SIR Royalty Income Fund

Consolidated Financial Statements
December 31, 2020 and 2019

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 Fund) as at December 31, 2020 and 2019, 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 Fund's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of (loss) earnings and comprehensive (loss) earnings for the years then ended;
- the consolidated statements of changes in unitholders' (deficit) 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 significant accounting policies and other explanatory information.

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 Fund 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.

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Material uncertainty related to going concern

We draw attention to note 1 in the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Fund's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Impairment of Investment in SIR Royalty Limited Partnership *Refer to note 1 – Nature of operations and seasonality, note 3 – Summary of significant accounting policies and note 6 – Investment in SIR Royalty Limited Partnership to the consolidated financial statements.* The Fund owns all of the Ordinary LP Units and 99 Ordinary GP Units of the SIR Royalty Limited Partnership (the Partnership) and the Partnership owns the Canadian trademarks (the SIR Rights). The Partnership has granted SIR Corp. (SIR) a 99-year licence to use the SIR Rights in most of Canada in consideration for a royalty, equal to 6% of the revenues of the restaurants included in the Royalty Pooled Restaurants. The investment in the Partnership was $21.9 million as at December 31, 2020. An impairment was recorded in the Partnership to bring the investment in SIR Rights down to its fair value. The Partnership recognized an impairment on SIR Rights of $54.2 million during 2020, resulting in an impairment on the Fund's investment in Partnership of $29.1 million. The	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the recoverable amount of the SIR Rights, which included the following: ○ Evaluated the appropriateness of the method used by management and tested the mathematical accuracy of the models. ○ Tested the underlying data used in the models. ○ Evaluated the reasonableness of the revenue growth rates and terminal growth rate by (i) comparing to historical results, management's budget and strategic plans and third-party published economic data; and (ii) assessing whether these key assumptions were consistent with evidence obtained in other areas of the audit. ○ Professionals with specialized skill and knowledge in the field of valuation assisted in assessing the appropriateness of the

recoverable amount of the SIR Rights has been determined based on fair value less costs to sell (the method) using a four-year discounted cash flow (the models) considering a terminal value. The key assumptions applied by management related to the revenue growth rates, terminal growth rate and the discount rates. We considered this a key audit matter due to (i) the significance of the impairment loss and the investment in Partnership balance; and (ii) the judgment made by management in calculating the impairment, including the use of key assumptions. This has resulted in a high degree of subjectivity and audit effort in performing audit procedures to test the key assumptions used by management. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.	models, and the reasonableness of the discount rates used within the models. • Tested the disclosures made in the consolidated financial statements in regards to the SIR Rights, particularly in regards to the sensitivity of the discount rates and revenue growth rates used.
Valuation of the loan receivable from SIR Corp. *Refer to note 4 – Critical accounting estimates and judgments and note 5 – Loan receivable from SIR Corp. (SIR) to the consolidated financial statements.* As at December 31, 2020, the fair value of the loan receivable from SIR (the SIR Loan) amounted to $21.8 million. The SIR Loan is accounted for at fair value through the consolidated statements of (loss) earnings and comprehensive (loss) income. 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 (the model). The fair value of the SIR Loan is sensitive to changes in the discount rate. We considered this a key audit matter due to (i) the significance of the SIR Loan balance; and (ii) the judgment applied by management when determining the discount rate, which is impacted by the credit risk of SIR. This resulted in a high degree of subjectivity and audit effort in	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the fair value of the SIR Loan, which included the following: ○ Evaluated the appropriateness of the methodology used by management and tested the mathematical accuracy of the model. ○ Tested underlying data used in the model. ○ With the assistance of professionals with specialized skill and knowledge in the field of valuation, assessed the appropriateness of the discount rate applied. • Tested the disclosures related to the sensitivity analysis made in the consolidated financial statements with regards to changes in the discount rate.

performing audit procedures to test the discount rate. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.

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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund'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 Fund'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 Fund'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 Fund 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 Fund 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 31, 2021

SIR Royalty Income Fund

Consolidated Statements of Financial Position

As at December 31, 2020 and 2019

	December 31, 2020 $	December 31, 2019 $
Assets		
Current assets		
Cash	138,629	136,944
Prepaid expenses and other assets	46,362	35,009
Income taxes receivable	61,771	176,196
Amounts due from related parties (note 10)	4,639,236	3,983,280
	4,885,998	4,331,429
Loan receivable from SIR Corp. (note 5)	21,750,000	39,000,000
Investment in SIR Royalty Limited Partnership (note 6)	21,858,327	50,984,321
	48,494,325	94,315,750
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	111,919	121,945
Amounts due to related parties (note 10)	3,692,753	3,352,532
	3,804,672	3,474,477
Deferred income taxes (note 14)	1,989,000	1,940,000
	5,793,672	5,414,477
Fund units (note 8)	96,169,787	96,169,787
Deficit	(53,469,134)	(7,268,514)
Total unitholders' equity	42,700,653	88,901,273
	48,494,325	94,315,750

Subsequent events (note 15)

(Signed) Peter Luit	(Signed) Peter Fowler
Peter Luit, Director	Peter Fowler, Director

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

SIR Royalty Income Fund

Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Earnings

For the years ended December 31, 2020 and 2019

	Year ended December 31, 2020 $	Year ended December 31, 2019 $
Equity income from SIR Royalty Limited Partnership (notes 6 and 10)	1,646,033	10,780,943
Impairment on Investment in SIR Royalty Limited Partnership and financial assets (notes 4 and 8)	(30,125,994)	-
Change in estimated fair value of the SIR Loan (note 5)	(14,250,000)	6,000,000
	(42,729,961)	16,780,943
General and administrative expenses (note 10)	523,633	487,661
(Loss) Earnings before income taxes	(43,253,594)	16,293,282
Income tax expense (note 14)	748,440	3,649,654
Net (loss) earnings and comprehensive (loss) earnings for the year	(44,002,034)	12,643,628
Basic (loss) earnings per Fund unit (note 9)	($ 5.25)	$ 1.51
Diluted (loss) earnings per Fund unit (note 9)	($ 5.25)	$ 1.43

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

SIR Royalty Income Fund

Consolidated Statements of Changes in Unitholders' (Deficit) Equity

For the years ended December 31, 2020 and 2019

	Year ended December 31, 2020			
	Number of Fund units	**Amount $**	**Deficit $**	**Total $**
Balance - Beginning of year	8,375,567	96,169,787	(7,268,514)	88,901,273
Net loss for the year	-	-	(44,002,034)	(44,002,034)
Distributions declared and paid (note 8)	-	-	(2,198,586)	(2,198,586)
Balance - End of year	8,375,567	96,169,787	(53,469,134)	42,700,653

	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

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, 2020 and 2019

	Year ended December 31, 2020 $	Year ended December 31, 2019 $
Cash provided by (used in)		
Operating activities		
Net (loss) earnings for the year	(44,002,034)	12,643,628
Items not affecting cash		
Impairment losses	30,125,994	-
Change in estimated fair value of the SIR Loan (note 5)	14,250,000	(6,000,000)
Current income taxes (note 14)	699,440	3,602,654
Deferred income taxes (note 14)	49,000	47,000
Equity income from SIR Royalty Limited Partnership (notes 6 and 10)	(1,646,033)	(10,780,943)
Distributions received from SIR Royalty Limited Partnership (note 10)	2,240,077	10,962,071
Interest received on SIR Loan (note 5)	750,000	3,000,000
Income taxes paid	(585,015)	(3,918,745)
Net change in non-cash working capital items (note 12)	318,842	545,103
	2,200,271	10,100,768
Financing activities		
Distributions paid to unitholders	(2,198,586)	(10,260,070)
Change in cash during the year	1,685	(159,302)
Cash - Beginning of year	136,944	296,246
Cash - End of year	138,629	136,944

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 31, 2021.

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.

Coronavirus (COVID-19) pandemic

The COVID-19 pandemic 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, except for takeout and delivery services at certain of its locations. Government mandated restrictions were eased in June and July, 2020, enabling varying levels of in-restaurant and outdoor dining operations by region. Government mandated restrictions were heightened again in October, November, and December 2020. Mandated restaurant closures and /or operating restrictions are expected to continue until further notice, in an effort to reduce large group gatherings as required by public health and government officials.

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 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.

On July 17, 2020, the province of Ontario permitted the re-opening of limited capacity in-restaurant and patio dining in most public health regions of the province, with exceptions of the Toronto, Peel and Windsor-Essex regions. Accordingly, SIR commenced the gradual re-opening of dine-in and outdoor patio operations at the majority of its restaurants in these regions. On July 31, 2020, the province of Ontario permitted restaurants in the Toronto and Peel public health regions, where SIR has 26 restaurants, to re-open on a similar basis to other regions in the province.

Due to increasing COVID-19 case counts in Quebec, the provincial government imposed increased restrictions on in-restaurant dining. Increased restrictions target regions with the highest new case rates. On October 1, 2020, all restaurants and bars in three regions of the province with high rates of new cases were closed for at least 28 days other than for takeout and delivery. This affected four Jack Astor's locations. This initial 28-day closure period was extended multiple times and has now been extended until further notice.

Due to increasing COVID-19 case counts in Ontario, effective October 10, 2020, the Toronto, Ottawa and Peel public health regions, where SIR has 28 restaurants, returned to modified Stage 2 restrictions, resulting in the temporary closure of indoor dining rooms and bars in these regions for 28 days. Effective October 19, 2020, the York region, where SIR has five restaurants, was also returned to modified Stage 2 restrictions for 28 days. As of November 7, 2020, dining rooms in the Toronto, Ottawa, Peel, and York regions were permitted to re-open.

Effective November 9, 2020, public health regions in Ontario were moved into various zones within the provincial government's new COVID-19 framework, which restricted the capacity of indoor dining guests. The Red/Control zone, which limited indoor dining capacity to 10 guests, affected 35 SIR restaurants in the Toronto, Peel, York, Halton, and Hamilton regions.

Subsequent to November 22, 2020, effective January 8, 2021, SIR permanently closed the Canyon Creek locations at the Square One shopping centre in Mississauga, Ontario and in Scarborough, Ontario.

Effective November 23, 2020, the Ontario government announced additional movement of various regions within its COVID-19 framework. 25 SIR restaurants (in the Toronto and Peel regions) were moved into the Grey/Lockdown zone, which prohibits indoor and patio dining. York, Halton, Hamilton, Durham, and Kitchener-Waterloo regions, where SIR has a total of 13 restaurants, were classified under the Red/Control zone, which limits indoor dining capacity to 10 guests.

Effective November 26, 2020, the provincial government in Nova Scotia , announced the closure of all restaurant dining rooms in the Halifax Regional Municipality, where SIR has two restaurants. Restaurant dining rooms were permitted to re-open in the Halifax Regional Municipality on January 4, 2021.

Due to the continuing increase in COVID-19 case counts, the government of Ontario moved all regions in Southern Ontario into lockdown for at least 28 days beginning on December 26, 2020. As a result, SIR closed all of its dining rooms, bars, and patios. SIR continues to offer take-out and delivery services at certain of its locations.

Going concern

The consolidated financial statements of the Fund have been prepared using International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities during the normal course of operations for the foreseeable future. In the preparation of financial statements, the Fund's management is required to identify when events or conditions indicate that significant doubt may exist about the Fund's ability to continue as a going concern. Significant doubt about the Fund's ability to continue as a going concern would exist when relevant conditions and events indicate that the Fund will not be able to meet its obligations as they become due for a period of at least, but not limited to, twelve months from the end of the reporting period. When the Fund identifies conditions or events that raise potential for significant doubt about its ability to continue as a going concern, the Fund considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt.

Given the uncertainty surrounding the COVID-19 pandemic and the increasing government mandated shutdowns and the related impact to SIR, which the Fund is dependent on for cash flow, the Fund's ability to continue as a going concern for the next 12 to 18 months involves significant judgement. Management of SIR is currently addressing its financial requirements and the details of certain financial and non-financial covenants within the Credit Agreement with the Lender. Refer to note 5 for more details. There can be no assurance that borrowings will be available to SIR, or available on acceptable terms, in an amount sufficient to fund SIR's needs.

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

- 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,
- the ability for SIR to obtain necessary financing through a renewal of its Credit Agreement,
- the availability of credit under SIR's current Credit Agreement or other financing sources,
- SIR's eligibility for continued government assistance, including the Canada Emergency Wage Subsidy and Canada Emergency Rent Subsidy,
- business interruption 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, and
- the type and impact of continued government mandated pandemic-related operating regulations.

Reduced services and restaurant closures will continue to result in material declines to sales at SIR restaurants. These circumstances indicate the existence of a material uncertainty that may cast doubt on the Fund's ability to continue as a going concern. These audited consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Fund be unable to continue as a going concern. Such adjustments could be material.

2 Basis of presentation

The Fund prepares its consolidated financial statements in accordance with 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 (loss) earnings and comprehensive (loss) 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 year ended December 31, 2020 an impairment of $29,125,994 has been recorded in the consolidated financial statements (year ended December 31, 2019 – no impairment). The SIR Loan is 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 $400,000 decrease or increase in the fair value of the SIR Loan.

Going concern assumption

The consolidated financial statements of the Fund have been prepared using International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities during the normal course of operations for the foreseeable future. In the preparation of financial statements, management is required to identify when events or conditions indicate that significant doubt may exist about the Company's ability to continue as a going concern. Significant doubt about the Company's ability to continue as a going concern would exist when relevant conditions and events indicate that the Company will not be able to meet its obligations as they become due for a period of at least, but not limited to, twelve months from the end of the reporting period.

Management has identified conditions or events that raise potential for significant doubt about its ability to continue as a going concern, given the uncertainty surrounding the COVID-19 pandemic and the increasing government mandated shutdowns. The Company's ability to continue as a going concern for the next 12 to 18 months involves significant judgement. Management is currently addressing its financial requirements and the details of certain financial and non-financial covenants within the Credit Agreement with the Lender. There can be no assurance that borrowings will be available to the Company, or available on acceptable terms, in an amount sufficient to fund the Company's needs. Reduced services and restaurant closures will continue to result in material declines to sales at SIR restaurants. These circumstances indicate the existence of a material uncertainty that may cast doubt on the Company's ability to continue as a going concern.

5 Loan receivable from SIR Corp.

	Year ended December 31, 2020 $	Year ended December 31, 2019 $
Balance - Beginning of year	39,000,000	36,000,000
Interest received	(750,000)	(3,000,000)
Interest receivable	(2,250,000)	-
Change in estimated fair value of the SIR Loan	(14,250,000)	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 year ended December 31, 2020 (year ended December 31, 2019 – $3,000,000). Interest of $2,250,000 remains outstanding and receivable from SIR Corp. during the year ended December 31, 2020.

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 14.35% as at December 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 7).

SIR has a credit agreement (Credit Agreement), as amended on December 8, 2017 and July 6, 2018, April 1, 2020, June 30, 2020, September 30, 2020 and December 31, 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 $45,910,000 consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), a $19,660,000 revolving term loan (Credit Facility 2) and a $6,250,000 guaranteed facility with Export Development Canada ("EDC") through the guaranteed Business Credit Availability Program ("BCAP") (EDC-Guaranteed Facility). 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%. 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 EDC-Guaranteed Facility bears interest at the prime rate plus 3.5%. 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. A standby fee of 0.90% is charged on the undrawn balance of this facility.

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.

On May 3, 2020, the end of SIR's third quarter, SIR was in breach of the covenants in the SIR Loan Agreement and the financial covenants in its Credit Agreement. At the time of filing SIR Corp.'s fiscal 2020 third quarter results on July 30, 2020, SIR was in breach of its financial and non-financial covenants as outlined in its credit agreement with the Lender as a result of the impact of the COVID-19 outbreak on its operations. As part of the fourth amending agreement with the Lender, the two financial covenants in the Credit Agreement are replaced by a minimum quarterly EBITDA amount beginning with SIR Corp.'s results for the 13-week and 52-week periods ended August 30, 2020. SIR's Management continues to work closely with its Lender for guidance and support.

On May 27, 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.

On September 30, 2020 SIR and its Lender entered into a fifth amending agreement to its Credit Agreement which, among other things, extended certain waivers from August 31, 2020 to December 31, 2020. There can be no assurance that SIR will receive additional waivers or remain in compliance in the future.

On September 30, 2020, the Fund and the Partnership entered into an acknowledgement consent agreement with the Lender, and the Fund, the Partnership, and SIR entered into a waiver and extension agreement. The current expiration date of certain deferrals in these agreements is December 31, 2020.

On December 31, 2020 SIR and its Lender entered into a sixth amending agreement to its Credit Agreement. The Sixth Amending Agreement provides for the following:

- an extension of the waivers of certain of the previously granted anticipated covenant breaches and events of default until March 31, 2021 (the "Waiver Period"),
- extends the period of the deferral until the maturity date of $1.0 million in principal payments previously scheduled between December 31, 2020 to January 31, 2021, and
- allowance for the potential additions of up to an additional $375,000 in subordinated debt made available by Investissement Québec ("IQ") to SIR pursuant to IQ's Concerted Temporary Action Program for Businesses ("PACTE") on terms and conditions satisfactory to the Lender.

On December 31, 2020, the Fund and the Partnership entered into an acknowledgement, waiver and extension agreement with the Lender and SIR, acknowledging, among other things:

- receipt of a copy of the Sixth Amending Agreement,
- 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,
- the extension of the period of the deferral of interest on the SIR Loan to the Fund and royalties to the Partnership from December 31, 2020 to March 31, 2021,
- the recognition of a potential new PACTE Loan of up to $375,000, and
- the waiver of any and all existing breaches of covenants and events of default under the various agreements between SIR, the Fund, and the Partnership until March 31, 2021.

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 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, 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:

	Year ended December 31, 2020 $	**Year ended December 31, 2019 $**
Balance - Beginning of year	50,984,321	50,984,321
Equity income	1,646,033	10,780,943
Distributions declared	(1,646,033)	(10,780,943)
Provision for impairment	(29,125,994)	-
Balance - End of year	21,858,327	50,984,321

The summarized financial information of the Partnership is as follows:

	As at December 31, 2020 $	As at December 31, 2019 $
Cash	2,544	629,257
Other current assets	6,893,814	4,706,753
Intangible assets	46,699,989	104,418,635
Total assets	53,596,347	109,754,645
Current liabilities and total liabilities	7,105,375	5,336,000
Partners' Interest		
SIR Royalty Income Fund	6,490,962	35,616,956
SIR Corp.	40,000,010	68,801,689
Total partners' interest	46,490,972	104,418,645

	Year ended December 31, 2020 $	Year ended December 31, 2019 $
Revenue	7,224,769	17,351,570
Net (loss) earnings and comprehensive (loss) income of the Partnership	(48,902,366)	17,272,046

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

	As at December 31, 2020 $	As at December 31, 2019 $
Investment in the Partnership	21,858,327	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	6,490,962	35,616,956

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

	Year ended December 31, 2020 $	Year ended December 31, 2019 $
Net (loss) earnings and comprehensive (loss) income of the Partnership	(48,902,366)	17,272,046
Impairment of financial and intangible assets	54,434,577	-
Priority income allocated to SIR Corp. (Class C GP and Class B GP units)	(3,000,012)	(3,000,012)
Residual earnings	2,532,199	14,272,034
SIR Corp.'s share	(886,166)	(3,491,091)
Equity income	1,646,033	10,780,943

An impairment was recorded in the Partnership to bring the investment in the SIR Rights down to fair value. The Partnership recognized an impairment on the investment in the SIR Rights of $40,525,539 in the first quarter of 2020, an additional $13,700,010 in the third quarter of 2020 and an impairment of royalties receivable from SIR Corp. of $209,028 for a total at December 31, 2020 of $54,434,577 resulting in an impairment on the Fund's investment in the Partnership of $29,125,994.

In assessing the intangible assets for impairment at December 31, 2020 and 2019, the aggregate recoverable amount of the intangible assets was compared to its carrying amounts. The recoverable amount has been determined by management 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 December 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	22.5% to 26.3%	12.0% to 12.8%

A 1% decrease in the forecasted sales of Royalty Pooled Restaurants will result in an additional impairment of $400,000. A 0.25% increase in the discount rate will result in an additional impairment of $80,000.

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, 2020 $		As at December 31, 2019 $	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Distributions receivable	3,139,236	3,139,236	3,733,280	3,733,280
Advances payable	(3,471,279)	(3,471,279)	(3,344,257)	(3,344,257)
Amounts due from (to) related parties	(332,043)	(332,043)	389,023	389,023
Investment in SIR Royalty Limited Partnership	21,858,327	21,858,327	50,984,321	50,984,321
Total	21,526,284	21,526,284	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.

7 Financial instruments

Classification

As at December 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 December 31, 2020 $**	**As at December 31, 2019 $**
Cash	Financial assets at amortized cost	138,629	136,944
Amounts due from related parties	Financial assets at amortized cost	4,639,236	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	111,919	121,945
Amounts due to related parties	Financial liabilities at amortized cost	3,692,753	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, 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 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, 2020, management adjusted the discount rate from 7.70% at December 31, 2019 to 14.35% at December 31, 2020. The adjustment consists of an estimated increase in the corporate bond rate of 0.82% combined with an increase in management's estimate for SIR's credit risk of 6.5%, offset by an decrease of 0.67% 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 $400,000 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, 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 year ended December 31, 2020, the Fund declared distributions of $0.0875 per unit (year ended December 31, 2019 – $1.225 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 year ended December 31, 2020, the Fund paid monthly distributions in arrears of $nil.

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 loss for the year ended December 31, 2020	$	(44,002,034)	$	N/A	$	(44,002,034)
Net loss per Fund unit for the year ended December 31, 2020	$	(5.25)			$	(5.25)
Weighted average number of Fund units outstanding for the year ended December 31, 2020		8,375,567		N/A		8,375,567
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

For the year ended December 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.

10 Related party transactions and balances

During the year ended December 31, 2020, the Fund recorded equity income of $1,646,033 (year ended December 31, 2019 - $10,780,943) and received distributions of $2,240,077 (year ended December 31, 2019 - $10,962,071) 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 revenue for restaurants closed during a reporting period. As of October 12, 2020, the 15th anniversary of the closing date of the Fund’s Initial Public Offering, SIR is not required to pay any Make-Whole Payment in respect of a closed restaurant. 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, 2021, one new SIR Restaurant was added (January 1, 2020 – one new SIR Restaurant was 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, 2021 (January 1, 2020 – one new SIR Restaurants), as well as the Second Incremental Adjustment for one new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2020 (January 1, 2019 - two), SIR converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. In addition, there was a re-conversion of Class A GP Units into Class B GP Units for the permanent closure of one (January 1, 2020 – three) SIR Restaurants during 2020. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 153,201 Class B GP Units into 153,201 Class A GP Units (January 1, 2020 – SIR returned 395,899 Class A GP Units for 395,899 Class B GP Units) on January 1, 2021 reducing the value of the SIR Rights by $673,766 (January 1, 2020 – reducing the value of the SIR Rights by $3,493,096).

In addition, the revenues of the one (January 1, 2019 – two) new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2020 was less than 80% of the Initial Adjustment's estimated revenue (January 1, 2019 – revenue of the two new SIR Restaurants was less than 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 $8,858 in December 2020 and paid in January 2021 (a special conversion refund of $23,240 in December 2019 and paid in January 2020). Make-Whole Payments of $nil (year ended December 31, 2019 - $267,573) have been recorded in Royalty income in the statement of (loss) earnings and comprehensive (loss) income of the Partnership for the year ended December 31, 2020.

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, 2020, the Partnership provided these services to the Fund and the Trust for consideration of $24,000 (year ended December 31, 2019 - $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, 2020 $	As at December 31, 2019 $
SIR Corp.		
Interest receivable	1,500,000	250,000
Distributions receivable from SIR Royalty Limited Partnership	3,139,236	3,733,280
Amounts due from related parties	4,639,236	3,983,280
SIR Corp.		
Advances payable	12,446	8,275
Advances payable to SIR Royalty Limited Partnership	3,680,307	3,344,257
	3,692,753	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.

The Partnership continues to defer the collection of restaurant royalties and the Fund continues to defer the collection of interest on the SIR Loan in order to provide SIR with financial support. During the year ended December 31, 2020, the Fund recognized an impairment loss on the interest receivable from SIR based on management's assessment of the SIR-specific risk and an impairment loss on the distributions receivable from the Partnership. A rate of 40% was applied to the interest and distributions receivable at December 31, 2020.

	As at December 31, 2020 $
Interest receivable from SIR Corp.	2,500,000
Provision for impairment	(1,000,000)
	1,500,000

Impairment losses on interest and distributions receivable are presented as net impairment losses within net earnings (loss) and comprehensive income (loss).

Compensation of key management

The Fund does not have any employees. Compensation awarded to the Board of Trustees consists of fees of $175,525 for the year ended December 31, 2020 (2019 - $122,069) 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, 2020 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, 2020 $	Year ended December 31, 2019 $
Prepaid expenses and other assets	(11,353)	(1,340)
Amounts due from related parties	4,171	-
Accounts payable and accrued liabilities	(10,026)	16,593
Amounts due to related parties	336,050	529,850
	318,842	545,103

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, 2020 $	Year ended December 31, 2019 $
Current	699,440	3,602,654
Deferred - Other	49,000	47,000
	748,440	3,649,654

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 year ended December 31, 2020 (year ended December 31, 2019 – 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, 2020 $	Year ended December 31, 2019 $
Earnings (loss) before income taxes	(43,253,594)	16,293,282
Income tax provision at 53.53% (2019 – 53.53%)	(23,153,649)	8,721,794
Add (deduct):		
Change in deferred tax asset not recognized	23,754,470	(1,444,370)
Other	(41,033)	46,969
Differences in tax rates	188,652	(3,674,739)
	748,440	3,649,654

Deferred tax liabilities consist of the following:

	Investment in the Partnership $
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
Charged to consolidated statements of earnings	49,000
Balance as at December 31, 2020	1,989,000

15 Subsequent events

Effective February 9, 2021, SIR permanently closed three restaurants located at the corner of Yonge and Gerrard in downtown Toronto. The three restaurants include a Scaddabush Italian Kitchen & Bar ("Scaddabush"), Reds Midtown Tavern and a Duke's Refresher & Bar ("Duke's"). The Scaddabush and Reds locations were part of the Royalty Pool. SIR has received consideration of $6,000,000 to early terminate the lease agreements.

Due to increasing COVID-19 case counts in Ontario, lockdowns remained in effect from December 26, 2020 until February 10, 2021, whereby the Waterloo region, where SIR has one restaurant, was moved into Green/Prevent zone within the provincial government's COVID-19 framework. Effective February 16, 2021, additional regions within Ontario were moved into various zones within the provincial government's COVID-19 framework, which restricts the capacity of indoor dining guests, as follows:

Provincial Tier	**Public Health Region (Number of SIR restaurants)**
Grey/Lockdown • no indoor dining	• Peel (6) • Toronto (16) Effective March 29, 2021 • Hamilton (2)
Red/Control • indoor dining capacity: 10 • maximum number of guests per table: 4	Effective February 16, 2021 • Halton (3) • Durham (2) • Simcoe-Muskoka (1) Effective March 8, 2021 • York (5) • Niagara (2) Effective March 30, 2021 • London Middlesex (3) • Ottawa (3)
Orange/Restrict	

• indoor dining capacity: 50 • maximum number of guests per table: 4	
Yellow/Protect • maximum number of guests per table: 6	Effective March 22, 2021 • Waterloo (1)
Green/Prevent • maximum number of guests per table: 10	

Effective February 15, 2021, certain locations in Quebec moved into "maximum alert" and dining rooms were closed; only takeout and delivery services are permitted.

Effective March 5, 2021, the province of Nova Scotia permitted the reopening of dining rooms in the Halifax Regional Municipality, where SIR has two restaurants.

Effective March 27, 2021, the province of Newfoundland, where SIR has one restaurant, relaxed restrictions for indoor dining.

Effective March 31, 2021, SIR will permanently close the Canyon Creek location in Vaughan, Ontario.

On March 31, 2021, SIR and its Lender entered into the Seventh Amending Agreement to its Credit Agreement. The Seventh Amending Agreement provides for the following:

- an extension of the waivers of certain of the previously granted anticipated covenant breaches and events of default until July 6, 2021 (the "Seventh Amending Agreement Waiver Period"),
- waiving, for the Seventh Amending Agreement Waiver Period which now extends to the July 6, 2021 Maturity Date, the financial covenants in the Credit Agreement,
- during the Seventh Amending Agreement Waiver Period which now extends to the Maturity Date, the two financial covenants in the Credit Agreement are replaced by a minimum quarterly EBITDA amount,
- waiver of the minimum quarterly EBITDA covenant amount for SIR's fiscal 2021 second quarter
- the addition of a new $6,250,000 million Business Development Bank of Canada ("BDC") guaranteed Highly Affected Sectors Credit Availability Program ("HASCAP") facility (the "BDC-Guaranteed Facility") to the Credit Agreement. The BDC-Guaranteed Facility is a 10 year term credit facility, with a one year principal payment moratorium, bearing fixed rate interest of 4%,
- consents to SIR making a distribution to the Partnership or the Fund in an amount up to $1,000,000 for previously deferred royalty payments and/or payments of interest on the SIR Loan (the "Anticipated Fund Distribution"),
- the Fund and the Partnership were required to acknowledge, consent and subordinate to the BDC-Guaranteed Facility, and
- the Fund and the Partnership were required to extend their agreement to defer payments by SIR of interest on the SIR Loan and royalty payments from April 1, 2021 until July 6, 2021.

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

On March 31, 2021, the Fund and the Partnership entered into a consent agreement with the Lender acknowledging, among other things:

- receipt of a copy of the Seventh Amending Agreement,
- consent to the new BDC-Guaranteed Facility of $6,250,000,
- 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 BDC-Guaranteed Facility constitutes Permitted Debt (as such term is defined in the SIR Loan Agreement).
- On March 31, 2021, the Fund and the Partnership entered into a waiver and extension agreement with the Lender and SIR, acknowledging, among other things:
- receipt of a copy of the Seventh Amending Agreement,
- the extension of the period of the deferral of interest on the SIR Loan to the Fund and royalties to the Partnership from March 31, 2021 to July 6, 2021, and
- the waiver of any and all existing breaches of covenants and events of default under the various agreements between SIR, the Fund, and the Partnership until July 6, 2021.

In order to provide SIR with financial support, including SIR securing necessary waivers and extension from the Lender, SIR gaining access to additional needed debt facilities, along with the additional consideration of the $1,000,000 Anticipated Fund Distribution, the Partnership deferred the collection of restaurant royalties and the Fund deferred the collection of interest on the SIR Loan from SIR until July 6, 2021. Failure to obtain the waiver extensions from the Lender would have materially and adversely affected SIR, the Fund and the Partnership. The long-term viability of SIR is in the best interests of the Fund and the Partnership.

The Company'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 dine-in operations,
- the speed at which the Company 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
- the type and impact of new government mandated pandemic-related operating regulations.

Reduced services and restaurant closures are expected to continue to impact sales at SIR restaurants. As part of the conditions required by SIR's senior lender to grant SIR a series of waiver and amending agreements under its Credit Agreement, the Partnership has deferred the collection of restaurant royalties and the Fund has deferred the collection of interest on interest on the SIR Loan from SIR until July 6, 2021.