SIR Royalty Income Fund

Condensed Interim Consolidated Financial Statements
(Unaudited)
For the three-month and six-month periods ended June 30, 2019 and June 30, 2018

SIR Royalty Income Fund

Condensed Consolidated Statements of Financial Position

(Unaudited)

	June 30, 2019 $	December 31, 2018 $
Assets		
Current assets		
Cash	337,021	296,246
Prepaid expenses and other assets	27,744	33,669
Income taxes receivable	34,718	-
Amounts due from related parties (note 8)	4,037,778	4,164,408
	4,437,261	4,494,323
Loan receivable from SIR Corp. (note 3)	47,750,000	36,000,000
Investment in SIR Royalty Limited Partnership (note 4)	50,984,321	50,984,321
	103,171,582	91,478,644
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	79,242	105,352
Income taxes payable	-	139,895
Amounts due to related parties (note 8)	3,257,147	2,822,682
	3,336,389	3,067,929
Deferred income taxes (note 11)	6,065,076	1,893,000
	9,401,465	4,960,929
Fund units (note 6)	96,169,787	96,169,787
Deficit	(2,399,670)	(9,652,072)
Total unitholders' equity	93,770,117	86,517,715
	103,171,582	91,478,644

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

SIR Royalty Income Fund

Condensed Consolidated Statements of Earnings and Comprehensive Income

(Unaudited)

	Three-month period ended June 30, 2019 $	Three-month period ended June 30, 2018 $	Six-month period ended June 30, 2019 $	Six-month period ended June 30, 2018 $
Equity income from SIR Royalty Limited Partnership (notes 4 and 8)	2,952,851	3,086,322	5,554,582	5,673,823
Change in estimated fair value of the SIR Loan (note 3)	5,000,000	(250,000)	13,250,000	(1,750,000)
	7,952,851	2,863,322	18,804,582	3,923,823
General and administrative expenses (note 8)	133,325	118,015	251,810	234,047
Earnings before income taxes	7,819,526	2,718,307	18,552,772	3,689,776
Income tax expense (note 11)	3,211,136	773,843	6,023,763	346,191
Net earnings and comprehensive income for the period	4,608,390	1,944,464	12,529,009	3,343,585
Basic earnings per Fund unit (note 7)	$ 0.55	$ 0.23	$ 1.50	$ 0.40
Diluted earnings per Fund unit (note 7)	$ 0.50	$ 0.23	$ 1.31	$ 0.40

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

SIR Royalty Income Fund

Condensed Consolidated Statements of Changes in Unitholders' Equity

(Unaudited)

	Six-month period ended June 30, 2019			
	Number of Fund units	Amount $	Deficit $	Total $
Balance - Beginning of period	8,375,567	96,169,787	(9,652,072)	86,517,715
Net earnings for the period	-	-	12,529,009	12,529,009
Distributions declared and paid (note 6)	-	-	(5,276,607)	(5,276,607)
Balance - End of period	8,375,567	96,169,787	(2,399,670)	93,770,117

	Six-month period ended June 30, 2018			
	Number of Fund units	Amount $	Deficit $	Total $
Balance - Beginning of period	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

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

SIR Royalty Income Fund

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Six-month period ended June 30, 2019 $	Six-month period ended June 30, 2018 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	12,529,009	3,343,585
Items not affecting cash		
Change in estimated fair value of the SIR Loan (note 3)	(13,250,000)	1,750,000
Current income taxes (note 11)	1,851,687	1,658,441
Deferred income taxes (note 11)	4,172,076	(1,312,250)
Equity income from SIR Royalty Limited Partnership (notes 4 and 8)	(5,554,582)	(5,673,823)
Distributions received from SIR Royalty Limited Partnership (note 8)	5,681,212	5,168,626
Interest received on SIR Loan (note 3)	1,500,000	1,500,000
Income taxes paid	(2,026,300)	(2,211,004)
Net change in non-cash working capital items (note 9)	414,280	579,126
	5,317,382	4,802,701
Financing activities		
Distributions paid to unitholders	(5,276,607)	(4,899,707)
Change in cash during the period	40,775	(97,006)
Cash - Beginning of period	296,246	373,651
Cash - End of period	337,021	276,645

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 condensed consolidated financial statements were approved by the Board of Trustees on August 9, 2019.

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 condensed interim 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 condensed interim consolidated financial statements do not include all requirements of IFRS for annual consolidated financial statements and should be read in conjunction with the 2018 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 condensed interim financial statements are consistent with those followed in the 2018 annual financial statements.

3 Loan receivable from SIR Corp.

	Three-month period ended June 30, 2019 $	Three-month period ended June 30, 2018 $	Six-month period ended June 30, 2019 $	Six-month period ended June 30, 2018 $
Balance - Beginning of period	43,500,000	40,250,000	36,000,000	42,500,000
Interest received	(750,000)	(750,000)	(1,500,000)	(1,500,000)
Change in estimated fair value of the SIR Loan	5,000,000	(250,000)	13,250,000	(1,750,000)
Balance - End of period	47,750,000	39,250,000	47,750,000	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, 2019, respectively (three-month and six-month periods ended June 30, 2018 – $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 6.00% as at June 30, 2019 (December 31, 2018– 8.46%) 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, 2019 decreased from 6.75% at March 31, 2019 and 8.46% at December 31, 2018 to 6.00% at June 30, 2019. The change in the discount rate is driven by the change in the spread between similar corporate bonds and the risk free rate over the same periods (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 $30,000,000 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.

Credit Facility 2 bears interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%. Under the Credit Agreement, subsequent advances on Credit Facility 2 may be requested (subject to availability and lender approval), in minimum multiples of $1,000,000, 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 in which they are compliant.

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, 2019, the Fund's interest in the residual earnings of the Partnership was 79.1% (December 31, 2018 – 80.6%). 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, 2019 $	Three-month period ended June 30, 2018 $	Six-month period ended June 30, 2019 $	Six-month period ended June 30, 2018 $
Balance - Beginning of year	50,984,321	50,984,321	50,984,321	50,984,321
Equity income	2,952,821	3,086,322	5,554,582	5,673,823
Distributions declared	(2,952,821)	(3,086,322)	(5,554,582)	(5,673,823)
Balance - End of year	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, 2019 $	As at December 31, 2018 $
Cash	43,273	243,849
Other current assets	5,454,053	5,499,540
Intangible assets	104,418,635	100,432,371
Total assets	109,915,961	106,175,760
Current liabilities and total liabilities	5,497,316	5,743,379
Partners' Interest		
SIR Royalty Income Fund	35,616,956	35,616,956
SIR Corp.	68,801,689	64,815,425
Total partners' interest	104,418,645	100,432,381

	Three-month period ended June 30, 2019 $	Three-month period ended June 30, 2018 $	Six-month period ended June 30, 2019 $	Six-month period ended June 30, 2018 $
Revenue	4,668,468	4,751,589	8,898,075	8,886,057
Net earnings and comprehensive income of the Partnership	4,646,526	4,731,507	8,853,030	8,844,579

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

	As at June 30, 2019 $	As at December 31, 2018 $
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, 2019 $	Three-month period ended June 30, 2018 $	Six-month period ended June 30, 2019 $	Six-month period ended June 30, 2018 $
Net earnings and comprehensive income of the Partnership	4,646,526	4,731,507	8,853,030	8,844,579
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	3,896,523	3,981,504	7,353,024	7,344,573
SIR Corp.'s share	(943,672)	(895,182)	(1,798,442)	(1,670,750)
Equity income	2,952,851	3,086,322	5,554,582	5,673,823

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, 2019 $ Carrying Amount	Maximum Exposure to Loss	As at December 31, 2018 $ Carrying Amount	Maximum Exposure to Loss
Distributions receivable	3,787,778	3,787,778	3,914,408	3,914,408
Advances payable	(3,248,872)	(3,248,872)	(2,817,565)	(2,817,565)
Amounts due from related parties	538,906	538,906	1,096,843	1,096,843
Investment in SIR Royalty Limited Partnership	50,984,321	50,984,321	50,984,321	50,984,321
Total	51,523,227	51,523,227	52,081,164	52,081,164

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, 2019 and December 31, 2018, 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, 2019 $**	**As at December 31, 2018 $**
Cash	Financial assets at amortized cost	337,021	296,246
Amounts due from related parties	Financial assets at amortized cost	4,037,778	4,164,408
Loan receivable from SIR Corp.	Financial assets at fair value through profit and loss	See below	See below
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	79,242	105,352
Amounts due to related parties	Financial liabilities at amortized cost	3,257,147	2,822,682

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 fair value of the SIR Loan, which approximates its carrying value after the adoption of IFRS 9, is estimated to be $47,750,000 (December 31, 2018 - $36,000,000). 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. Changes in the estimated fair value of the SIR Loan are recorded in the condensed consolidated statement of earnings and comprehensive income.

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, 2019, management adjusted the discount rate from 6.75% at March 31, 2109 to 6.00% at June 30, 2019. The adjustment consists of an estimated decrease in the corporate bond rate and the comparative risk free rate of 0.55% combined with a reduction of 0.20% in the Canadian risk free rate.

During the six-month period ended June 30, 2019, management adjusted the discount rate from 8.46% at December 31, 2018 to 6.00% at June 30, 2019. The adjustment consists of an estimated decrease in the corporate bond rate and the comparative risk free rate of 1.95% combined with a reduction of 0.51% in the Canadian risk free rate.

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 $1,500,000 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, 2019, there are 8,375,567 (December 31, 2018 – 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, 2019, the Fund declared distributions of $0.315 and $0.63 per unit, respectively (three-month and six-month periods ended June 30, 2018 – $0.30 and $0.585 per unit, respectively). Subsequent to June 30, 2019, distributions of $0.105 per unit were declared and paid in the month of July 2019, and declared in the month of August 2019.

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, 2019	$	4,608,390	$	688,881	$	5,297,271
Net earnings per Fund unit for the three-month period ended June 30, 2019	$	0.55			$	0.50
Weighted average number of Fund units outstanding for the three-month period ended June 30, 2019		8,375,567		2,214,250		10,589,817
Net earnings for the six-month period ended June 30, 2019	$	12,529,009	$	1,312,863	$	13,841,872
Net earnings per Fund unit for the six-month period ended June 30, 2019	$	1.50			$	1.31
Weighted average number of Fund units outstanding for the six-month period ended June 30, 2019		8,375,567		2,214,250		10,589,817
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

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, 2019, the Fund recorded equity income of $2,952,851 and $5,554,582, respectively (three-month and six-month periods ended June 30, 2018 - $3,086,322 and $5,673,823, respectively) and received distributions of $2,840,606 and $5,681,212, respectively (three-month and six-month periods ended June 30, 2018 - $2,669,743 and $5,168,626, 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, 2019, two (January 1, 2018 - three) new SIR Restaurants were added to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of two new SIR Restaurants on January 1, 2019 (January 1, 2018 - three), as well as the Second Incremental Adjustment for three new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2018 (January 1, 2017 - one), SIR converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. In addition, there was a re-conversion of Class A GP Units into Class B GP Units for the permanent closure of one (January 1, 2018 – three) SIR Restaurants during 2018. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 197,824 Class B GP Units into 197,824 Class A GP Units (January 1, 2018 – SIR converted 34,810 Class B GP Units into 34,810 Class A GP Units) on January 1, 2019 at a value of $3,986,264 (January 1, 2018 - $2,846,999).

In addition, the revenues of the three (January 1, 2017 – one) new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2018 exceeded 80% of the Initial Adjustment's estimated revenue (January 1, 2017 – revenue of the one new SIR Restaurant was less than 80% of the Initial Adjustment's estimated revenue) and, as a result, a special conversion distribution of $90,971 was declared on the Class B GP Units in December 2018 and paid in January 2019 (the distributions of the Class A GP Units were reduced by a special conversion refund of $52,078 in December 2017 and paid in January 2018). As a result of the permanent closure of one SIR Restaurant during the six-month period ended June 30, 2019, a Make-Whole Payment of $202,618 (six-month period ended June 30, 2018 - $nil) has been recorded in Royalty income in the statement of earnings and comprehensive income of the Partnership for the six-month period ended June 30, 2019.

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, 2019, 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, 2018 - $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, 2019 $	As at December 31, 2018 $
SIR Corp.		
Interest receivable	250,000	250,000
Distributions receivable from SIR Royalty Limited Partnership	3,787,778	3,914,408
Amounts due from related parties	4,037,778	4,164,408
SIR Corp.		
Advances payable	8,275	5,117
Advances payable to SIR Royalty Limited Partnership	3,248,872	2,817,565
	3,257,147	2,822,682

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:

	Six-month period ended June 30, 2019 $	Six-month period ended June 30, 2018 $
Prepaid expenses and other assets	5,925	5,235
Accounts payable and accrued liabilities	(26,110)	(41,754)
Amounts due to related parties	434,465	615,645
	414,280	579,126

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, 2019 $	Three-month period ended June 30, 2018 $	Six-month period ended June 30, 2019 $	Six-month period ended June 30, 2018 $
Current	924,360	894,668	1,851,687	1,658,441
Deferred – SIR Loan	2,275,026	(133,825)	4,148,576	(1,338,250)
Deferred - Other	11,750	13,000	23,500	26,000
	3,211,136	773,843	6,023,763	346,191

The Fund's income not distributed to its unitholders is taxable at a rate of 53.53% (2018 – 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, 2019 (three-month and six-month periods ended June 30, 2018 – 26.5%).