.

Disclosure of Outstanding Unit Data

As at March 31, 2018 and May 9, 2018, 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. 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 14, 2018 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, which stands for Service Inspired Restaurants, 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.

Restaurants Canada estimates that the growth of total sales in the full-service category, the category in which SIR competes, slowed by about 0.5% in 2017 compared to 2016. Restaurants Canada expects that while sales at full-service restaurants will continue to grow in the next five years, the rate of growth will slow by an additional 1.0% in 2018 compared to 2017. The Canadian full-service category has become increasingly competitive in recent years. While SIR believes it is well positioned to compete in this category, it will continue monitoring the economy and consumer confidence and their effects on the full-service category.

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 completed renovations of two additional Jack Astor's locations in Q1 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.

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.

SIR opened a new Scaddabush restaurant in Etobicoke, Ontario on November 28, 2017, and a new Reds restaurant at the Square One shopping centre in Mississauga, Ontario on December 11, 2017. These restaurants will be added to Royalty Pooled Restaurants on January 1, 2019.

On November 22, 2017, the Ontario government passed legislation that raised Ontario's general minimum wage on January 1, 2018 and will raise it again on January 1, 2019, followed by annual increases at the rate of inflation. These changes will materially increase the cost of hourly labour in the majority of SIR's restaurants. These rapid increases to minimum wage may impact SIR's profitability and/or its ability to pass on increased costs through price increases without adversely affecting guest count velocity. SIR's Management is evaluating alternatives to offset the impact of these increases in an effort to reduce the price increases that otherwise may have to be implemented to mitigate anticipated cost increases.

SIR continues to monitor economic conditions and consumer confidence and has advised the Fund that it is considering new restaurants developments and renovations to existing restaurants where appropriate and subject to availability of acceptable long-term financing. Based on its assessment of these conditions, the timing of new restaurant construction and renovations as well as related opening schedules will be reviewed regularly by SIR and adjusted as necessary.

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; 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 May 9, 2018.

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, including 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 particular, 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 14, 2018 Annual Information Form, for the period ended December 31, 2017, 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