SIR Royalty Income Fund

2019 Annual Report

To our Unitholders,

On behalf of SIR Corp. (“SIR”) and SIR Royalty Income Fund (the “Fund”), please find enclosed the Fund’s 2019 Management’s Discussion and Analysis and Financial Statements.

During 2019, and prior to the COVID-19 pandemic, changing consumer behaviour impacted Canada’s full-service restaurant industry, particularly in Ontario. The rapid growth of delivery service aggregators, such as SkipTheDishes, Uber Eats and DoorDash, stricter impaired driving laws, and menu price increases related to Ontario’s minimum wage increase in January 2018 are all factors that restrained customer spending at full-service restaurants, including those owned by SIR. Further, we believe that the high cost of living in the Greater Toronto Area, where the majority of SIR restaurants are located, also impacted discretionary consumer spending. Same store sales at the Fund’s Royalty Pooled Restaurants declined by 5.3% in 2019, and Pooled Revenue declined by 5.3% to $284.3 million, compared to $300.1 million in 2018.

In October 2019, the Trustees of the Fund elected to reduce unitholder distributions in order to align them with these reduced food and beverage sales at SIR restaurants. The monthly cash distribution was lowered from $0.105 per unit to $0.0875 per unit, a reduction of 1.75 cents, effective for the November 2019 distribution payment.

It is important to recognize that the Trustees’ priority is to maintain a long-term Payout Ratio for the Fund of approximately 100%. Since its inception in 2004, the Fund has a track record of increasing Distributable Cash in line with Pooled Revenue growth generated by SIR, enabling the Trustees to approve several increases to cash distributions, as well as special year-end distributions, in order to calibrate to the 100% long-term Payout Ratio target. Monthly distributions were increased in 2006, 2007, 2008, 2012, 2013, and 2018, and special year-end distributions were paid in 2013 and 2017. In 2011, distributions were reduced in accordance with new federal tax laws governing income trusts. The reduction in distributions in 2019 was the first instance in which unitholder distributions were reduced due to declines in Pooled Revenue.

SIR took decisive action in 2019 and early 2020 to respond to its decline in restaurant sales. The Company is introducing new and healthier food options across its restaurant portfolio, including the rollout of 11 new globally-inspired bowls and salads at Jack Astor’s. SIR also launched promotional pricing during off-peak periods, expanded its take-out and delivery offering, and developed “Service-Inspired Rewards”, a new loyalty program and mobile application to further enhance the guest experience. SIR management believes these measures will help to grow sales in the long term.

In the short term, the COVID-19 pandemic is having a severe negative impact on Canada’s restaurant industry. During the second half of March 2020, SIR followed the directives of public health authorities and temporarily suspended the dine-in operations at all of its restaurants. SIR is continuing to offer take-out and delivery services at Jack Astor’s and Scaddabush locations, and at the time of this writing, developing a new "No-Contact" curbside option for pick-up orders, while waiting for approval from authorities to resume normal operations. SIR considers the safety and well-being of its personnel, guests and the communities in which it operates to be a top priority.

As a result of the temporary suspension of dine-in restaurant operations at all of SIR’s locations, on March 23, 2020, the Trustees suspended monthly distributions until further notice.

Given these unprecedented circumstances, SIR had to lay off most of its hourly employees and some other personnel, and advised the Fund that its ability to meet its financial obligations in the medium term is dependent on its ability to obtain necessary financing and access to government assistance to aid businesses. SIR and the Fund are also exploring whether business interruption insurance may be available to provide some financial support. SIR's ability to meet its obligations over the medium term also depends on the length of the closure of dine-in operations at all of its restaurants, the speed at which SIR is able to return to full operating capacity in the near future, Canadian economic conditions after bars and restaurants are able to re-open, and SIR's ability to negotiate longer-term extended credit terms from its suppliers, including negotiation of deferrals of rent obligations over the terms of its leases.

These are highly challenging times for all of us. SIR is doing everything it can to ensure that its restaurants will be re-opened as soon as it is safe and appropriate to do so. SIR's senior management team and restaurant brand leaders look forward to welcoming guests back and resuming strategic initiatives to further strengthen the SIR restaurant brands and drive growth in Pooled Revenue.

The Fund's Trustees remain committed to ensuring the continued alignment of interests between SIR and the Fund, strong corporate governance, and disciplined management of the Fund's operating costs.

On behalf of the Trustees, and everyone at SIR, we thank you for your support in this difficult period.

Sincerely,

Peter Fowler
Chief Executive Officer, SIR Corp.

John McLaughlin
Chair, SIR Royalty Income Fund

SIR ROYALTY INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(FOR THE YEAR ENDED DECEMBER 31, 2019)

Executive Summary

Highlights for the three-month period ("Q4 2019") and year ("Fiscal 2019") ended December 31, 2019 for SIR Royalty Income Fund (the "Fund") include:

Pooled Revenue and Same Store Sales(1) ("SSS")

- The Royalty Pooled Restaurants had SSS(1) declines of 6.5% and 5.3% in Q4 2019 and Fiscal 2019, respectively. Pooled Revenue decreased by 7.5% to $67.5 million in Q4 2019, compared to $72.9 million in the three-month period ended December 31, 2018 ("Q4 2018"), and decreased by 5.3% to $284.3 million in Fiscal 2019, compared to $300.1 million in the year ended December 31, 2018 ("Fiscal 2018"). The declines in Pooled Revenue were primarily as a result of the declines in SSS(1) and the closure of three SIR Corp. ("SIR") Restaurants in 2019.
- Jack Astor's®, which accounted for approximately 67.5% of Pooled Revenue in Q4 2019, reported SSS(1) declines of 7.9% in Q4 2019 and 6.4% in Fiscal 2019.
- Scaddabush Italian Kitchen & Bar® ("Scaddabush") reported SSS(1) declines of 1.4% and 1.3% in Q4 2019 and Fiscal 2019, respectively.
- Canyon Creek® reported SSS(1) declines of 8.7% in Q4 2019 and 6.3% in Fiscal 2019.
- The Signature Restaurants reported SSS(1) declines of 1.4% and 1.0% in Q4 2019 and Fiscal 2019, respectively.

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

- Royalty income in the Partnership was $4.0 million for Q4 2019, compared to $4.4 million for Q4 2018, and $17.3 million for Fiscal 2019, compared to $18.0 million for Fiscal 2018.
- Equity income from the Partnership, which represents the Fund's pro rata share of the residual distributions of the Partnership, decreased 8.6% to $2.5 million in Q4 2019, compared to $2.7 million in Q4 2018, and decreased 6.2% to $10.8 million in Fiscal 2019, compared to $11.5 million in Fiscal 2018.

Net Earnings and Adjusted Net Earnings(1)

- Net earnings and net earnings per Fund unit were impacted by International Financial Reporting Standard 9 ("IFRS 9") in both Q4 2019 and Fiscal 2019 and the corresponding periods in 2018. This standard did not impact Distributable cash(1) and the Fund's payout ratio(1).
- Net loss was $1.7 million for Q4 2019 compared to $2.8 million for Q4 2018. IFRS 9 resulted in a decrease in net earnings of $4.0 million for Q4 2019 and $4.9 million for Q4 2018. Adjusted net earnings(1) were $2.3 million for Q4 2019, compared to $2.2 million for Q4 2018. Please refer to the Adjusted Net Earnings(1) section on page 14.
- Net earnings were $12.6 million for Fiscal 2019 compared to $5.1 million for Fiscal 2018. IFRS 9 resulted in an increase in net earnings of $3.0 million for Fiscal 2019, and a decrease in net earnings of $5.2 million for Fiscal 2018. Adjusted net earnings(1) were $9.6 million for Fiscal 2019 compared to $10.3 million for Fiscal 2018. Please refer to the Adjusted Net Earnings(1) section on page 14.
- Net loss per Fund unit was $0.21 (basic and diluted) for Q4 2019, compared to net loss per Fund unit of $0.33 (basic and diluted) for Q4 2018. Net earnings per Fund unit were $1.51 (basic) and $1.43 (diluted) for Fiscal 2019, compared to $0.61 (basic and diluted) for Fiscal 2018.
- Adjusted Net Earnings per Fund unit(1) were $0.27 for Q4 2019 and $0.26 for Q4 2018, and $1.15 and $1.23 for Fiscal 2019 and Fiscal 2018, respectively.

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(1) Same store sales ("SSS"), same store sales growth ("SSSG"), Adjusted Net Earnings (Loss), Adjusted Net Earnings per Fund Unit, Distributable cash and payout ratio are non-GAAP financial measures and do not have standardized meanings prescribed by International Financial Reporting Standards ("IFRS"). For additional information regarding these financial measures, including full details on how these financial measures are calculated, see the "Description of Non-IFRS Measures" section of this MD&A (page 25).

Distributable Cash(1) and Payout Ratio(1)

- Distributable cash(1) per Fund unit was $0.27 and $1.16 (basic and diluted) for Q4 2019 and Fiscal 2019, respectively, compared to $0.26 and $1.23 (basic and diluted) for Q4 2018 and Fiscal 2018, respectively. Please refer to the Distributions section on page 8 and Distributable Cash(1) on page 16.
- The Fund's payout ratio(1) decreased to 102.3% in Q4 2019 from 120.5% in Q4 2018, and increased to 105.9% in Fiscal 2019 from 97.7% in Fiscal 2018. The payout ratio(1) since the Fund's inception, up to and including Q4 2019, is 99.7%.
- The lower payout ratio(1) in Q4 2019 reflects a reduction in the Fund's monthly cash distributions from $0.105 per unit to $0.0875 per unit, effective for the cash distribution paid in November 2019. The higher annual payout ratio(1) in Fiscal 2019 reflects a decline in distributable cash(1) related to the impact of the decline in Pooled Revenue and SSS(1) on the net earnings of the Fund, and an increase in distributions paid to Fund unitholders compared to the same periods in the prior year.
- If the Fund had distributed the reduced monthly distribution amount of $0.0875 per Unit for the calendar year 2019 instead of the $0.105 per Unit for the months January 2019 to October 2019 and $0.0875 per Unit for the months of November and December 2019, the Fund's payout ratio(1) for the calendar year 2019 would have been 90.8%.
- Total distributable cash(1) and the Fund's payout ratio(1) do not reflect the Fund's pro rata share of the recognition of the $0.2 million Make-Whole Payments related to the closure of two SIR Restaurants (one in Q1 2019, one in Q3 2019). Distributable cash(1) will reflect this income as it is received by the Fund over the remainder of 2019.

Investment in new and existing restaurants and closed restaurants

- During Q4 2019, effective October 13, 2019, SIR permanently closed the Canyon Creek restaurant in Burlington, Ontario. A new Scaddabush restaurant was opened at this location on November 19, 2019. In accordance with the License and Royalty Agreement, as of October 12, 2019, the 15th anniversary of the closing date of the Fund's Initial Public Offering, SIR was no longer required to pay a "Make-Whole Payment" in respect of a permanently closed Royalty Pooled Restaurant.
- During Q3 2019, effective September 23, 2019, SIR permanently closed the Jack Astor's restaurant on John Street in downtown Toronto. SIR was required to pay a Make-Whole Payment to the Fund, via the Partnership, for this location from the date of closure until it ceased to be part of Royalty Pooled Restaurants on January 1, 2020. The location at John Street was closed at the end of the lease, as SIR was unable to negotiate an economically acceptable lease extension given rent and property tax escalations at this location in recent years.
- During Q3 2019, SIR opened a new Duke's Refresher® & Bar at the former location of the closed Jack Astor's restaurant in the St. Lawrence Market neighbourhood of downtown Toronto.
- During Q2 2019, SIR opened a new Scaddabush restaurant in the Mimico neighbourhood of Etobicoke, Ontario.
- During Q1 2019, SIR completed full renovations at two Jack Astor's locations (the location near Toronto Pearson International Airport in Etobicoke, Ontario and the location at the CF Shops at Don Mills mall in North York, Ontario). These locations were closed for a combined total of 30 days during the quarter.
- During Q1 2019, SIR also completed a major renovation at the Scaddabush location at the Square One shopping centre in Mississauga, Ontario, that resulted in the closure of this restaurant for six days.
- During Q1 2019, a major renovation at The Loose Moose on Front Street in downtown Toronto resulted in the closure of this restaurant for 15 days.
- During Q1 2019, effective February 4, 2019, SIR permanently closed the Jack Astor's restaurant in the St. Lawrence Market neighbourhood of downtown Toronto. SIR was required to pay a Make-Whole Payment to the Fund, via the Partnership, for this location from the date of closure until it ceased to be part of Royalty Pooled Restaurants on January 1, 2020.
- On January 1, 2020, the Scaddabush restaurant in the Mimico neighbourhood of Etobicoke, Ontario (opened June 2, 2019) was added to Royalty Pooled Restaurants. The Jack Astor's locations in St. Lawrence Market (closed effective February 4, 2019) and on John Street (closed effective September 23, 2019) in downtown Toronto, along with the Canyon Creek restaurant in Burlington, Ontario (closed effective October 13, 2019), ceased to be part of Royalty Pooled Restaurants on January 1, 2020.

Outlook

- SIR opened a new Scaddabush restaurant at the location of the closed Canyon Creek restaurant in Burlington, Ontario on November 19, 2019. This restaurant is expected to become part of Royalty Pooled Restaurants on January 1, 2021.
- 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 third quarter unaudited interim consolidated financial statements and MD&A were filed on SEDAR on June 19, 2019.
- SIR secured additional long-term financing in 2018 to fund new restaurant developments and renovations to existing restaurants. SIR continues to assess changes in the marketplace, including economic conditions and consumer confidence, and has advised the Fund that it has adopted a more cautious stance toward new restaurant openings.
- SIR's Management believes that recent performance in the full-service restaurant industry has been impacted by a shift in consumer behaviour. Consumer spending at full-service restaurants in Ontario, where the majority of SIR's restaurants are located, has been restrained by a number of factors, including: the impact of a minimum wage increase on menu pricing, changes to impaired driving legislation impacting beverage sales, rising costs of living, and high levels of consumer debt. In addition, an increasing number of consumers are choosing to order through meal delivery services instead of in-restaurant dining. According to Restaurants Canada data, real commercial food service sales (sales adjusted for menu inflation) in Ontario declined 0.2% in calendar year 2018 (despite the generally higher menu prices) and preliminary data indicates real sales rebounded only slightly in calendar year 2019. SIR's Management continues to focus its strategic efforts on improving same store sales performance and capturing a greater share of the market.
- The coronavirus (COVID-19) outbreak is having a negative impact on global economic activity and could impact consumer spending in Canada, including restaurant sales. Further, due to cautionary measures and public health recommendations on social distancing, public meeting places, including restaurants and other hospitality-related venues, could experience a significant near-term decline in customer visits.

Same Store Sales(1)

SIR reported to the Fund that the Royalty Pooled Restaurants had cumulative SSS(1) declines of 6.5% and 5.3% in Q4 2019 and Fiscal 2019, respectively. SSS(1) are typically impacted by changes in guest traffic and average cheque amount. Other factors are identified below. Segmented SSS(1) performance for Q4 2019 and Fiscal 2019 is detailed in the following table.

SSS(1) for the Royalty Pooled Restaurants (unaudited)	**Three-month period ended December 31, 2019**	**Three-month period ended December 31, 2018**	**12-month period ended December 31, 2019**	**12-month period ended December 31, 2018**
Jack Astor's	(7.9%)	(1.2%)	(6.4%)	2.1%
Scaddabush	(1.4%)	(1.6%)	(1.3%)	(0.1%)
Canyon Creek	(8.7%)	(3.5%)	(6.3%)	(2.7%)
Signature Restaurants	(1.4%)	4.2%	(1.0%)	(3.3%)
Overall SSS(1)	**(6.5%)**	**(1.0%)**	**(5.3%)**	**1.2%**

SIR believes that its recent SSS(1) performance has been impacted by a shift in consumer behaviour related to spending at full-service restaurants, especially in Ontario, where the majority of SIR restaurants are located.

On January 1, 2018, the minimum wage in Ontario increased by 23%. To help offset the increased labour costs, most Ontario restaurants, including SIR, increased their prices, which SIR believes contributed to a decline in full-service restaurant visits compared to the same period in the prior year. Subsequent to these events, Ontario restaurant guests appear to be dining out less frequently. According to Restaurants Canada data, real commercial food service sales in Ontario declined 0.2% in 2018 and preliminary data indicates that while real sales rebounded slightly in 2019, full-service restaurants in Ontario experienced a decline in real sales in December 2019 that was above the national average.

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

Effective December 18, 2018, Ontario introduced new impaired driving laws, including higher mandatory fines and/or imprisonment for many alcohol-impaired driving offences. In addition, the new legislation gives police officers the authority to demand roadside breathalyzer tests from any driver. While SIR supports the initiative to eliminate impaired driving and remains dedicated to responsible alcohol service, SIR believes that the introduction of stricter legislation has contributed to lower alcoholic beverage sales in full-service restaurants. The decline in alcoholic beverage sales has impacted the majority of SIR restaurants, with certain locations that cater to guests that live within walking distance (downtown Toronto locations) experiencing smaller declines than locations in areas where the majority of guest traffic uses a motor vehicle to travel to the restaurant.

Jack Astor's, which accounted for approximately 67.5% of Pooled Revenue in Q4 2019, had SSS(1) declines of 7.9% and 6.4% in Q4 2019 and Fiscal 2019, respectively. There were no Jack Astor's renovations in Q4 2019, compared to two renovations in Q4 2018 (Mississauga and the location at the intersection of Yonge and Bloor streets in Toronto, Ontario). SIR completed renovations at two Jack Astor's locations in both Q1 2019 (the location near Toronto Pearson International Airport in Etobicoke, Ontario and the location at the CF Shops at Don Mills mall in North York, Ontario) and Q1 2018 (a full renovation at the location at the 10 Dundas East entertainment complex in downtown Toronto, and a partial renovation in Kingston, Ontario), and one renovation in Q3 2018 (Kanata, Ontario). These renovations resulted in the closure of these restaurants for a combined total of 30 days in Fiscal 2019 and 48 days in Fiscal 2018. In Fiscal 2019, SIR permanently closed two Jack Astor's locations: the location in the St. Lawrence Market area of downtown Toronto (effective February 4, 2019) and the location on John Street in downtown Toronto (effective September 23, 2019). The sales from these locations have been excluded from the calculation of SSS(1) for Q4 2019 and Fiscal 2019. Beginning in Q4 2019, SIR's Management implemented a number of strategies to address declining food and beverage sales, resulting from changes in consumer behaviour, and changing guest preferences.

Scaddabush had SSS(1) declines of 1.4% for Q4 2019 and 1.3% for Fiscal 2019. During Q4 2019, on November 19, 2019, SIR opened its tenth Scaddabush location in Burlington, Ontario, at the location of the closed Canyon Creek restaurant. During Q2 2019, on June 2, 2019, SIR opened a new Scaddabush location in the Mimico neighbourhood of Etobicoke, Ontario. Scaddabush SSS(1) performance for Q4 2019 includes seven Scaddabush locations, excluding the locations at Sherway Gardens in Etobicoke, Ontario, Mimico, and Burlington. During Q1 2019, SIR closed the Scaddabush location at the Square One shopping centre in Mississauga, Ontario for six days to complete a renovation. This location, which was the first Scaddabush location (opened in July 2013), received a décor refresh and a major menu update. The refined pizza and pasta program implemented at this location was first tested at the Oakville, Ontario Scaddabush location and was rolled-out to the remainder of the Scaddabush locations starting in Q3 2019 to drive same store sales growth ("SSSG")(1). This roll-out was completed at all locations in January 2020.

Canyon Creek had SSS(1) declines of 8.7% and 6.3% in Q4 2019 and Fiscal 2019, respectively. During Q4 2019, effective October 13, 2019, SIR permanently closed the Canyon Creek restaurant in Burlington, Ontario. A new Scaddabush restaurant was opened in this location before the end of 2019. The sales from this location has been excluded from the calculation of SSS(1) for Q4 2019 and Fiscal 2019. SIR's Management continues to evaluate options for the Canyon Creek portfolio to improve performance.

The downtown Toronto Signature Restaurants reported SSS(1) declines of 1.4% in the quarter and 1.0% for Fiscal 2019. In Fiscal 2019, the Loose Moose, located on Front Street in downtown Toronto, benefited from an increase in guest traffic as a result of the NBA championship run of the Toronto Raptors, and the major renovation that was completed in Q1 2019, but these positive impacts were offset by the impact of a 21% decline in event attendance at major downtown Toronto sporting and entertainment venues in Fiscal 2019. The Reds location at the intersection of Yonge & Gerrard streets in downtown Toronto generated strong sales growth in both Q4 2019 and Fiscal 2019 that can be attributed to a change in leadership for the Reds concept, along with leadership changes at this location. Reds also introduced a new wine program that has contributed to an increase in beverage sales in both Q4 2019 and Fiscal 2019. SSS(1) performance for the Signature Restaurants in Fiscal 2019 was impacted by the closure of the Loose Moose for 15 days during Q1 2019 for the aforementioned renovation. In addition, the Signature Restaurants have been impacted by increased local competition in downtown Toronto. The Q4 2019 and Fiscal 2019 SSS(1) performance for the Signature Restaurants does not include the new Reds restaurant in Mississauga, Ontario ("Reds Square One"), which was added to the Royalty Pool on January 1, 2019, and therefore was not included in Pooled Revenue for the entire comparable periods in 2019 and 2018.

Restaurant Renovations

SIR's Management is committed to maximizing the performance of all of its restaurants. SIR believes that investing in restaurant renovations is a key performance-enhancing initiative.

During 2019, SIR completed four restaurant renovations, including:

- Two Jack Astor's locations (the location near Toronto Pearson International Airport in Etobicoke, Ontario and the location at the CF Shops at Don Mills in North York, Ontario) that resulted in the closure of these restaurants for a combined total of 30 days in the quarter.
- A major renovation at The Loose Moose that resulted in the closure of this restaurant for 15 days.
- The Scaddabush restaurant at the Square One shopping centre in Mississauga, Ontario which was closed for six days to complete a renovation.

During 2018, SIR completed six restaurant renovations, including:

- The Jack Astor's location at the 10 Dundas East entertainment complex in downtown Toronto was closed for 12 days for a full renovation, and the Jack Astor's location in Kingston, Ontario was closed for eight days for a partial renovation, for a combined total of 20 days in Q1 2018.
- The Jack Astor's location in Kanata, Ontario was closed for 10 days in Q3 2018 for a full renovation.
- The Jack Astor's location in Mississauga, Ontario and the Jack Astor's location at the intersection of Yonge and Bloor streets in downtown Toronto were closed for a combined total of 18 days in Q4 2018.
- Reds Square One, which resulted in a closure for four days in Q2 2018.

New and Closed Restaurants

SIR currently owns 60 restaurants, including one seasonal restaurant, in Canada. Since the Fund's Initial Public Offering in October 2004, SIR has opened 39 new restaurants (22 Jack Astor's, four Canyon Creek restaurants, eight Scaddabush restaurants, two Reds restaurants, two Duke's Refreshers, one seasonal Abbey's Bakehouse restaurant) and one seasonal Abbey's Bakehouse retail outlet. During this same period, SIR closed 13 restaurants (five Jack Astor's restaurants, three Canyon Creek restaurants, three Alice Fazooli's restaurants, and two Signature restaurants) and the seasonal Abbey's Bakehouse retail outlet.

During Q4 2019, effective October 13, 2019, SIR closed the Canyon Creek restaurant in Burlington, Ontario. In accordance with the License and Royalty Agreement, as of October 12, 2019, the 15th anniversary of the closing date of the Fund's Initial Public Offering, SIR was no longer required to pay a "Make-Whole Payment" in respect of a permanently closed Royalty Pooled Restaurant. This restaurant ceased to be part of Royalty Pooled Restaurants on January 1, 2020.

During Q4 2019, on November 19, 2019, SIR opened its tenth Scaddabush restaurant in Burlington, Ontario at the location of the closed Canyon Creek restaurant noted above. The new Scaddabush restaurant is expected to be added to Royalty Pooled Restaurants on January 1, 2021, but there can be no assurance of this.

During Q3 2019, effective September 23, 2019, SIR closed the Jack Astor's restaurant on John Street in downtown Toronto. SIR was required to pay a Make-Whole Payment to the Fund, via the Partnership, for this location from the date of closure until it ceased to be part of Royalty Pooled Restaurants on January 1, 2020. The location at John Street was closed at the end of the lease, as SIR was unable to negotiate an economically acceptable lease extension given rent and property tax escalations in the location in recent years.

During Q2 2019, on June 2, 2019, SIR opened a new Scaddabush location in the Mimico neighbourhood of Etobicoke, Ontario. It is expected that this restaurant will be added to Royalty Pooled Restaurants on January 1, 2020.

During Q1 2019, effective February 4, 2019, SIR closed the Jack Astor's restaurant in the St. Lawrence Market area of downtown Toronto. SIR was required to pay a Make-Whole Payment to the Fund, via the Partnership, for this location from the date of closure until it ceased to be part of Royalty Pooled Restaurants on January 1, 2020. SIR also chose not to renew the lease on the property for the seasonal Abbey's Bakehouse retail outlet in Port Carling, Ontario.

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

During the calendar year 2017, SIR closed three restaurants, including:

- the Alice Fazooli's location in Oakville, Ontario effective March 19, 2017 (Q1 2017);
- the Alice Fazooli's location in Vaughan, Ontario effective June 18, 2017 (Q2 2017); and
- the Canyon Creek restaurant in Etobicoke, Ontario effective October 15, 2017 (Q4 2017).

SIR subsequently opened new Scaddabush restaurants at each of these locations:

- Oakville on April 5, 2017 (Q2 2017);
- Vaughan on July 5, 2017 (Q3 2017); and
- Etobicoke on November 28, 2017 (Q4 2017).

SIR elected, as was its option, under the License and Royalty Agreement, to treat the aforementioned 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, and the new Scaddabush restaurant in Etobicoke was added to Royalty Pooled Restaurants on January 1, 2019.

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

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(1) 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(1) to the extent possible.

During Q4 2019, monthly distributions of $0.9 million, or $0.105 per unit, were declared and paid in October 2019. On October 16, 2019, the Fund announced a $0.0175 reduction per unit in the Fund's monthly cash distribution to unitholders, resulting in a reduction in the Fund's monthly cash distributions from $0.105 per unit to $0.0875 per unit, effective for the cash distribution to be paid in November 2019. Distributions of $0.7 million, or $0.0875 per unit, were declared and paid in each of the months of November and December 2019. Subsequent to December 31, 2019, distributions of $0.0875 per unit were declared and paid in the months of January and February 2020, and declared in the month of March 2020.

The payout ratio(1) of cash distributed to distributable cash(1) 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[(1)] may exceed or could be lower than 100%. The payout ratio[(1)] of cash distributed to distributable cash[(1)] for Q4 2019 was 102.3%, compared to 120.5% for Q4 2018, and 105.9% for Fiscal 2019 compared to 97.7% for Fiscal 2018. The payout ratio[(1)] since the Fund's inception in 2004 up to and including Q4 2019 is 99.7%, in line with Fund's target payout ratio of 100%.

If the Fund had distributed $0.0875 per Unit for the calendar year 2019 instead of the $0.105 per Unit for the months January 2019 to October 2019 and $0.0875 per Unit for the months of November and December 2019, the Fund's payout ratio[(1)] for the calendar year 2019 would have been 90.8% instead of 105.9%.

Please refer to page 16 for distributable cash[(1)] and a summary of monthly distributions since inception, and page 17 for a description of the Fund's payout ratio[(1)].

Overview and Business of the Fund

On October 1, 2004, the Fund filed a final prospectus for an initial public offering of units of the Fund (the "Offering"). 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, which stands for Service Inspired Restaurants, is a private company amalgamated under the Business Corporations Act of Ontario. As at December 31, 2019, SIR owned 60 Concept Restaurants and Signature Restaurants in Canada (in Ontario, Quebec, Alberta, Nova Scotia, and Newfoundland). The Concept Restaurants are Jack Astor's Bar and Grill®, Scaddabush Italian Kitchen & Bar®, and Canyon Creek®. The Signature Restaurants are Reds® Wine Tavern, Reds® Midtown Tavern, Reds® Square One, and the Loose Moose Tap & Grill®. SIR also owns two Duke's Refresher® & Bar restaurants located in downtown Toronto, and one seasonal restaurant, Abbey's Bakehouse®, which are considered Signature restaurants, and are not part of Royalty Pooled Restaurants. SIR owns 100% of its Canadian restaurants. As at December 31, 2019, 58 SIR Restaurants were included in Royalty Pooled Restaurants (56 operating restaurants and two closed 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 could 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 before August 30, 2020, Duke's Refresher is not expected to be added to the Royalty Pool on January 1, 2021.

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, 2020, one new SIR Restaurant was added (January 1, 2019 – two 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 one new SIR Restaurant on January 1, 2020 (January 1, 2019 – two new SIR Restaurants), as well as the Second Incremental Adjustment for two new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2019 (January 1, 2018 - three), 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, 2019 – one) SIR Restaurants during 2019. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR returned 395,899 Class A GP Units for 395,899 Class B GP Units (January 1, 2019 – SIR converted 197,824 Class B GP Units into 197,824 Class A GP Units) on January 1, 2020 reducing the value of the SIR Rights by $3.5 million (January 1, 2019 – increase the value of the SIR Rights by $4.0 million).

In addition, the revenues of the two (January 1, 2018 – three) new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2019 was less than 80% of the Initial Adjustment's estimated revenue (January 1, 2018 – revenue of the three new SIR Restaurants exceeded 80% of the Initial Adjustment's estimated revenue) and, as a result, the distributions of the Class A GP Units were reduced by a special conversion refund of $0.02 million in December 2019 and paid in January 2020 (a special conversion distribution of $0.09 million was declared on the Class B GP Units in December 2018 and paid in January 2019). As a result of the permanent closure of the two Jack Astor's restaurants in downtown Toronto (St. Lawrence Market and John Street) during the year ended December 31, 2019, Make-Whole Payments of $0.3 million (year ended December 31, 2018 - $0.01 million) have been recorded in Royalty income in the statement of earnings and comprehensive income of the Partnership for the year ended December 31, 2019.

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 2018 and 2019 both consist of 52 weeks.

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

Seasonality

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

Selected Consolidated Financial Information

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

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

(in thousands of dollars or units, except restaurants and per unit amounts)	**Year ended December 31, 2019**	**Year period December 31, 2018**
Royalty Pooled Restaurants	58	57
Pooled Revenue generated by SIR	284,333	300,114
Royalty income to Partnership - 6% of Pooled Revenue	17,060	18,007
Make-Whole Payment[(2)]	267	12
Total Royalty income to Partnership	17,327	18,019
Partnership other income	24	24
Partnership expenses	(79)	(80)
Partnership earnings	17,272	17,963
SIR's interest (Class A, B and C GP Units)	(6,491)	(6,473)
Partnership income allocated to Fund[(3)]	10,781	11,490
Interest income on SIR Loan[(4)]	-	-
Change in estimated fair value of the SIR Loan[(4)]	6,000	(3,500)
	16,781	7,990
General & administrative expenses	(488)	(443)
Net earnings before income taxes of the Fund	16,293	7,547
Income tax recovery (expense)	(3,649)	(2,432)
Net earnings for the period	12,644	5,115
Basic earnings per Fund unit	$1.51	$0.614
Weighted average number of Fund units outstanding – Basic	8,376	8,376
Net earnings for the period – Diluted	15,192	7,584
Weighted average number of Class A GP Units	2,214	N/A
Weighted average number of Fund units outstanding – Diluted	10,590	N/A
Diluted earnings per Fund unit	$1.43	$0.61

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

(2) The Jack Astor's restaurants in the St. Lawrence Market neighbourhood and on John Street, both in downtown Toronto, Ontario, were closed effective February 4, 2019 and September 23, 2019, respectively. Under the terms of the License and Royalty Agreement, SIR was 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.

(3) 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.

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

Summary of Quarterly Financial Information

(in thousands of dollars or units, except restaurants and per unit amounts) (unaudited)	**Three-month periods ended** December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Royalty Pooled Restaurants	58	58	58	58	57	57	57	57
Pooled Revenue generated by SIR	67,455	72,154	77,708	67,016	72,936	79,277	79,093	68,808
Royalty income to Partnership - 6% of Pooled Revenue	4,047	4,329	4,662	4,021	4,376	4,757	4,746	4,128
Make-Whole Payment(5)	-	65	-	203	12	-	-	-
Total Royalty income to Partnership	4,047	4,394	4,662	4,224	4,388	4,757	4,746	4,128
Partnership other income	6	6	6	6	6	6	6	6
Partnership expenses	(13)	(21)	(22)	(23)	(17)	(22)	(20)	(21)
Partnership earnings	4,040	4,379	4,646	4,207	4,377	4,741	4,732	4,113
SIR's interest (Class A, B and C GP Units)	(1,549)	(1,643)	(1,694)	(1,605)	(1,652)	(1,650)	(1,645)	(1,526)
Partnership income allocated to Fund(6)	2,491	2,736	2,952	2,602	2,725	3,091	3,087	2,587
Interest income on SIR Loan(7)	-	-	-	-	-	-	-	-
Change in estimated fair value of the SIR Loan(7)	(6,750)	(500)	5,000	8,250	(5,250)	3,500	(250)	(1,500)
	(4,259)	2,236	7,952	10,852	(2,525)	6,591	2,837	1,087
General & administrative expenses	(128)	(109)	(133)	(118)	(104)	(105)	(118)	(116)
Net earnings (loss) before income taxes of the Fund	(4,387)	2,127	7,819	10,734	(2,629)	6,486	2,719	971
Income tax recovery (expense)	2,648	(273)	(3,211)	(2,813)	(124)	(1,962)	(774)	428
Net earnings (loss) for the period	(1,739)	1,854	4,608	7,921	(2,753)	4,524	1,945	1,399
Basic earnings (loss) per Fund unit	($0.21)	$0.22	$0.55	$0.95	($0.33)	$0.54	$0.23	$0.17
Weighted average number of Fund units outstanding – Basic	8,376	8,376	8,376	8,376	8,376	8,376	8,376	8,376
Net earnings (loss) for the period – Diluted	(1,155)	2,505	5,297	8,545	(2,160)	5,181	2,598	1,965
Weighted average number of Class A GP Units	N/A	N/A	2,214	2,214	N/A	2,016	N/A	N/A
Weighted average number of Fund units outstanding – Diluted	N/A	N/A	10,590	10,590	N/A	10,392	N/A	N/A
Diluted earnings (loss) per Fund unit	($0.21)	$0.22	$0.50	$0.81	($0.33)	$0.50	$0.23	$0.17

In Q1 2018, Q2 2018, Q4 2018, Q3 2019, and Q4 2019, the Class A GP Units are excluded from the calculation of diluted earnings per Fund unit, as the conversion is anti-dilutive.

(5) The Canyon Creek restaurant in Etobicoke, Ontario was closed effective October 15, 2017, the Canyon Creek restaurant on Front Street in downtown Toronto, Ontario was closed effective December 9, 2018, the Jack Astor's restaurant in the St. Lawrence Market neighbourhood of downtown Toronto, Ontario was closed effective February 4, 2019 and the Jack Astor's restaurant on John Street in downtown Toronto, Ontario was closed effective September 23, 2019. Under the terms of the License and Royalty Agreement, SIR is required to pay a Make-Whole Payment for these locations equal to the amount of the royalty otherwise payable from the date of the closure until December 31st of the year of closure.

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

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

Adjusted Net Earnings[(1)] and Adjusted Earnings per Fund unit[(1)]

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

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

(in thousands of dollars or units, except per unit amounts) *(unaudited)*	**Three-month period ended December 31, 2019**	**Three-month period ended December 31, 2018**	**12-month period ended December 31, 2019**	**12-month period ended December 31, 2018**
Net earnings for the period	(1,739)	(2,753)	12,644	5,115
Change in estimated fair value of the SIR Loan[(7)]	6,750	5,250	(6,000)	3,500
Interest received on SIR Loan	750	750	3,000	3,000
Deferred tax expense (recovery)	(3,479)	(1,071)	-	(1,338)
Adjusted Net Earnings[(1)]	**2,282**	**2,176**	**9,644**	**10,277**
Adjusted Basic Earnings per Fund unit[(1)]	$0.27	$0.26	$1.15	$1.23
Weighted average number of Fund units outstanding – Basic	8,376	8,376	8,376	8,376

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 Q4 2019, management adjusted the discount rate from 6.20% at September 30, 2019 to 7.70% at December 31, 2019. The adjustment consists of an estimated decrease in the corporate bond rate and the comparative risk-free rate of 0.47% combined with an increase of 0.22% in the Canadian risk-free rate, combined with an increase in Management's estimate for SIR's credit risk of 1.75%.

During the year ended December 31, 2019, management adjusted the discount rate from 8.46% at December 31, 2018 to 7.70% at December 31, 2019. The adjustment consists of an estimated decrease in the corporate bond rate and the comparative risk-free rate of 2.11% combined with a reduction of 0.40% in the Canadian risk-free rate, combined with an increase in Management's estimate for SIR's credit risk of 1.75%.

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 $1.1 million decrease or increase in the fair value of the SIR Loan.

Distributions and Distributable Cash[(1)]

The Fund declared and paid a distribution of $0.105 per unit in each of the months of January to September 2019, inclusive. Subsequent to September 30, 2019, a distribution of $0.105 per unit was declared and paid in the month of October 2019. Another distribution of $0.0875 per unit was declared in November 2019 and scheduled to be paid at the end of the month.

Distributable Cash[(1)]

(in thousands of dollars or units, except per unit amounts and payout ratio[(1)]) *(unaudited)*	**Year ended December 31, 2019**	**Year ended December 31, 2018**
Cash provided by operating activities	10,101	10,015
Add/(deduct):		
Net change in non-cash working capital items[(8)]	(545)	(283)
Net change in income tax payable[(8)]	316	360
Net change in distribution receivable from the Partnership[(8)]	(181)	237
Distributable cash[(1)]	**9,691**	**10,329**
Cash distributed for the period	**10,260**	**10,093**
Surplus/(shortfall) of distributable cash[(1)]	**(569)**	**236**
Payout ratio[(1), (9)]	105.9%	97.7%
Weighted average number of Fund units outstanding – Basic	8,376	8,376
Distributable cash[(1)] per Fund unit – Basic	$1.16	$1.23
Distributable cash[(1)] for the period – Diluted[10]	12,239	12,797
Weighted average number of Class A GP Units	2,214	2,016
Weighted average number of Fund units outstanding – Diluted	10,590	10,392
Distributable cash[(1)] per Fund unit – Diluted	$1.16	$1.23

(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.

Distributable Cash[(1)]

(in thousands of dollars or units, except per unit amounts and payout ratio[(1)]) *(unaudited)*	Three-month periods ended December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Cash provided by operating activities	2,441	2,342	2,654	2,663	2,679	2,534	2,492	2,310
Add/(deduct): Net change in non-cash working capital items[(11)]	(324)	193	(143)	(271)	407	(111)	(124)	(455)
Net change in income tax payable[(11)]	126	16	22	153	(248)	55	39	514
Net change in distribution receivable from the Partnership[(11)]	50	(104)	112	(239)	(649)	380	417	89
Distributable cash[(1)]	**2,293**	**2,447**	**2,645**	**2,306**	**2,189**	**2,858**	**2,824**	**2,458**
Cash distributed for the period	**2,345**	**2,638**	**2,638**	**2,638**	**2,639**	**2,554**	**2,513**	**2,387**
Surplus/(shortfall) of distributable cash[(1)]	**(52)**	**(191)**	**7**	**(332)**	**(450)**	**304**	**311**	**71**
Payout ratio[(1),(12)]	102.3%	107.8%	99.7%	114.4%	120.5%	89.4%	89.0%	97.1%
Weighted average number of Fund units outstanding – Basic	8,376	8,376	8,376	8,376	8,376	8,376	8,376	8,376
Distributable cash[(1)] per Fund unit – Basic	$0.27	$0.29	$0.32	$0.28	$0.26	$0.34	$0.34	$0.29
Distributable cash[(1)] for the period – Diluted[(13)]	2,877	3,098	3,334	2,930	2,781	3,515	3,477	3,024
Weighted average number of Class A GP Units	2,214	2,214	2,214	2,214	2,016	2,016	2,016	2,016
Weighted average number of Fund units outstanding – Diluted	10,590	10,590	10,590	10,590	10,392	10,392	10,392	10,392
Distributable cash[(1)] per Fund unit – Diluted[(13)]	$0.27	$0.29	$0.32	$0.28	$0.26	$0.34	$0.34	$0.29

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[(14)]
June 2012 to May 2013	$0.088
June 2013 to March 2018	$0.095
April 2018 to August 2018	$0.100
September 2018 to October 2019	$0.105
November 2019 to date	$0.0875
December 2012 Special Distribution	$0.05[(15)]
December 2017 Special Distribution	$0.02[(9)]

(11) *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.*

(12) *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.*

(13) *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.*

(14) *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.*

(15) *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.*

Effective for the Fund's cash distribution to be paid in November 2019, the Fund reduced its monthly unitholder distributions from $0.105 per unit to $0.0875 per unit, representing $1.05 per unit on an annualized basis.

The payout ratio(1) of cash distributed to distributable cash(1) for Q4 2019 was 102.3%, compared to 120.5% in Q4 2018. The payout ratio(1) of cash distributed to distributable cash(1) for Fiscal 2019 was 105.9%, compared to 97.7% in Fiscal 2018. The decrease in the payout ratio(1) for Q4 2019 is the result of a decrease in the distributions of the Fund compared to the same period in the prior year. The increase in the payout ratio(1) for Fiscal 2019 is the result of a decrease in distributable cash(1) resulting primarily from the decline in SSS(1), and an increase in the distributions of the Fund compared to the same period in the prior year. The payout ratio(1) of cash distributed to distributable cash(1) 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(1) 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.

If the Fund had distributed the reduced monthly distribution amount of $0.0875 per Unit for the calendar year 2019 instead of the $0.105 per Unit for the months January 2019 to October 2019 and $0.0875 per Unit for the months of November and December 2019, the Fund's payout ratio(1) for the calendar year 2019 would have been 90.8%.

Since the Fund's inception in October 2004 up to and including Q4 2019, the Fund has generated $118.5 million in cumulative distributable cash(1) and has paid cumulative cash distributions of $118.2 million, representing a cumulative payout ratio(1) (the ratio of cumulative cash distributions paid since inception to cumulative distributable cash(1) generated) of 99.7%. Based on current business and economic conditions, the Fund's Trustees intend to maintain its current distribution levels at this time. However, should the distributions from the Partnership decline, or the expenses of the Fund increase, the Fund may have to reduce distributions.

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

(in thousands of dollars) *(unaudited)*	**Year ended December 31, 2019**	**Year ended December 31, 2018**
Cash provided by operating activities	10,101	10,015
Net earnings for the period	12,643	5,115
Cash distributed for the period	10,260	10,093
Excess (shortfall) of cash provided by operating activities over cash distributed for the period(16)	**(159)**	**(78)**
Excess (shortfall) of net earnings for the period over cash distributed for the period(17)	**2,383**	**(4,978)**

The $0.2 million shortfall of cash provided by operating activities over cash distributed for Fiscal 2019 is primarily attributable to an increase in distributions paid by the Fund, combined with a decrease in Adjusted net earnings(1) for the period.

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

(16) 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.

(17) 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.

Balance Sheet

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

(in thousands of dollars) (unaudited)	**December 31, 2019**	**September 30, 2019**	**June 30, 2019**	**March 31, 2019**	**December 31, 2018**	**September 30, 2018**	**June 30, 2018**	**March 31, 2018**
Total assets	94,316	101,519	103,172	98,789	91,479	98,171	95,023	95,605
Unitholders' equity	88,901	92,986	93,770	91,800	86,518	91,909	89,939	90,507

Results of Operations - Fund

The Fund's income for Q4 2019 comprises equity income from the Partnership of $2.5 million ($2.7 million for Q4 2018) and a reduction in the estimated fair value of the SIR Loan of $6.8 million ($5.3 million for Q4 2018). The Fund's income for Fiscal 2019 comprises equity income from the Partnership of $10.8 million ($11.5 million for Fiscal 2018) and an increase in the estimated fair value of the SIR Loan of $6.0 million (reduction in the estimated fair value of the SIR Loan of $3.5 million for Fiscal 2018). Equity income from the Partnership is the pro rata share of the residual distributions of the Partnership for the three-month and 12-month periods ended December 31, 2019 and December 31, 2018. The change in estimated fair value of the SIR Loan is related to IFRS 9, which requires the Fund to recognize the SIR Loan at fair value, with changes in the fair value being recorded in the statement of earnings.

The Fund's operating expenses, which are limited to general and administrative expenses, totaled $0.1 million and $0.5 million for Q4 2019 and YTD 2019, respectively ($0.1 million and $0.4 million for Q4 2018 and Fiscal 2018, respectively). These expenses include professional fees, directors' and officers' liability insurance premiums, Trustees' fees, certain public company costs and other administrative fees.

The Fund recorded an income tax recovery of $0.3 million Q4 2019 and an income tax expense of $6.3 million for Fiscal 2019, respectively ($0.1 million and $2.4 million for Q4 2018 and Fiscal 2018, respectively).

Net loss for Q4 2019 was $1.7 million and net earnings for Fiscal 2019 were $12.6 million, compared to a net loss for Q4 2018 of $2.8 million and net earnings of $5.1 million for Fiscal 2018. Net loss per Fund unit for Q4 2019 was $0.21 (basic and diluted) and net earnings per Fund unit were $1.51 (basic) and $1.43 (diluted) for Fiscal 2019, compared to net loss per Fund unit of $0.33 (basic and diluted) for Q4 2018 net earnings per Fund unit of $0.61 (basic and diluted) for Fiscal 2018.

Adjusted Net Earnings(1) were $2.3 million and $9.6 million for Q4 2019 and Fiscal 2019, respectively ($2.2 million and $10.3 million for Q4 2018 and Fiscal 2018, respectively), and Adjusted Earnings per Fund unit(1) were $0.27 and $1.15 for Q4 2019 and Fiscal 2019, respectively ($0.26 and $1.23 for Q4 2018 and Fiscal 2018, respectively).

Pooled Revenue

The Fund is indirectly dependent on the amount of the Royalty paid by SIR to the Partnership. The amount of this Royalty is dependent on Pooled Revenue. Pooled Revenue is the revenue of the SIR Restaurants included in Royalty Pooled Restaurants. As at December 31, 2019, there were 58 restaurants included in Royalty Pooled Restaurants (56 operating restaurants and two closed restaurants). Increases or decreases in Pooled Revenue are derived from SSS(1) growth or declines, and new or permanently closed SIR Restaurants subject to the SIR Rights. Pooled Revenue is affected by the risks associated with the operations and financial condition of SIR, the commercial foodservice industry generally and the casual and fine dining segment of the commercial foodservice industry in particular.

The following table sets out Pooled Revenue for the three-month and 12-month periods ended December 31, 2019 and December 31, 2018:

Summary of Pooled Revenue

(in thousands of dollars except number of restaurants included in Pooled Revenue) (unaudited)	Three-month period ended December 31, 2019		Three-month period ended December 31, 2018		12-month period ended December 31, 2019		12-month period ended December 31, 2018	
	Pooled Revenue	Restaurants included in Pooled Revenue	Pooled Revenue	Restaurants included in Pooled Revenue	Pooled Revenue	Restaurants included in Pooled Revenue	Pooled Revenue	Restaurants included in Pooled Revenue
Jack Astor's	45,553	40	51,248	40	198,276	40	216,014	40
Scaddabush	11,542	8	10,557	7	45,567	8	41,760	7
Canyon Creek	4,098	6	6,032	7	17,111	6	23,098	7
Signature	6,261	4	5,099	3	23,379	4	19,242	3
Total included in Pooled Revenue	67,454	58	72,936	57	284,333	58	300,114	57

The Pooled Revenue declines for Jack Astor's are a result of SSS[(1)] declines in Q4 2019 and Fiscal 2019, and to the closures of the Jack Astor's restaurants in the St. Lawrence Market neighbourhood and on John Street in downtown Toronto during Fiscal 2019.

Pooled Revenue from Scaddabush for Q4 2019 and Fiscal 2019 includes eight Scaddabush restaurants. The eight Scaddabush restaurants consist of:

- six Scaddabush restaurants that opened as New Additional Restaurants (Yonge and Gerrard, and Front Street in downtown Toronto, and Scarborough, Oakville, Vaughan, and Etobicoke, Ontario), and
- two Scaddabush restaurants that were converted from Alice Fazooli's restaurants (Richmond Hill and Mississauga, Ontario).

Pooled Revenue growth for Scaddabush in Q4 2019 and Fiscal 2019 reflects one additional restaurant (Sherway Gardens in Etobicoke, Ontario), compared to the corresponding period a year ago, partially offset by SSS[(1)] declines in these periods.

The declines in Pooled Revenue for Canyon Creek in Q4 2019 and Fiscal 2019 are the result of SSS[(1)] declines in these periods, and the closure of the Canyon Creek restaurant in Burlington, Ontario during Q4 2019, and the removal of the Canyon Creek restaurant on Front Street in downtown Toronto from the Royalty Pool on January 1, 2019 after its closure in 2018.

The Pooled Revenue growth for the Signature Restaurants in Q4 2019 and YTD 2019 reflects one additional restaurant (Reds Square One), compared to the corresponding period a year ago, partially offset by SSS[(1)] declines in these periods.

Liquidity and Capital Resources

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

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

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

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

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

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

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

The Fund did not have any capital expenditures in Fiscal 2019 and Fiscal 2018 and by its nature is not expected to have significant capital expenditures in the future. Capital expenditures related to Royalty Pooled Restaurants are borne at the operating company (SIR) level. The Fund's operating and administrative expenses are expected to be fairly stable and predictable and are considered to be in the ordinary course of business.

Management currently believes that there are sufficient cash resources retained in the Partnership in order to meet its current obligations and pay distributions to its unitholders. The Fund intends to continue to pay monthly distributions consistent with the most recent distribution declared in March 2020 for the near future. However, should the distributions from the Partnership decline, or the expenses of the Fund increase, the Fund may have to reduce distributions.

While SIR is not owned by the Fund, the Fund's cash flows are derived from interest received on the SIR Loan and distributions from the Partnership and accordingly, the Fund is economically dependent upon SIR. Credit risk arises from the potential default of SIR on the SIR Loan. Management monitors the SIR Loan for credit risk and to date all interest payments have been made. The Fund also depends on the distributions from the Partnership, which are dependent upon SIR paying the Royalty to the Partnership. Information regarding SIR and its liquidity can be found in SIR's unaudited interim and audited annual consolidated financial statements and MD&A, which can be found on SEDAR under the Fund's listing named "Other". The most recent unaudited interim consolidated financial statements and MD&A for SIR's first quarter are listed having a filing date of December 19, 2019.

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(18)	4th Quarter Ended November 19, 2019 (12 weeks)	4th Quarter Ended August 25, 2019 (16 weeks)	3rd Quarter Ended May 5, 2019 (12 weeks)	2nd Quarter Ended February 10, 2019 (12 weeks)	1st Quarter Ended November 18, 2018 (12 weeks)	4th Quarter Ended August 26, 2018 (16 weeks)	3rd Quarter Ended May 6, 2018 (12 weeks)	2nd Quarter Ended February 11, 2018 (12 weeks)
				(in thousands of dollars) (unaudited)				
Cash provided by (used in) operations	1,986	9,644	3,509	(2,757)	(3,491)	11,241	5,440	(501)
Cash used in investing activities	(1,236)	(3,351)	(3,523)	(1,650)	(1,706)	(1,507)	(1,962)	(5,528)
Cash provided by (used in) financing activities	1,129	(5,006)	(856)	3,460	4,558	(7,910)	(3,568)	4,837
Increase (decrease) in cash and cash equivalents during the period	1,879	1,287	(870)	(947)	(639)	1,824	(90)	(1,192)
Cash and cash equivalents – Beginning of period	3,614	2,327	3,197	4,144	4,783	2,959	3,049	4,241
Cash and cash equivalents – End of period	5,493	3,614	2,327	3,197	4,144	4,783	2,959	3,049

(18) *Information presented is in accordance with IFRS and is derived solely from documents filed with the Canadian securities regulatory authorities by SIR in its interim Q1 2020 MD&A filed on December 19, 2019 and has not been approved by the Fund or its Trustees, officers, SIR GP Inc., or SIR Holdings Trust, or their respective Trustees, managing general partners, directors, or officers.*

Controls and Procedures

Disclosure controls and procedures:

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and includes controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Management carried out an evaluation of the effectiveness of the design and operation of the Fund's disclosures controls and procedures, as defined in National Instrument 52-109, "Certification of Disclosure in Issuer's Annual and Interim Filings", as at December 31, 2019 under the supervision of and with the participation of the Fund's Chief Executive Officer and Chief Financial Officer.

Based on that evaluation, the Fund's Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective as at December 31, 2019.

Internal controls over financial reporting:

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

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

Management carried out an evaluation of the effectiveness of the design and operation of the Fund's internal controls over financial reporting, as defined in National Instrument 52-109, "Certification of Disclosure in Issuer's Annual and Interim Filings", as at December 31, 2019 and under the supervision and with the participation of the Fund's Chief Executive Officer and Chief Financial Officer. The evaluation was conducted using the framework and criteria established in Internal Control - Integrated Framework: 2013, issued by the Committee of Sponsoring Organizations of the Treadway Commission in May 2013.

Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that internal controls over financial reporting are effective and there are no material weaknesses in the Fund's internal controls over financial reporting as at December 31, 2019. There have been no substantive changes in the Fund's internal controls over financial reporting that occurred during the most recent interim period beginning October 1, 2019 and ending December 31, 2019, that have materially affected, or are reasonably likely to materially affect the Fund's internal control over financial reporting. The Fund does not own, control or consolidate SIR and therefore, the Fund's disclosure controls and procedures and the internal controls over financial reporting do not encompass SIR or SIR's disclosure controls and procedures or SIR's internal controls over financial reporting.

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

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

During the three-month and 12-month periods ended December 31, 2019, the Fund earned equity income of $2.5 million and $10.8 million, respectively, from the Partnership ($2.7 million and $11.5 million, respectively, for the three-month and 12-month periods ended December 31, 2018). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. The Fund's equity income is dependent upon the revenue generated by the SIR Restaurants subject to the License and Royalty Agreement.

During the three-month and 12-month periods ended December 31, 2019, the Fund received interest payments of $0.8 million and $3.0 million, respectively, from the SIR Loan ($0.8 million and $3.0 million, respectively, for the three-month and 12-month periods ended December 31, 2018). A description of the terms of the SIR Loan is included in the notes to the consolidated financial statements of the Fund for the 12-month period ended December 31, 2019.

As at December 31, 2019, the Fund had amounts receivable from SIR of $0.3 million (December 31, 2018 – $0.3 million) and distributions receivable from the Partnership of $3.7 million (December 31, 2018 – $3.9 million). The amount receivable from SIR relates to the interest owing to the Fund on the SIR Loan for the month of December. As at December 31, 2019, the Fund had advances payable to the Partnership of $3.4 million (December 31, 2018 - $2.8 million). All advances were conducted as part of the normal course of business operations.

Critical Accounting Estimates

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

Investment in the Partnership/consolidation of structured entities

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

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

Valuation of the SIR Loan and investment in the Partnership

Management reviews for objective evidence whether there may be an impairment of the SIR Loan or the investment in the Partnership. The review includes a review of the earnings, cash flows and available cash of SIR on a prospective basis to assess SIR's ability to meet its obligations to the Fund for interest payments on the SIR Loan and to the Partnership for the Royalty. Based on the analysis completed during the years ended December 31, 2019 and 2018, no impairments have been recorded in the consolidated financial statements.

Fair value of the SIR Loan

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

During the three-month period ended December 31, 2019, management adjusted the discount rate from 6.20% at September 30, 2019 to 7.70% at December 31, 2019. The adjustment consists of an estimated decrease in the corporate bond rate and the comparative risk-free rate of 0.47% combined with an increase of 0.22% in the Canadian risk-free rate, combined with an increase in Management's estimate for SIR's credit risk of 1.75%.

During the 12-month period ended December 31, 2019, management adjusted the discount rate from 8.46% at December 31, 2018 to 7.70% at December 31, 2019. The adjustment consists of an estimated decrease in the corporate bond rate and the comparative risk-free rate of 2.11% combined with a reduction of 0.40% in the Canadian risk-free rate, combined with an increase in Management's estimate for SIR's credit risk of 1.75%.

Based on the continuing trend of recent results, Management increased its estimated company specific risk premium range to 2.0% to 3.0% for the year ended December 31, 2019, from 0.5% to 1.0% for the year ended December 31, 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 $1.1 million decrease or increase in the fair value of the SIR Loan.

Changes in Accounting Policies, Including Initial Adoption

There have been no changes in accounting policies during the period.

Financial Instruments

The Fund's financial instruments consist of cash, amounts due from related parties, the SIR Loan, accounts payable and accrued liabilities, and amounts due to related parties. Management estimates that the fair values of these financial instruments approximate their carrying values due to their short-term maturity except for the SIR Loan. The fair value of the SIR Loan is estimated to be $39.0 million. The fair value was estimated by discounting the expected cash flows using a current market interest rate adjusted for SIR's credit risk. The estimate of fair value is within level 3 of the fair value hierarchy.

Disclosure of Outstanding Unit Data

As at December 31, 2019 and March 11, 2020, the number of outstanding units of the Fund was 8,375,567.

Risks and Uncertainties

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

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

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

Outlook

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

SIR secured additional long-term financing in 2018 to fund new restaurant developments and renovations to existing restaurants. SIR continues to assess changes in the marketplace, including economic conditions and consumer confidence, and has advised the Fund that it has adopted a more cautious stance toward new restaurant openings.

The Canadian full-service restaurant 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's Management believes that recent performance in the full-service restaurant industry has been impacted by a shift in consumer behaviour. Consumer spending at full-service restaurants in Ontario, where the majority of SIR's restaurants are located, has been restrained by a number of factors including: the impact of a minimum wage increase on menu pricing, changes to impaired driving legislation impacting beverage sales, rising costs of living, and high levels of consumer debt. In addition, an increasing number of consumers are choosing to order through meal delivery services instead of in-restaurant dining. According to Restaurants Canada data, real commercial food service sales (sales adjusted for menu inflation) in Ontario declined 0.2% in calendar year 2018 (despite the generally higher menu prices) and preliminary data indicates real sales rebounded only slightly in calendar year 2019. SIR's Management continues to focus its strategic efforts on improving same store sales and capturing a greater share of the market.

SIR completed renovations of five Jack Astor's locations during calendar 2018, and completed renovations of two additional Jack Astor's locations in Q1 2019. SIR 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. During Q1 2019, SIR also completed major renovations at the Scaddabush location at Square One shopping centre in Mississauga, Ontario, and at The Loose Moose in downtown Toronto.

SIR opened a new Scaddabush restaurant in Burlington, Ontario on November 19, 2019. This restaurant is expected to become part of Royalty Pooled Restaurants on January 1, 2020.

Other SIR initiatives to improve SSS(1) and capture a greater share of the market include: i) introducing new and healthier food options across the SIR brand portfolio; ii) improving everyday value and the implementation of promotional pricing during off-peak periods; iii) increasing take-out and delivery sales; iv) further leveraging system-wide usage of mobile tablets for all servers and hosts to improve sales performance and in-store operating efficiencies, while enhancing the overall guest experience; and v) the anticipated rollout of "Service Inspired Rewards" – a new loyalty/mobile application.

The coronavirus (COVID-19) outbreak is having a negative impact on global economic activity and could impact consumer spending in Canada, including restaurant sales. Further, due to cautionary measures and public health recommendations on social distancing, public meeting places, including restaurants and other hospitality-related venues, could experience a significant near-term decline in customer visits.

Description of non-IFRS measures

Management believes that disclosing certain non-IFRS financial measures provides a useful supplemental measure to evaluate the Fund's performance. By considering these measures in combination with the most closely comparable IFRS measure, management believes that investors are provided with additional and more useful information about the Fund than investors would have if they simply considered IFRS measures alone.

The non-IFRS financial measures do not have standardized meanings prescribed by IFRS. The Fund's method of calculating these non-IFRS financial measures may differ from that of other issuers and, accordingly, may not be comparable to measures used by other issuers.

Same Store Sales and Same Store Sales Growth

The Fund believes that Same Store Sales ("SSS") and Same Store Sales Growth ("SSSG") are useful measures and provide investors with an indication of the change in year-over-year sales. SSS includes revenue from all SIR Restaurants included in Pooled Revenue for the fiscal years 2019 and fiscal 2018, except for those locations that were not open for the entire comparable periods in fiscal 2019 and fiscal 2018. The seasonal Abbey's Bakehouse is not a SIR Restaurant. SSSG is the percentage increase in SSS over the prior comparable period. When a SIR Restaurant is closed, the revenue for the closed restaurant is excluded from the calculation of SSS and SSSG for both the quarter in which the restaurant is closed and the current year-to-date.

Adjusted Net Earnings (Loss)

Adjusted Net Earnings (Loss) is calculated by replacing the change in estimated fair value of the SIR Loan as reported in the statement of earnings with the interest received on the SIR Loan during the period and the corresponding deferred tax expense or recovery from the net earnings for the period. Management believes that in addition to net earnings (loss), Adjusted Net Earnings (Loss) is a useful supplemental measure to evaluate the Fund's performance. The change in estimated fair value of the SIR Loan is a non-cash fair value adjustment resulting from the adoption of IFRS 9 on January 1, 2018 and varies with changes in a discount rate that fluctuates based on current market interest rates adjusted for SIR's credit risk. The replacement of the non-cash change in estimated fair value of the SIR Loan with the interest received, and the corresponding deferred tax amount, eliminates this non-cash impact. Management cautions investors that Adjusted Net Earnings (Loss) should not replace net earnings or loss or cash flows from operating, investing and financing activities (as determined in accordance with IFRS), as an indicator of the Fund's performance. Please refer to the reconciliations of net earnings (loss) for the period to Adjusted Net Earnings (Loss) on page 14 of this document.

Adjusted Net Earnings per Fund Unit

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

Distributable Cash and Payout Ratio

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. 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 Partnership.

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 tariffs and international trade; 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; laws affecting the sale and use of alcohol (including availability and enforcement); changes in cannabis laws; accounting policies and practices; and the results of operations and financial condition of SIR. The foregoing list of factors is not exhaustive. Many of these issues can affect the Fund's or SIR's actual results and could cause their actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Fund or SIR. There can be no assurance that SIR will remain compliant in the future with all of its financial covenants under the Credit Agreement and imposed by the lender. Given these uncertainties, readers are cautioned that forward-looking statements are not guarantees of future performance, and should not place undue reliance on them. The Fund and SIR expressly disclaim any obligation or undertaking to publicly disclose or release any updates or revisions to any forward-looking statements, except as required by securities legislation. Forward-looking statements are based on Management's current plans, estimates, projections, beliefs and opinions, and the Fund and SIR do not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change, except as expressly required by applicable securities laws. This Management's Discussion and Analysis is provided as of March 11, 2020.

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, delivery and takeout services, general levels of economic activity (including in downtown Toronto), regulations (including those regarding employees, food safety, tobacco, cannabis, and alcohol), weather and the potential effects of variations and climate change, taxes, foreign exchange rates and interest rates, that there will be no pandemics or other material outbreaks of disease or safety issues affecting humans or animals or food products, and that there will be no unplanned material changes in its facilities, equipment, customer and employee relations, or credit arrangements. Recent changes in employment law, including announced increases in minimum wages, are factored into management's assumptions. These assumptions, although considered reasonable by Management at the time of preparation, may prove to be incorrect. In addition, Management has assumed that the tax effects on distributions will remain consistent with current regulations or pronouncements, and also in estimating the revenue for new restaurants, Management has assumed that they will operate consistent with other similar SIR restaurants, and has assumed that SIR will remain compliant in the future with all of its financial covenants under the Credit Agreement imposed by the lender. For more information concerning the Fund's risks and uncertainties, please refer to the March 12, 2020 Annual Information Form, for the period ended December 31, 2019, 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

SIR Royalty Income Fund

Financial Statements
December 31, 2019 and 2018

Independent auditor's report

To the Unitholders of SIR Royalty Income Fund

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of SIR Royalty Income Fund and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of earnings and comprehensive income for the years then ended;
- the consolidated statements of changes in unitholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PwC Centre, 354 Davis Road, Suite 600, Oakville, Ontario, Canada L6J 0C5
T: +1 905 815 6300, F: +1 905 815 6499

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Adam Boutros.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
March 12, 2020

SIR Royalty Income Fund

Consolidated Statements of Financial Position

As at December 31, 2019 and 2018

	December 31, 2019 $	December 31, 2018 $
Assets		
Current assets		
Cash	136,944	296,246
Prepaid expenses and other assets	35,009	33,669
Income taxes receivable	176,196	-
Amounts due from related parties (note 10)	3,983,280	4,164,408
	4,331,429	4,494,323
Loan receivable from SIR Corp. (note 5)	39,000,000	36,000,000
Investment in SIR Royalty Limited Partnership (note 6)	50,984,321	50,984,321
	94,315,750	91,478,644
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	121,945	105,352
Income taxes payable	-	139,895
Amounts due to related parties (note 10)	3,352,532	2,822,682
	3,474,477	3,067,929
Deferred income taxes (note 14)	1,940,000	1,893,000
	5,414,477	4,960,929
Fund units (note 8)	96,169,787	96,169,787
Deficit	(7,268,514)	(9,652,072)
Total unitholders' equity	88,901,273	86,517,715
	94,315,750	91,478,644

Subsequent events (note 8)

(Signed) Peter Luit
Peter Luit, Director

(Signed) Peter Fowler
Peter Fowler, Director

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

SIR Royalty Income Fund

Consolidated Statements of Earnings and Comprehensive Income

For the years ended December 31, 2019 and 2018

	Year ended December 31, 2019 $	Year ended December 31, 2018 $
Equity income from SIR Royalty Limited Partnership (notes 6 and 10)	10,780,943	11,489,779
Change in estimated fair value of the SIR Loan (note 5)	6,000,000	(3,500,000)
	16,780,943	7,989,779
General and administrative expenses (note 10)	487,661	443,075
Earnings before income taxes	16,293,282	7,546,704
Income tax expense (note 14)	3,649,654	2,431,535
Net earnings and comprehensive income for the year	12,643,628	5,115,169
Basic earnings per Fund unit (note 9)	$ 1.51	$ 0.61
Diluted earnings per Fund unit (note 9)	$ 1.43	$ 0.61

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

SIR Royalty Income Fund

Consolidated Statements of Changes in Unitholders' Equity

For the years ended December 31, 2019 and 2018

	Year ended December 31, 2019			
	Number of Fund units	Amount $	Deficit $	Total $
Balance - Beginning of year	8,375,567	96,169,787	(9,652,072)	86,517,715
Net earnings for the year	-	-	12,643,628	12,643,628
Distributions declared and paid (note 8)	-	-	(10,260,070)	(10,260,070)
Balance - End of year	8,375,567	96,169,787	(7,268,514)	88,901,273

	Year ended December 31, 2018			
	Number of Fund units	Amount $	Deficit $	Total $
Balance - Beginning of year	8,375,567	96,169,787	(4,674,683)	91,495,104
Net earnings for the year	-	-	5,115,169	5,115,159
Distributions declared and paid (note 8)	-	-	(10,092,558)	(10,092,558)
Balance - End of year	8,375,567	96,169,787	(9,652,072)	86,517,715

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

SIR Royalty Income Fund

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

	Year ended December 31, 2019 $	Year ended December 31, 2018 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	12,643,628	5,115,169
Items not affecting cash		
Change in estimated fair value of the SIR Loan (note 5)	(6,000,000)	3,500,000
Current income taxes (note 14)	3,602,654	3,717,785
Deferred income taxes (note 14)	47,000	(1,286,250)
Equity income from SIR Royalty Limited Partnership (notes 6 and 10)	(10,780,943)	(11,489,779)
Distributions received from SIR Royalty Limited Partnership (note 10)	10,962,071	11,252,929
Interest received on SIR Loan (note 5)	3,000,000	3,000,000
Income taxes paid	(3,918,745)	(4,077,794)
Net change in non-cash working capital items (note 12)	545,103	283,093
	10,100,768	10,015,153
Financing activities		
Distributions paid to unitholders	(10,260,070)	(10,092,558)
Change in cash during the year	(159,302)	(77,405)
Cash - Beginning of year	296,246	373,651
Cash - End of year	136,944	296,246

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 6).

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 March 11, 2020.

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 consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standard Board (IFRS).

3 Summary of significant accounting policies

The significant accounting policies used in the preparation of the consolidated financial statements are as follows:

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, with the exception of the loan receivable from SIR, which is recognized at fair value.

Consolidation

The Fund prepares its consolidated financial statements in accordance with IFRS and include the accounts of the Fund and its subsidiaries, namely the Trust and SIR GP Inc. All intercompany accounts and transactions have been eliminated.

The Fund consolidates an investee when it is exposed to or has rights to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is obtained by the Fund and are deconsolidated from the date control ceases.

Use of estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect income and expenses during the reporting periods, in addition to the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements. Actual results could differ materially from those estimates in the near term.

Financial instruments

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

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

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. At initial recognition, the Fund classifies its financial instruments in the following categories, depending on the purpose for which the instruments were acquired:

i) Amortized cost: A financial asset shall be measured at amortized cost if both of the following conditions are met:

(a) The financial asset is held in order to collect contractual cash flows; and

(b) The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

ii) Fair value through profit and loss (FVTPL): For financial assets classified as measured at FVTPL or designated at FVTPL, changes in fair value are recognized in the statement of earnings and comprehensive income as they arise.

ii) Financial liabilities at amortized cost: Financial liabilities at amortized cost comprise accounts payable and accrued liabilities and amounts due to related parties. Accounts payable and accrued liabilities, and amounts due to related parties are initially recognized at the amount required to be paid less, when material, a discount to reduce the financial liabilities to fair value. Subsequently, accounts payable and accrued liabilities, and amounts due to related parties are measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within 12 months, otherwise, they are presented as non-current liabilities.

Impairment of financial assets

At each reporting date, the Fund assesses whether there is objective evidence that a financial asset at amortized cost is impaired. If such evidence exists, the Fund recognizes an impairment loss as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Investments in associates and unconsolidated structured entities

Associates are entities over which the Fund has significant influence, but not control, and include the investment in the Partnership.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. The Fund has determined that its investment in the Partnership is an investment in a structured entity.

The Partnership is a structured entity established to own the Canadian trademarks used in connection with the operations of the SIR Restaurants. SIR consolidates the Partnership, as the sale of Canadian trademarks to the Partnership had no impact on SIR's use of the Canadian trademarks. The Fund has voting control of SIR GP Inc., the managing general partner for the Partnership, with an 80% ownership of SIR GP Inc.'s common shares; however, the Fund does not have the ability to affect the returns on the investment in the Partnership through its power over the Partnership. Accordingly, since the Fund is able to significantly influence the Partnership, it is accounted for as an investment in an associate.

The financial results of the Fund's investments in associates are included in the Fund's consolidated results according to the equity method. Subsequent to the acquisition date, the Fund's share of profits or losses of associates is recognized in the consolidated statements of earnings and its share of other comprehensive income of associates is included in other comprehensive income.

Unrealized gains on transactions between the Fund and an associate are eliminated to the extent of the Fund's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the consolidated statements of earnings.

The Fund assesses whether there is any objective evidence that its interest in its associate is impaired. If impaired, the carrying value of the Fund's share of the underlying assets of the associate is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the consolidated statements of earnings.

Earnings per Fund unit

Earnings per Fund unit are based on the weighted average number of Fund units outstanding during the period. Diluted earnings per Fund unit are calculated to reflect the dilutive effect, if any, of SIR exercising its right to exchange its Class A GP units into Fund units at the beginning of the period.

Distributions

Distributions to unitholders are intended to be made monthly in arrears and are recorded when declared by the Trustees of the Fund. Distributions to unitholders are recorded as a financing activity in the consolidated statements of cash flows.

Income taxes

Income taxes comprise current and deferred taxes and are recognized in the consolidated statements of earnings and comprehensive income.

Current income taxes are the expected taxes payable on taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period.

In general, deferred income taxes are recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income taxes are determined on a non-discounted basis using tax rates and laws that have been enacted, or substantively enacted, at the consolidated statements of financial position date and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent it is probable that the assets can be recovered.

4 Critical accounting estimates and judgments

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

Investment in the Partnership/consolidation of structured entities

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

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

Valuation of the SIR Loan and investment in the Partnership

Management reviews for objective evidence whether there may be an impairment of the investment in the Partnership. The review includes a review of the earnings, cash flows and available cash of SIR on a prospective basis to assess SIR's ability to meet its obligations for payments to the Partnership for the Royalty. Based on the analysis completed during the years ended December 31, 2019 and 2018, no impairments have been recorded in the consolidated financial statements. 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 consolidated statements of earnings and comprehensive income 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. 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.

5 Loan receivable from SIR Corp.

	Year ended December 31, 2019 $	Year ended December 31, 2018 $
Balance - Beginning of year	36,000,000	42,500,000
Interest received	(3,000,000)	(3,000,000)
Change in estimated fair value of the SIR Loan	6,000,000	(3,500,000)
Balance - End of year	39,000,000	36,000,000

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 $3,000,000 was received during the year ended December 31, 2019 (year ended December 31, 2018 – $3,000,000).

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 7.70% as at December 31, 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 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, and by management's estimate of the credit risk for SIR (see note 7).

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.

6 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 December 31, 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:

	Year ended December 31, 2019 $	Year ended December 31, 2018 $
Balance - Beginning of year	50,984,321	50,984,321
Equity income	10,780,943	11,489,779
Distributions declared	(10,780,943)	(11,489,779)
Balance - End of year	50,984,321	50,984,321

The summarized financial information of the Partnership is as follows:

	As at December 31, 2019 $	As at December 31, 2018 $
Cash	629,257	243,849
Other current assets	4,706,753	5,499,540
Intangible assets	104,418,635	100,432,371
Total assets	109,754,645	106,175,760
Current liabilities and total liabilities	5,336,000	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

	Year ended December 31, 2019 $	Year ended December 31, 2018 $
Revenue	17,351,570	18,042,845
Net earnings and comprehensive income of the Partnership	17,272,046	17,962,505

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

	As at December 31, 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:

	Year ended December 31, 2019 $	Year ended December 31, 2018 $
Net earnings and comprehensive income of the Partnership	17,272,046	17,962,505
Priority income allocated to SIR Corp. (Class C GP and Class B GP units)	(3,000,012)	(3,090,983)
Residual earnings	14,272,034	14,871,522
SIR Corp.'s share	(3,491,091)	(3,381,743)
Equity income	10,780,943	11,489,779

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 December 31, 2019 $		As at December 31, 2018 $	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Distributions receivable	3,733,280	3,733,280	3,914,408	3,914,408
Advances payable	(3,344,257)	(3,344,257)	(2,817,565)	(2,817,565)
Amounts due from related parties	389,023	389,023	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	51,373,344	51,373,344	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.

7 Financial instruments

Classification

As at December 31, 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 December 31, 2019 $	As at December 31, 2018 $
Cash	Financial assets at amortized cost	136,944	296,246
Amounts due from related parties	Financial assets at amortized cost	3,983,280	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	121,945	105,352
Amounts due to related parties	Financial liabilities at amortized cost	3,352,532	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 $39,000,000 (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 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 year ended December 31, 2019, management adjusted the discount rate from 8.46% at December 31, 2018 to 7.70% at December 31, 2019. The adjustment consists of an estimated decrease in the corporate bond rate of 2.11% combined with a decrease of 0.40% in the Canadian risk free rate, offset by an increase in management's estimate for SIR's credit risk of 1.75%.

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.

8 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 December 31, 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 year ended December 31, 2019, the Fund declared distributions of $1.225 per unit (year ended December 31, 2018 – $1.21 per unit). Subsequent to December 31, 2019, distributions of $0.0875 per unit were declared and paid in the month of January and February 2020.

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.

9 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 year ended December 31, 2019	$ 12,643,628	$ 2,548,496	$ 15,192,124
Net earnings per Fund unit for the year ended December 31, 2019	$ 1.51		$ 1.43
Weighted average number of Fund units outstanding for the year ended December 31, 2019	8,375,567	2,214,250	10,589,817
Net earnings for the year ended December 31, 2018	$ 5,115,169	$ N/A	$ 5,115,169
Net earnings per Fund unit for the year ended December 31, 2018	$ 0.61		$ 0.61
Weighted average number of Fund units outstanding for the year ended December 31, 2018	8,375,567	N/A	8,375,567

For the year ended December 31, 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.

10 Related party transactions and balances

During the year ended December 31, 2019, the Fund recorded equity income of $10,780,943 (year ended December 31, 2018 - $11,489,779) and received distributions of $10,962,071 (year ended December 31, 2018 - $11,252,929) 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, 2020, one new SIR Restaurant was added (January 1, 2019 – two 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 one new SIR Restaurant on January 1, 2020 (January 1, 2019 – two new SIR Restaurants), as well as the Second Incremental Adjustment for two new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2019 (January 1, 2018 - three), 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, 2019 – one) SIR Restaurants during 2019. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR returned 395,899 Class A GP Units for 395,899 Class B GP Units (January 1, 2019 – SIR converted 197,824 Class B GP Units into 197,824 Class A GP Units) on January 1, 2020 reducing the value of the SIR Rights by $3,493,096 (January 1, 2019 – increasing the value of the SIR Rights by $3,986,264).

In addition, the revenues of the two (January 1, 2018 – three) new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2019 was less than 80% of the Initial Adjustment's estimated revenue (January 1, 2018 – revenue of the three new SIR Restaurants exceeded 80% of the Initial Adjustment's estimated revenue) and, as a result, the distributions of the Class A GP Units were reduced by a special conversion refund of $23,240 in December 2019 and paid in January 2020 (a special conversion distribution of $90,971 was declared on the Class B GP Units in December 2018 and paid in January 2019). As a result of the permanent closure of two Jack Astor's restaurants during the year ended December 31, 2019, Make-Whole Payments of

$267,573 (year ended December 31, 2018 - $11,986) have been recorded in Royalty income in the statement of earnings and comprehensive income of the Partnership for the year ended December 31, 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 year ended December 31, 2019, the Partnership provided these services to the Fund and the Trust for consideration of $24,000 (year ended December 31, 2018 - $24,000), 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 December 31, 2019 $	**As at December 31, 2018 $**
SIR Corp.		
Interest receivable	250,000	250,000
Distributions receivable from SIR Royalty Limited Partnership	3,733,280	3,914,408
Amounts due from related parties	3,983,280	4,164,408
SIR Corp.		
Advances payable	8,275	5,117
Advances payable to SIR Royalty Limited Partnership	3,344,257	2,817,565
	3,352,532	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.

Compensation of key management

The Fund does not have any employees. Compensation awarded to the Board of Trustees consists of fees of $122,069 for the year ended December 31, 2019 (2018 - $105,300) and is recorded within general and administrative expenses.

11 Capital management

The Fund's capital consists of units of the Fund, as described in note 8. The objectives in managing the capital are to safeguard the Fund's ability to continue as a going concern, to provide an adequate return to its unitholders appropriate to their level of risk and to distribute excess cash to the unitholders. The Fund has no third party debt or bank lines of credit. The Fund had no capital expenditures during the year ended December 31, 2019 and is not expected to have significant capital expenditures in the future.

SIR has a Credit Agreement, which requires the Fund and the Partnership to subordinate and postpone their claims against SIR to the claims of the Lender in the event of a default (note 5).

12 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Year ended December 31, 2019 $	Year ended December 31, 2018 $
Prepaid expenses and other assets	(1,340)	(2,082)
Accounts payable and accrued liabilities	16,593	(16,436)
Amounts due to related parties	529,850	301,611
	545,103	283,093

13 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.

14 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:

	Year ended December 31, 2019 $	Year ended December 31, 2018 $
Current	3,602,654	3,717,785
Deferred – SIR Loan	-	(1,338,250)
Deferred - Other	47,000	52,000
	3,649,654	2,431,535

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 year ended December 31, 2019 (year ended December 31, 2018 – 26.5%).

The reconciliation of the Fund's effective tax rate to the combined Canadian federal and provincial tax rate is as follows:

	Year ended December 31, 2019 $	Year ended December 31, 2018 $
Earnings before income taxes	16,293,282	7,546,704
Income tax provision at 53.53% (2018 – 53.53%)	8,721,794	4,039,751
Add (deduct):		
Change in deferred tax asset not recognized	(1,444,370)	2,213,304
Other	46,969	(59,028)
Differences in tax rates	(3,674,739)	(3,762,492)
	3,649,654	2,431,535

Deferred tax liabilities consist of the following:

	Investment in the Partnership $
Balance as at December 31, 2017	1,841,000
Charged to consolidated statements of earnings	52,000
Balance as at December 31, 2018	1,893,000
Charged to consolidated statements of earnings	47,000
Balance as at December 31, 2019	1,940,000