SIR Royalty Income Fund

Consolidated Financial Statements
(Unaudited)
For the three-month and six-month periods ended June 30, 2018 and June 30, 2017

SIR Royalty Income Fund

Consolidated Statements of Financial Position

(Unaudited)

	June 30, 2018 $	December 31, 2017 $
Assets		
Current assets		
Cash	276,645	373,651
Prepaid expenses and other assets	26,352	31,587
Income taxes recoverable	52,659	-
Amounts due from related parties (note 8)	4,432,755	3,927,558
	4,788,411	4,332,796
Loan receivable from SIR Corp. (notes 2 and 3)	39,250,000	40,000,000
Investment in SIR Royalty Limited Partnership (note 4)	50,984,321	50,984,321
	95,022,732	95,317,117
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	80,034	121,788
Income taxes payable	-	499,904
Amounts due to related parties (note 8)	3,136,716	2,521,071
	3,216,750	3,142,763
Deferred income taxes (note 11)	1,867,000	1,841,000
	5,083,750	4,983,763
Fund units (note 6)	96,169,787	96,169,787
Deficit	(6,230,805)	(5,836,433)
Total unitholders' equity	89,938,982	90,333,354
	95,022,732	95,317,117

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

SIR Royalty Income Fund

Consolidated Statements of Earnings and Comprehensive Income

(Unaudited)

	Three-month period ended June 30, 2018 $	Three-month period ended June 30, 2017 $	Six-month period ended June 30, 2018 $	Six-month period ended June 30, 2017 $
Equity income from SIR Royalty Limited Partnership (notes 4 and 8)	3,086,322	2,953,629	5,673,823	5,446,051
Interest income on SIR Loan (note 3)	-	750,000	-	1,500,000
Change in estimated fair value of the SIR Loan (notes 2 and 3)	(250,000)	-	(1,750,000)	-
	2,836,322	3,703,629	3,923,823	6,946,051
General and administrative expenses	118,015	118,138	234,047	235,225
Earnings before income taxes	2,718,307	3,585,491	3,689,776	6,710,826
Income tax expense (recovery) (note 11)	773,843	960,200	346,191	1,794,508
Net earnings and comprehensive income for the period	1,944,464	2,625,291	3,343,585	4,916,318
Basic and diluted earnings per Fund unit (note 7)	$ 0.23	$ 0.31	$ 0.40	$ 0.59

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

SIR Royalty Income Fund

Consolidated Statements of Changes in Unitholders' Equity

(Unaudited)

	Six-month period ended June 30, 2018			
	Number of Fund units	**Amount $**	**Deficit $**	**Total $**
Balance - Beginning of period as previously reported	8,375,567	96,169,787	(5,836,433)	90,333,354
Change in accounting policy (note 2)	-	-	1,161,750	1,161,750
Balance - Beginning of period as restated (note 2)	8,375,567	96,169,787	(4,674,683)	91,495,104
Net earnings for the period	-	-	3,343,585	3,343,585
Distributions declared and paid (note 6)	-	-	(4,899,707)	(4,899,707)
Balance - End of period	8,375,567	96,169,787	(6,230,805)	89,938,982

	Six-month period ended June 30, 2017			
	Number of Fund units	**Amount $**	**Deficit $**	**Total $**
Balance - Beginning of period	8,375,567	96,169,787	(5,934,894)	90,234,893
Net earnings for the period	-	-	4,916,318	4,916,318
Distributions declared and paid (note 6)	-	-	(4,774,073)	(4,774,073)
Balance - End of period	8,375,567	96,169,787	(5,792,649)	90,377,138

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

SIR Royalty Income Fund

Consolidated Statements of Cash Flows

(Unaudited)

	Three-month period ended June 30, 2018 $	Three-month period ended June 30, 2017 $	Six-month period ended June 30, 2018 $	Six-month period ended June 30, 2017 $
Cash provided by (used in)				
Operating activities				
Net earnings for the period	1,944,464	2,625,291	3,343,585	4,916,318
Items not affecting cash				
Change in estimated fair value of the SIR Loan (notes 2 and 3)	250,000	-	1,750,000	-
Current income taxes (note 11)	894,668	946,200	1,658,441	1,766,508
Deferred income taxes (note 11)	(120,825)	14,000	(1,312,250)	28,000
Equity income from SIR Royalty Limited Partnership (notes 4 and 8)	(3,086,322)	(2,953,629)	(5,673,823)	(5,446,051)
Distributions received from SIR Royalty Limited Partnership (note 8)	2,669,743	2,498,883	5,168,626	4,997,765
Interest received on SIR Loan (note 3)	750,000	-	1,500,000	-
Income taxes paid	(933,395)	(830,088)	(2,211,004)	(1,791,053)
Net change in non-cash working capital items (note 9)	124,037	(50,330)	579,126	251,603
	2,492,370	2,250,327	4,802,701	4,723,090
Financing activities				
Distributions paid to unitholders	(2,512,670)	(2,387,036)	(4,899,707)	(4,774,073)
Change in cash during the period	(20,300)	(136,709)	(97,006)	(50,983)
Cash - Beginning of period	296,945	426,622	373,651	340,896
Cash - End of period	276,645	289,913	276,645	289,913

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

1 Nature of operations and seasonality

Nature of operations

SIR Royalty Income Fund (the Fund) is a trust established on August 23, 2004 under the laws of the Province of Ontario, Canada.

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 to the Fund of $51,166,670 were used by the Fund to acquire, directly, certain bank debt of SIR Corp. (the SIR Loan) and, indirectly, through SIR Holdings Trust (the Trust), all of the Ordinary LP Units of SIR Royalty Limited Partnership (the Partnership). The Partnership owns the Canadian trademarks (the SIR Rights) formerly owned or licensed by SIR Corp. (SIR) or its subsidiaries and used in connection with the operation of the majority of SIR's restaurants in Canada (the SIR Restaurants). The Partnership has granted SIR a 99-year licence 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 revenues of the restaurants included in the Royalty Pooled Restaurants (the Licence and Royalty Agreement). The Fund indirectly participates in the revenues generated under the Licence and Royalty Agreement through its Investment in the Partnership (note 4).

The address of the registered office of the Fund is 5360 South Service Road, Suite 200, Burlington, Ontario. The consolidated financial statements were approved by the Board of Trustees on August 8, 2018.

Seasonality

The full-service restaurant sector of the Canadian food-service 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 can be open. Additionally, certain holidays and observances also affect dining patterns both favourably and unfavourably. Accordingly, equity income from the Partnership recognized by the Fund will vary in conjunction with the seasonality in revenues experienced by SIR.

2 Basis of presentation

The Fund prepares its interim condensed consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34, Interim Financial Reporting. The disclosures contained in these interim consolidated financial statements do not include all requirements of IFRS for annual consolidated financial statements and should be read in conjunction with the 2017 annual consolidated financial statements and notes thereto. The financial performance of the Fund for the interim period is not necessarily indicative of the results that may be expected for the full year due to the seasonality of the Fund's business.

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

IFRS 9, Financial Instruments - Classification and Measurement

In July 2014, the 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. The Fund adopted IFRS 9 using the modified retrospective approach which requires that the adjustment be recorded in the opening deficit and comparatives are not restated. 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 interim 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 $42,500,000. The difference between the fair value and the carrying value of $40,000,000 was recorded in the deficit. The total impact on the Fund's unitholders' equity is as follows:

	Number of Fund units	Amount $	Deficit $	Total $
Balance – December 31, 2017	8,375,567	96,169,787	(5,836,433)	90,333,354
Change in fair value of SIR Loan	-	-	2,500,000	2,500,000
Deferred income taxes	-	-	(1,338,250)	(1,338,250)
Adjustment to unitholders' equity from adoption of IFRS 9 on January 1, 2018	-	-	1,161,750	1,161,750
Balance – January 1, 2018	8,375,567	96,169,787	(4,674,683)	91,495,104

As at June 30, 2018, the estimated fair value of the SIR Loan was approximately $39,250,000. Changes in the estimated fair value of the SIR Loan are recorded in the consolidated statement of earnings.

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.

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 consolidated financial statements.

3 Loan receivable from SIR Corp.

	Three-month period ended June 30, 2018 $	Six-month period ended June 30, 2018 $
Balance - Beginning of period as previously reported	40,250,000	40,000,000
Change in accounting policy (note 2)	-	2,500,000
Balance - Beginning of period as restated	40,250,000	42,500,000
Interest received	(750,000)	(1,500,000)
Change in estimated fair value of the SIR Loan	(250,000)	(1,750,000)
	39,250,000	39,250,000

The SIR Loan of $40,000,000 bears interest at 7.5% per annum, is due October 12, 2044 and is collateralized by a general security agreement covering substantially all of the assets of SIR and its subsidiaries in Canada. Interest of $750,000 and $1,500,000 was received during the three-month and six-month periods ended June 30, 2018, respectively (three-month and six-month periods ended June 30, 2017 – $750,000 and $1,500,000, respectively).

The fair value of the SIR Loan is estimated by discounting the expected cash flows using a current market interest rate adjusted for SIR's credit risk. Management has used a discount rate of 7.65% as at June 30, 2018 (January 1, 2018 – 7.0%) to discount the expected cash flows. In determining the appropriate discount rate, management considered available market information as well as the credit risk for SIR.

The discount rate used at June 30, 2018 increased from 7.45% at March 31, 2018 and 7.0% at January 1, 2018 to 7.65% at June 30, 2018. The change in the discount rate is driven by the increase in the spread between similar corporate bonds and the risk free rate over the same period (see note 5).

SIR has a credit agreement (Credit Agreement), as amended on December 8, 2017 and July 6, 2018, with a Schedule I Canadian chartered bank (the Lender). The Credit Agreement between SIR and the Lender provides for a maximum principal amount of $50,000,000 consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), and a $0,000,000 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 $5,000,000.

Credit Facility 1 is for general corporate and operating purposes, 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 Credit Agreement.

Under the Credit Agreement, subsequent advances on Credit Facility 2 may be requested (subject to availability and lender approval), in minimum multiples of $1,000,000, 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. The Credit Agreement qualifies as “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. The terms of the subordination are as contemplated in the previous agreements between the Fund, the Partnership and SIR. This subordination 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 trademarks and related intellectual property in return for royalty payments based on revenues and will be effected pursuant to the terms of an Intercreditor 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 by up to 50% without triggering a cross default under the Credit Agreement 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 has the right to require the Fund to, indirectly, purchase the Class C GP Units and assume a portion of the SIR Loan as consideration for the acquisition of the Class C GP Units.

4 Investment in SIR Royalty Limited Partnership

On October 12, 2004, the Fund, indirectly through the Trust and SIR GP Inc., respectively, acquired all of the Ordinary LP Units and 99 Ordinary GP Units. The holders of the Ordinary LP Units are entitled to receive a pro rata share of distributions and the holders of the Ordinary GP Units receive a fixed monthly distribution of $5 in aggregate.

The holders of the Class A LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership. As at June 30, 2018, the Fund’s interest in the residual earnings of the Partnership was 80.6% (June 30, 2017 – 80.9%). Generally, the Partnership units have no voting rights, except in certain specified conditions.

The Partnership makes cash distributions to its partners in the following order of priority: i) First, to the holders of the Class C GP Units and the Class C LP Units, ii) second, to the holders of the Class B GP Units, iii) third, to the holders of the Ordinary GP Units, and iv) thereafter, to the holders of the Class A GP Units, the Class A LP Units, and the Ordinary LP Units.

The continuity of the Investment in the Partnership is as follows:

	Three-month period ended June 30, 2018 $	Three-month period ended June 30, 2017 $	Six-month period ended June 30, 2018 $	Six-month period ended June 30, 2017 $
Balance - Beginning of period	50,984,321	50,984,321	50,984,321	50,984,321
Equity income	3,086,322	2,953,629	5,673,823	5,446,051
Distributions declared	(3,086,322)	(2,953,629)	(5,673,823)	(5,446,051)
Balance - End of period	50,984,321	50,984,321	50,984,321	50,984,321

The summarized financial information of the Partnership is as follows:

	As at June 30, 2018 $	As at December 31, 2017 $
Cash	779,258	267,087
Other current assets	5,130,127	5,043,307
Intangible assets	100,432,371	97,585,372
Total assets	106,341,756	102,895,766
Current liabilities and total liabilities	5,909,375	5,310,384
Partners' Interest		
SIR Royalty Income Fund	35,616,956	35,616,956
SIR Corp.	64,815,425	61,968,426
Total partners' interest	100,432,381	97,585,382

	Three-month period ended June 30, 2018 $	Three-month period ended June 30, 2017 $	Six-month period ended June 30, 2018 $	Six-month period ended June 30, 2017 $
Revenues	4,751,589	4,573,653	8,886,057	8,578,395
Net earnings and comprehensive income of the Partnership	4,731,507	4,551,937	8,844,579	8,533,797

The reconciliation of the Fund's investment in the Partnership to the Partnership's partners' interest is as follows:

	As at June 30, 2018 $	As at December 31, 2017 $
Investment in the Partnership	50,984,321	50,984,321
Transaction costs incurred by the Partnership to issue the Ordinary LP units	(3,533,090)	(3,533,090)
Difference between carrying value and fair value on the conversion of the Class A GP units to Class A LP units	(11,834,275)	(11,834,275)
Partners' interest to SIR Royalty Income Fund	35,616,956	35,616,956

The reconciliation of the Partnership's net earnings to the Fund's equity income is as follows:

	Three-month period ended June 30, 2018 $	Three-month period ended June 30, 2017 $	Six-month period ended June 30, 2018 $	Six-month period ended June 30, 2017 $
Net earnings and comprehensive income of the Partnership	4,731,507	4,551,937	8,844,579	8,533,797
Priority income allocated to SIR Corp. (Class C GP and Class B GP units)	(750,003)	(750,003)	(1,500,006)	(1,500,006)
Residual earnings	3,981,504	3,801,934	7,344,573	7,033,791
SIR Corp.'s share	(895,182)	(848,305)	(1,670,750)	(1,587,740)
Equity income	3,086,322	2,953,629	5,673,823	5,446,051

The following table presents the carrying amounts of assets and liabilities recognized by the Fund relating to its interest in the Partnership as well as the Fund's maximum exposure to loss from those interests:

	As at June 30, 2018 $		As at December 31, 2017 $	
	Carrying Amount	**Maximum Exposure to Loss**	**Carrying Amount**	**Maximum Exposure to Loss**
Distributions receivable	4,182,755	4,182,755	3,677,558	3,677,558
Advances payable	(3,131,667)	(3,131,667)	(2,520,068)	(2,520,068)
Amounts due from related parties	1,051,088	1,051,088	1,157,490	1,157,490
Investment in SIR Royalty Limited Partnership	50,984,321	50,984,321	50,984,321	50,984,321
Total	52,035,409	52,035,409	52,141,811	52,141,811

The maximum exposure to loss is equal to the current carrying amounts of the assets and liabilities recognized by the Fund. The Fund does not provide financial support to the Partnership, nor has the Fund provided any guarantees or other contingent support to the Partnership.

5 Financial instruments

Classification

As at June 30, 2018 and December 31, 2017, the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

		Carrying and fair value	
	Classification	**As at June 30, 2018 $**	**As at December 31, 2017 $**
Cash	Financial assets at amortized cost	276,645	373,651
Amounts due from related parties	Financial assets at amortized cost	4,432,755	3,927,558
Loan receivable from SIR Corp.	Financial assets at fair value through profit and loss	39,250,000	See below
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	80,033	121,788
Amounts due to related parties	Financial liabilities at amortized cost	3,136,716	2,521,071

Carrying and fair values

Cash, amounts due from related parties, accounts payable and accrued liabilities, and amounts due to related parties are short-term financial instruments whose fair value approximates the carrying amount given that they will mature in the short term. The carrying value of the SIR Loan as at June 30, 2018 is $39,250,000 (December 31, 2017 – $40,000,000). The fair value of the SIR Loan is estimated to be $39,250,000 (December 31, 2017 - $42,500,000). 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.

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 June 30, 2018, management adjusted the discount rate from 7.45% at March 31, 2018 to 7.65% at June 30, 2018. The adjustment consists of an estimated increase in the corporate bond rate and the comparative risk free rate of 0.19%, and an increase of 0.01% in the Canadian risk free rate.

During the six-month period ended June 30, 2018, management adjusted the discount rate from 7.0% at January 1, 2018 to 7.65% at June 30, 2018. The adjustment consists of an estimated increase in the corporate bond rate and the comparative risk free rate of 0.73%, offset by a reduction of 0.06% in the Canadian risk free rate.

Management believes that there is no change in SIR's credit risk during the three-month and six-month periods ended June 30, 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 $1,100,000 decrease or increase in the fair value of the SIR Loan.

6 Fund units

An unlimited number of Fund units may be issued pursuant to the Declaration of Trust. Fund units are redeemable by the holder at a price equal to the lesser of 90% of the market price of a Fund unit during the ten consecutive trading day period ending on the trading day immediately prior to the date on which the Fund units were surrendered for redemption and an amount based on the closing price on the redemption date, subject to certain restrictions. Each holder of Fund units participates pro rata in any distributions from the Fund.

As at June 30, 2018, there are 8,375,567 (December 31, 2017 – 8,375,567) Fund units issued and outstanding. Each Fund unit is entitled to one vote at any meeting of unitholders.

During the three-month and six-month periods ended June 30, 2018, the Fund declared distributions of $0.30 and $0.585 per unit (three-month and six-month periods ended June 30, 2017 – $0.285 and $0.57 per unit, respectively). Subsequent to June 30, 2018, distributions of $0.10 per unit were declared and paid in the month of July 2018, and declared in the month of August 2018.

The distribution policy of the Fund is, at the discretion of the Trustees, to make distributions of its available cash to the fullest extent possible, taking into account trends in revenues, earnings and cash flows.

7 Earnings per Fund unit

Basic earnings per Fund unit is computed by dividing net earnings by the weighted average number of Fund units outstanding during the period.

SIR has the right to convert the Class A GP Units into Fund units. Diluted earnings per Fund unit is calculated using the weighted average number of Fund units outstanding adjusted to include the effect of the conversion of the Class A GP Units into Fund units.

The following table reconciles the basic and diluted weighted average number of Fund units outstanding and basic and diluted earnings per Fund unit:

	Basic	Adjustment for conversion of Class A GP units	Diluted
Net earnings for the three-month period ended June 30, 2018	$ 1,944,464	$ N/A	$ 1,944,464
Net earnings per Fund unit for the three-month period ended June 30, 2018	$ 0.23		$ 0.23
Weighted average number of Fund units outstanding for the three-month period ended June 30, 2018	8,375,567	N/A	8,375,567
Net earnings for the six-month period ended June 30, 2018	$ 3,343,585	$ N/A	$ 3,343,585
Net earnings per Fund unit for the six-month period ended June 30, 2018	$ 0.40		$ 0.40
Weighted average number of Fund units outstanding for the six-month period ended June 30, 2018	8,375,567	N/A	8,375,567
Net earnings for the three-month period ended June 30, 2017	$ 2,625,291	$ 621,127	$ 3,246,418
Net earnings per Fund unit for the three-month period ended June 30, 2017	$ 0.31		$ 0.31
Weighted average number of Fund units outstanding for the three-month period ended June 30, 2017	8,375,567	1,981,616	10,357,183
Net earnings for the six-month period ended June 30, 2017	$ 4,916,318	$ 1,163,169	$ 6,079,487
Net earnings per Fund unit for the six-month period ended June 30, 2017	$ 0.59		$ 0.59
Weighted average number of Fund units outstanding for the six-month period ended June 30, 2017	8,375,567	1,981,616	10,357,183

For the three-month and six-month periods ended June 30, 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.

8 Related party transactions and balances

During the three-month and six-month periods ended June 30, 2018, the Fund recorded equity income of $3,086,322 and $5,673,823, respectively (three-month and six-month periods ended June 30, 2017 - $2,953,629 and $5,446,051, respectively) and received distributions of $2,669,743 and $5,168,626, respectively (three-month and six-month periods ended June 30, 2017 - $2,498,883 and $4,997,765, respectively) from the Partnership. 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 revenues generated by SIR for the restaurants subject to the Licence and Royalty Agreement. Under the terms of the Licence and Royalty Agreement, SIR may be required to pay a Make-Whole Payment in respect of the reduction in revenues for restaurants permanently closed during a reporting period. SIR is not required to pay any Make-Whole Payment in respect of a permanently closed restaurant following the date on which the number of restaurants in the Royalty Pooled Restaurants is equal to or greater than 68 or following October 12, 2019, whichever occurs first. On January 1 of each year (the Adjustment Date), the restaurants subject to the Licence and Royalty Agreement are adjusted for new restaurants opened for at least 60 days preceding such Adjustment Date in the previous fiscal year. At each Adjustment Date, SIR will be entitled to convert its Class B GP Units into Class A GP Units based on a conversion formula defined in the Partnership Agreement.

On January 1 of each year, Class B GP Units are converted into Class A GP Units for new SIR Restaurants added to the Royalty Pooled Restaurants based on 80% of the initial estimated revenues and the formula defined in the Partnership Agreement. Additional Class B GP Units may be converted into Class A GP Units in respect of these new SIR Restaurants if actual revenues of the new SIR Restaurants exceeded 80% of the initial estimated revenues and the formula defined in the Partnership Agreement. Conversely, converted Class A GP Units will be returned by SIR if the actual revenues of the new SIR Restaurants are less than 80% of the initial estimated revenues. In December of each year, an additional distribution will be payable to the Class B GP unitholders provided that actual revenues of the new SIR Restaurants exceed 80% of the initial estimated revenues, or there will be a reduction in the distributions to the Class A GP unitholders if revenues are less than 80% of the initial estimated revenues.

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. The number of Class B GP Units that SIR converted into Class A GP Units was reduced by an adjustment for the permanent closure of three (January 1, 2017 - one) SIR Restaurants during 2017. 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, 2017 – SIR exchanged 79,481 Class A GP Units into 79,481 Class B GP Units) on January 1, 2018 at a value of $2,846,999 (January 1, 2017 - $15,828) (note 4).

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 $52,078 in December 2017 and paid in January 2018 (December 31, 2016 – $492 paid in January 2017).

Class A GP Units and Class B GP Units are held by SIR.

The Partnership has entered into an arrangement with the Fund and the Trust whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc. in its capacity as the Managing General Partner, or SIR as the General Partner. SIR, on behalf of SIR GP Inc., also provides services to the Partnership for its administration. For the three-month and six-month periods ended June 30, 2018, the Partnership provided these services to the Fund and the Trust for consideration of $6,000 and $12,000, respectively (three-month and six-month periods ended June 30, 2017 - $6,000 and $12,000, respectively), which was the amount of consideration agreed to by the related parties and has been recorded in general and administrative expenses.

Amounts due from (to) related parties consist of:

	As at June 30, 2018 $	As at December 31, 2017 $
SIR Corp.		
Interest receivable	250,000	250,000
Distributions receivable from SIR Royalty Limited Partnership	4,182,755	3,677,558
Amounts due from related parties	4,432,755	3,927,558
SIR Corp.		
Advances payable	5,049	1,003
Advances payable to SIR Royalty Limited Partnership	3,131,667	2,520,068
	3,136,716	2,521,071

Amounts due from (to) related parties are non-interest bearing and due on demand. All advances were conducted as part of the normal course of business operations.

9 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Three-month period ended June 30, 2018 $	Three-month period ended June 30, 2017 $	Six-month period ended June 30, 2018 $	Six-month period ended June 30, 2017 $
Prepaid expenses and other assets	17,398	17,377	5,235	5,493
Amounts due from related parties	-	772	-	772
Accounts payable and accrued liabilities	(14,650)	14,723	(41,754)	(26,502)
Amounts due to related parties	121,289	(83,202)	615,645	271,840
	124,037	(50,330)	579,126	251,603

10 Economic dependence

The Fund's income is derived from the SIR Loan and distributions from the Partnership; accordingly, the Fund is economically dependent on SIR.

11 Income taxes

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

Income tax expense is as follows:

	Three-month period ended June 30, 2018 $	Three-month period ended June 30, 2017 $	Six-month period ended June 30, 2018 $	Six-month period ended June 30, 2017 $
Current	894,668	946,200	1,658,441	1,766,508
Deferred - Other	(120,825)	14,000	(1,312,250)	28,000
	773,843	960,200	346,191	1,794,508

The Fund's income not distributed to its unitholders is taxable at a rate of 53.53% (2017 – 53.53%). Distributions to unitholders are taxable at the combined federal and provincial tax rate, which is 26.5% for the three-month and six-month periods ended June 30, 2018 (three-month and six-month periods ended June 30, 2017 – 26.5%).

Deferred tax liabilities consist of the following:

	Investment in the Partnership $	Fair value of SIR Loan $	As at June 30, 2018 $
Balance – beginning of period as previously reported	1,841,000	-	1,841,000
Change in accounting policy (note 2)	-	1,338,250	1,338,250
Balance – beginning of period as restated	1,841,000	1,338,250	3,179,250
Charged to consolidated statements of earnings	26,000	(1,338,250)	(1,312,250)
	1,867,000	-	1,867,000