SIR Royalty Income Fund

Condensed Interim Consolidated Financial Statements
(Unaudited)
For the three-month periods ended
March 31, 2020 and March 31, 2019

SIR Royalty Income Fund

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

	March 31, 2020 $	December 31, 2019 $
Assets		
Current assets		
Cash	304,133	136,944
Prepaid expenses and other assets	41,342	35,009
Income taxes receivable	379,762	176,196
Amounts due from related parties (note 8)	3,478,053	3,983,280
	4,203,290	4,331,429
Loan receivable from SIR Corp. (note 3)	21,750,000	39,000,000
Investment in SIR Royalty Limited Partnership (note 4)	35,517,365	50,984,321
	61,470,655	94,315,750
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	79,369	121,945
Amounts due to related parties (note 8)	3,507,868	3,352,532
	3,587,237	3,474,477
Deferred income taxes (note 11)	1,948,750	1,940,000
	5,535,987	5,414,477
Fund units (note 6)	96,169,787	96,169,787
Deficit	(40,235,119)	(7,268,514)
Total unitholders’ equity	55,934,668	88,901,273
	61,470,655	94,315,750

Subsequent events (notes 3 and 12)

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

SIR Royalty Income Fund

Condensed Interim Consolidated Statements of Earnings (Loss)
and Comprehensive Income (Loss)
(Unaudited)

	Three-month period ended March 31, 2020 $	Three-month period ended March 31, 2019 $
Equity income from SIR Royalty Limited Partnership (notes 4 and 8)	1,734,850	2,601,731
Impairment on Investment in SIR Royalty Limited Partnership (note	(15,466,956)	-
Change in estimated fair value of the SIR Loan (note 3)	(16,500,000)	8,250,000
	(30,232,106)	10,851,731
General and administrative expenses (note 8)	106,457	118,485
Earnings (loss) before income taxes	(30,338,563)	10,733,246
Income tax expense (note 11)	429,456	2,812,627
Net earnings (loss) and comprehensive income (loss) for the period	(30,768,019)	7,920,619
Basic earnings (loss) per Fund unit (note 7)	($ 3.67)	$ 0.95
Diluted earnings (loss) per Fund unit (note 7)	($ 3.67)	$ 0.81

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

SIR Royalty Income Fund

Condensed Interim Consolidated Statements of Changes in Unitholders' Equity

(Unaudited)

	Three-month period ended March 31, 2020			
	Number of Fund units	Amount $	Deficit $	Total $
Balance - Beginning of period	8,375,567	96,169,787	(7,268,514)	88,901,273
Net loss for the period	-	-	(30,768,019)	(30,768,019)
Distributions declared and paid (note 6)	-	-	(2,198,586)	(2,198,586)
Balance - End of period	8,375,567	96,169,787	(40,235,119)	55,934,668

	Three-month period ended March 31, 2019			
	Number of Fund units	Amount $	Deficit $	Total $
Balance - Beginning of period	8,375,567	96,169,787	(9,652,072)	86,517,715
Net earnings for the period	-	-	7,920,619	7,920,619
Distributions declared and paid (note 6)	-	-	(2,638,303)	(2,638,303)
Balance - End of period	8,375,567	96,169,787	(4,369,756)	91,800,031

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

SIR Royalty Income Fund

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)

	Three-month period ended March 31, 2020 $	Three-month period ended March 31, 2019 $
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the period	(30,768,019)	7,920,619
Items not affecting cash		
Impairment loss	15,466,956	-
Change in estimated fair value of the SIR Loan (note 3)	16,500,000	(8,250,000)
Current income taxes (note 11)	420,706	927,327
Deferred income taxes (note 11)	8,750	1,885,300
Equity income from SIR Royalty Limited Partnership (notes 4 and 8)	(1,734,850)	(2,601,731)
Distributions received from SIR Royalty Limited Partnership (note 8)	2,240,077	2,840,606
Interest received on SIR Loan (note 3)	750,000	750,000
Income taxes paid	(624,272)	(1,080,078)
Net change in non-cash working capital items (note 9)	106,427	271,169
	2,365,775	2,663,212
Financing activities		
Distributions paid to unitholders	(2,198,586)	(2,638,303)
Change in cash during the period	167,189	24,909
Cash - Beginning of period	136,944	296,246
Cash - End of period	304,133	321,155

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

1 Nature of operations and seasonality

Nature of operations

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

On October 1, 2004, the Fund filed a final prospectus for a public offering of units of the Fund. The net proceeds of the offering to the Fund of $51,166,670 were used by the Fund to acquire, directly, certain bank debt of SIR Corp. (the SIR Loan) and, indirectly, through SIR Holdings Trust (the Trust), all of the Ordinary LP Units of SIR Royalty Limited Partnership (the Partnership). The Partnership owns the Canadian trademarks (the SIR Rights) formerly owned or licensed by SIR Corp. (SIR) or its subsidiaries and used in connection with the operation of the majority of SIR's restaurants in Canada (the SIR Restaurants). The Partnership has granted SIR a 99-year licence to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenues of the restaurants included in the Royalty Pooled Restaurants (the Licence and Royalty Agreement). The Fund indirectly participates in the revenues generated under the Licence and Royalty Agreement through its Investment in the Partnership (note 4).

The address of the registered office of the Fund is 5360 South Service Road, Suite 200, Burlington, Ontario. The consolidated financial statements were approved by the Board of Trustees on June 30, 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 interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34, Interim Financial Reporting. The disclosures contained in these interim consolidated financial statements do not include all requirements of IFRS for annual consolidated financial statements and should be read in conjunction with the 2019 annual consolidated financial statements and notes thereto. The financial performance of the Fund for the interim period is not necessarily indicative of the results that may be expected for the full year due to the seasonality of the Fund's business.

The accounting policies applied in these interim financial statements are consistent with those followed in the 2019 annual financial statements.

3 Loan receivable from SIR Corp.

	Three-month period ended March 31, 2020 $	Year ended December 31, 2019 $
Balance - Beginning of year	39,000,000	36,000,000
Interest received	(750,000)	(3,000,000)
Change in estimated fair value of the SIR Loan	(16,500,000)	6,000,000
Balance - End of year	21,750,000	39,000,000

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 $750,000 was received during the three-month period ended March 31, 2020 (three-month period ended March 31, 2019 – $750,000).

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 14.25% as at March 31, 2020 (December 31, 2019– 7.70%) 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 5).

SIR has a credit agreement (Credit Agreement), as amended on December 8, 2017, July 6, 2018, and April 1, 2020, with a Schedule I Canadian chartered bank (the Lender). The Credit Agreement between SIR and the Lender provides for a maximum principal amount of $42,328,000 consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), and a $22,328,000 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 $1,500,000.

Credit Facility 1 is for general corporate and operating purposes, bearing interest at the prime rate plus 3.25% and/or the bankers' acceptance rate plus 4.25%, principal repaid in one bullet repayment on July 6, 2021. A standby fee of 0.85% 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 3.25% and/or the bankers' acceptance rate plus 4.25%. 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. On April 2, 2020, SIR redrew an additional $5,500,000 on Credit Facility 2.

The Credit Agreement is secured by substantially all of the assets of SIR and most of its subsidiaries, which are also guarantors. The Partnership and the Fund have not guaranteed the Credit Agreement. The Credit Agreement qualifies as "permitted indebtedness" within the meaning of the agreements between the Fund, the Partnership and SIR, and as a result the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against SIR to the claims of the Lender. The terms of the subordination are as contemplated in the previous agreements between the Fund, the Partnership and SIR. This subordination includes a subordination of the Partnership's rights under the License and Royalty Agreement between the Partnership and SIR whereby the Partnership licenses to SIR the right to use trademarks and related intellectual property in return for royalty payments based on revenues and will be effected pursuant to the terms of an Intercreditor Agreement.

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

SIR has the right to require the Fund to, indirectly, purchase the Class C GP Units and assume a portion of the SIR Loan as consideration for the acquisition of the Class C GP Units.

4 Investment in SIR Royalty Limited Partnership

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

The holders of the Class A LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership. As at March 31, 2020, the Fund's interest in the residual earnings of the Partnership was 82.2% (December 31, 2019 – 79.1%). Generally, the Partnership units have no voting rights, except in certain specified conditions.

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

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

	Three-month period ended March 31, 2020 $	Three-month period ended March 31, 2019 $
Balance - Beginning of year	50,984,321	50,984,321
Equity income	1,734,850	2,601,731
Distributions declared	(1,734,850)	(2,601,731)
Provision for impairment	(15,466,956)	-
Balance - End of year	35,517,365	50,984,321

An impairment was recorded in the Partnership to bring the investment in the SIR Rights down to fair value. The Partnership recognized an impairment of $40,525,539, resulting in an impairment on the Fund's investment in the Partnership of $15,466,956.

In assessing the intangible assets for impairment at March 31, 2020 and December 31, 2019, the aggregate recoverable amount of the intangible assets was compared to its carrying amounts. The recoverable amount has been determined using the assistance of a third party valuator based on fair value less costs to sell using a four-year discounted cash flow considering a terminal value. The key assumptions included the following:

	As at March 31, 2020	As at December 31, 2019
Revenue growth rates	0.0% to 2.0%	0.0% to 1.0%
Terminal growth rate	2.0%	2.0%
Discount rate	19.5% to 21.8%	12.0% to 12.8%

The revenue growth rates of 0.0% to 2.0% are for periods beyond the large declines projected for 2020 and the large offsetting growth rates as sales are projected to recover in 2021.

The summarized financial information of the Partnership is as follows:

	As at March 31, 2020 $	As at December 31, 2019 $
Cash	441,752	629,257
Other current assets	4,386,928	4,706,753
Intangible assets	60,400,000	104,418,635
Total assets	65,228,680	109,754,645
Current liabilities and total liabilities	4,828,670	5,336,000
Partners' Interest		
SIR Royalty Income Fund	20,150,000	35,616,956
SIR Corp.	40,250,010	68,801,689
Total partners' interest	60,400,010	104,418,645

	Three-month period ended March 31, 2020 $	Three-month period ended March 31, 2019 $
Revenue	3,024,698	4,229,607
Net earnings (loss) and comprehensive income (loss) of the Partnership	(37,524,336)	4,206,504

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

	As at March 31, 2020 $	As at December 31, 2019 $
Investment in the Partnership	35,517,365	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	20,150,000	35,616,956

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

	Three-month period ended March 31, 2020 $	Three-month period ended March 31, 2019 $
Net earnings (loss) and comprehensive income (loss) of the Partnership	(37,524,336	4,206,504
Impairment of intangible assets	40,525,539	-
	3,001, 203	4,206,504
Priority income allocated to SIR Corp. (Class C GP and Class B GP units)	(750,003)	(750,003)
Residual earnings	2,251,200	3,456,501
SIR Corp.'s share	(516,350)	(854,770)
Equity income	1,734,850	2,601,731

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 March 31, 2020 $		As at December 31, 2019 $	
	Carrying Amount	**Maximum Exposure to Loss**	**Carrying Amount**	**Maximum Exposure to Loss**
Distributions receivable	3,228,053	3,228,053	3,733,280	3,733,280
Advances payable	(3,499,593)	(3,499,593)	(3,344,257)	(3,344,257)
Amounts due (to) from related parties	(271,540)	(271,540)	389,023	389,023
Investment in SIR Royalty Limited Partnership	35,517,365	35,517,365	50,984,321	50,984,321
Total	35,245,825	35,245,825	51,373,344	51,373,344

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

5 Financial instruments

Classification

As at March 31, 2020 and December 31, 2019, the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

		Carrying and fair value	
	Classification	As at March 31, 2020 $	As at December 31, 2019 $
Cash	Financial assets at amortized cost	304,133	136,944
Amounts due from related parties	Financial assets at amortized cost	3,478,053	3,983,280
Loan receivable from SIR Corp.	Financial assets at fair value through profit and loss	See below	See below
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	79,369	121,945
Amounts due to related parties	Financial liabilities at amortized cost	3,507,868	3,352,532

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 $21,750,000 (December 31, 2019 - $39,000,000). 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 (loss) and comprehensive income (loss).

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 March 31, 2020, management adjusted the discount rate from 7.70% at December 31, 2019 to 14.25% at March 31, 2020. The adjustment consists of an estimated increase in the corporate bond rate of 3.5% and an increase in management's estimate for SIR's credit risk of 3.5%, partially offset by a decrease of 0.5% in the Canadian risk free rate.

The fair value of the SIR Loan is sensitive to changes in the discount rate. A 0.25% increase or decrease in the discount rate will result in a $1,100,000 decrease or increase in the fair value of the SIR Loan.

6 Fund units

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

As at March 31, 2020, there are 8,375,567 (December 31, 2019 – 8,375,567) Fund units issued and outstanding. Each Fund unit is entitled to one vote at any meeting of unitholders.

During the three-month period ended March 31, 2020, the Fund declared monthly distributions of $0.0875 per unit in each of the months of January and February 2020, for a total of $0.175 per unit (three-month period ended March 31, 2019 – $0.315 per unit). On March 23, 2020, the Fund temporarily suspended unitholder distributions until further notice as a result of SIR temporarily suspending its dine-in restaurant operations at all of its locations.

During the three-month period ended March 31, 2020, the Fund paid monthly distributions in arrears of $0.0875 per unit in each of the months of January, February and March 2020, for a total of $0.2625 per unit (three-month period ended March 31, 2019 – $0.315 per unit).

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

7 Earnings per Fund unit

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

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

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

		Basic		Adjustment for conversion of Class A GP Units		Diluted
Net loss for the three-month period ended March 31, 2020	$	(30,768,019)	$	N/A	$	(30,768,019)
Net loss per Fund unit for the three-month period ended March 31, 2020	$	(3.67)			$	(3.67)
Weighted average number of Fund units outstanding for the three-month period ended March 31, 2020		8,375,567		N/A		8,375,567
Net earnings for the three-month period ended March 31, 2019	$	7,920,619	$	623,982	$	8,544,601
Net earnings per Fund unit for the three-month period ended March 31, 2019	$	0.95			$	0.81
Weighted average number of Fund units outstanding for the three-month period ended March 31, 2019		8,375,567		2,214,250		10,589,817

For the three-month period ended March 31, 2020, the conversion of the Class A GP Units into Fund units is anti-dilutive. Therefore, the Class A GP Units are excluded from the calculation of diluted earnings per Fund unit.

8 Related party transactions and balances

During the three-month period ended March 31, 2020, the Fund recorded equity income of $1,734,850 (three-month period ended March 31, 2019 - $2,601,731) and received distributions of $2,240,077 (three-month period ended March 31, 2019 - $2,840,606) 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 one SIR Restaurant during the three-month period ended March 31, 2019, a Make-Whole Payment of

$202,618 has been recorded in Royalty income in the statement of earnings (loss) and comprehensive income (loss) for the three-month period ended March 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 three-month period ended March 31, 2020, the Partnership provided these services to the Fund and the Trust for consideration of $6,000 (three-month period ended March 31, 2019 - $6,000), 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 March 31, 2020 $	**As at December 31, 2019 $**
SIR Corp.		
Interest receivable	250,000	250,000
Distributions receivable from SIR Royalty Limited Partnership	3,228,053	3,733,280
Amounts due from related parties	3,478,053	3,983,280
SIR Corp.		
Advances payable	8,275	8,275
Advances payable to SIR Royalty Limited Partnership	3,499,593	3,344,257
	3,507,868	3,352,532

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

9 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Three-month period ended March 31, 2020 $	Three-month period ended March 31, 2019 $
Prepaid expenses and other assets	(6,333)	(11,839)
Accounts payable and accrued liabilities	(42,576)	(39,276)
Amounts due to related parties	155,336	322,284
	106,427	271,169

10 Economic dependence

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

11 Income taxes

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

Income tax expense is as follows:

	Three-month period ended March 31, 2020 $	Three-month period ended March 31, 2019 $
Current	420,706	927,327
Deferred – SIR Loan	-	1,873,550
Deferred - Other	8,750	11,750
	429,456	2,812,627

The Fund's income not distributed to its unitholders is taxable at a rate of 53.53% (2019 – 53.53%). Distributions to unitholders are taxable at the combined federal and provincial tax rate, which is 26.5% for the three-month period ended March 31, 2020 (three-month period ended March 31, 2019 – 26.5%).

12 Subsequent events

The outbreak of the coronavirus (COVID-19) in Canada has had a negative impact on global economic activity and has had a significant impact on consumer spending in Canada, including restaurant sales. This has resulted in a severe drop in in-restaurant dining and, effective March 16, 2020, SIR closed all of its dining rooms and bars. These mandated closures are to continue until further notice, in an effort to help reduce large group gatherings as required by public health and government officials.

SIR continued to offer take-out and delivery services at certain of its Jack Astor's and Scaddabush locations and, beginning on June 9, 2020, restaurant re-openings commenced in western Canada and the Maritime provinces. On June 12, 2020, certain regions in the province of Ontario began re-opening of patio dining. On June 15, 2020, restaurants in Quebec, outside of Montreal, were permitted to re-open for sit-down dining, with Montreal area restaurants following on June 22, 2020. Beginning on June 19, 2020, additional regions in Ontario, outside of Toronto, Peel and Windsor, began re-opening patio dining. All of Ontario remains closed for dine-in operations until further notice.

At the time of filing SIR Corp.'s fiscal 2020 second quarter results on March 25, 2020, SIR was in compliance with its financial and non-financial covenants as outlined in its credit agreement with the Lender.

On June 1, 2020, effective April 1, 2020, SIR obtained a waiver with its senior lender on its covenants until June 30, 2020.

On June 30, 2020, SIR and its Lender entered into a fourth amending agreement to its Credit Agreement (the "Waiver and Amendment"). The Waiver and Amendment provides for the following:

- extension of the waivers of certain anticipated covenant breaches and events of default granted in the June 1, 2020 Third Amending Agreement effective April 1, 2020 until August 31, 2020 (the "Waiver Period"),
- waiving, for the Waiver Period and for the period September 1, 2020 to the Maturity Date, the financial covenants in the Credit Agreement,
- during the Waiver Period and the period September 1, 2020 until the Maturity Date, the two financial covenants in the Credit Agreement are replaced by a minimum quarterly EBITDA amount, and
- the addition of a new $6,250,000 EDC guaranteed BCAP (the "EDC-Guaranteed Facility") to the Credit Agreement – the EDC-Guaranteed Facility is a 364 day revolving term credit facility and can be extended at the Lender's sole discretion by a further 12 months.

There can be no assurance that SIR will receive additional waivers or remain in compliance in the future.

On June 30, 2020, the Fund and the Partnership entered into an acknowledgement and consent agreement with the Lender acknowledging, among other things:

- receipt of a copy of the Waiver and Amendment,
- that none of: entering the agreement, borrowing under the agreement, or performing any of the obligations under the agreement shall breach any of the terms or constitute an event of default under any of the Fund's or the Partnership's existing agreements with SIR,
- any debt arising under the EDC-Guaranteed Facility constitutes Permitted Debt (as such term is defined in the SIR Loan Agreement).

On June 30, 2020, the Fund, the Partnership, and SIR entered into a waiver and extension agreement that, among other things:

- extends the period of the deferral of interest on the SIR Loan to the Fund and royalties to the Partnership from June 30, 2020 to August 31, 2020,
- waives any and all existing breaches of covenants and events of default under the various agreements between SIR, the Fund, and the Partnership until August 31, 2020.

SIR has advised the Fund that its ability to meet its obligations for the next 12 to 18 months is dependent on:

- its ability to obtain necessary financing through a renewal of its Credit Agreement,
- the collectability of credit under the current Credit Agreement or other financing sources,
- government assistance, including the Canada Emergency Wage Subsidy,
- the collectability or utilization of business interruption or other insurance coverage, and
- SIR's ability to negotiate longer term extended credit terms from its suppliers, including negotiating deferrals of rent obligations over the terms of its leases.

SIR's ability to meet its financial obligations for the next 12 to 18 months also depends on, among other factors:

- the length of the closure of our dine-in operations,
- the speed at which we are able to return to full operating capacity in the near future,
- Canadian economic conditions after bars and restaurants are able to re-open, and
- the type and impact of new government mandated pandemic-related operating regulations.

Reduced services and restaurant closures have resulted, and will continue to result, in material declines to sales at SIR restaurants. In order to provide SIR with financial support, the Partnership deferred the collection of restaurant royalties and interest on the SIR Loan from SIR until August 31, 2020.