SIR Royalty Income Fund

Condensed Interim Consolidated Financial Statements
(Unaudited)
For the three-month periods ended
March 31, 2022 and March 31, 2021

SIR Royalty Income Fund

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

	March 31, 2022 $	December 31, 2021 $
Assets		
Current assets		
Cash	639,605	1,413,130
Prepaid expenses and other assets	51,145	42,259
Amounts due from related parties (note 8)	4,448,894	4,416,969
	5,139,644	5,872,358
Loan receivable from SIR Corp. (note 3)	20,500,000	21,750,000
Investment in SIR Royalty Limited Partnership (note 4)	21,858,327	21,858,327
	47,497,971	49,480,685
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	97,839	131,472
Income tax payable	112,603	1,069,589
Amounts due to related parties (note 8)	3,848,888	3,675,995
	4,059,330	4,877,056
Deferred income taxes (note 11)	2,059,000	2,018,000
	6,118,330	6,895,056
Fund units (note 6)	96,169,787	96,169,787
Deficit	(54,790,146)	(53,584,158)
Total unitholders' equity	41,379,641	42,585,629
	47,497,971	49,480,685

Going concern (note 1)

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, 2022 $	Three-month period ended March 31, 2021 $
Equity income (loss) from SIR Royalty Limited Partnership (notes 4 and 8)	1,941,806	(85,830)
Recovery of (impairment of) financial assets (notes 4 and 8)	420,000	(300,000)
Other income (notes 4 and 8)	36,894	-
Change in estimated fair value of the SIR Loan (note 3)	(500,000)	-
	1,898,700	(385,830)
General and administrative expenses (note 8)	157,029	95,458
Income (loss) before income taxes	1,741,671	(481,288)
Income tax expense (note 11)	686,256	341,349
Net earnings (loss) and comprehensive income (loss) for the period	1,055,415	(822,637)
Basic earnings (loss) per Fund unit (note 7)	$ 0.13	($ 0.10)
Diluted earnings (loss) per Fund unit (note 7)	$ 0.13	($ 0.10)

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, 2022			
	Number of Fund units	Amount $	Deficit $	Total $
Balance - Beginning of period	8,375,567	96,169,787	(53,584,158)	42,585,629
Net earnings for the period	-	-	1,055,415	1,055,415
Distributions declared and paid (note 6)	-	-	(2,261,403)	(2,261,403)
Balance - End of period	8,375,567	96,169,787	(54,790,146)	41,379,641

	Three-month period ended March 31, 2021			
	Number of Fund units	Amount $	Deficit $	Total $
Balance - Beginning of period	8,375,567	96,169,787	(53,469,134)	42,700,653
Net loss for the period	-	-	(822,637)	(822,637)
Balance - End of period	8,375,567	96,169,787	(54,291,771)	41,878,016

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, 2022 $	Three-month period ended March 31, 2021 $
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the period	1,055,415	(822,637)
Items not affecting cash		
(Recovery of) impairment of financial assets (note 8)	(420,000)	300,000
Change in estimated fair value of the SIR Loan (note 3)	500,000	-
Current income taxes (note 11)	645,256	312,349
Deferred income taxes (note 11)	41,000	29,000
Equity (income) loss from SIR Royalty Limited Partnership (notes 4 and 8)	(1,941,806)	85,830
Distributions received from SIR Royalty Limited Partnership (note 8)	1,275,508	-
Interest received on SIR Loan (note 3)	1,800,000	-
Income taxes paid	(1,602,241)	-
Net change in non-cash working capital items (note 9)	134,746	95,417
	1,487,878	(41)
Financing activities		
Distributions paid to unitholders	(2,261,403)	-
Change in cash during the period	(773,525)	(41)
Cash - Beginning of period	1,413,130	138,629
Cash - End of period	639,605	138,588

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

1 Nature of operations, going concern and seasonality

Nature of operations

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

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

The address of the registered office of the Fund is 5360 South Service Road, Suite 200, Burlington, Ontario. The condensed interim consolidated financial statements were approved by the Board of Trustees on May 12, 2022.

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

Since the onset of the COVID-19 pandemic in March 2020 through to mid-February 2022, restaurants and bars across Canada have experienced a series of government mandated operating capacity restrictions and/or full restaurant closures, followed by periods of easing restrictions and related reopenings or partial reopening's. As of mid-March 2022, all operational restrictions have been lifted in the provinces where SIR continues to operate its restaurants, except for masking requirements in the province of Quebec. SIR continues to recover and navigate the post-pandemic environment and its effects on the current economic conditions and consumer behaviour.

The potential risk of future government mandated restaurant closures and/or increased operating capacity restrictions due to the pandemic, could further impact future sales at SIR restaurants which could create material uncertainties that may cast doubt on SIR's ability to continue as a going concern.

Going concern

The condensed interim 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 government mandated restaurant closures and/or increased operating capacity restrictions 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 negotiated an extension of its Credit Agreement with its Lender until July 6, 2022. This extension is intended to address SIR's financial requirements and makes accommodations for certain financial and non-financial covenant requirements. Refer to note 3 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 ability of SIR to maintain full operating capacity in the near future,
- Canadian economic conditions affecting bars and restaurants that are fully reopen,
- the ability for SIR to obtain necessary financing through a renewal of its Credit Agreement which expires on July 6, 2022,
- the availability of credit under SIR's current Credit Agreement or other financing sources,
- SIR's eligibility for continued government assistance, including the now superseded Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") and the newly extended and enacted Canada Recovery Hiring Program ("CRHP") including the additional stream of the support via the Tourism and Hospitality Recovery Program ("THRP") and the Ontario Business Costs Rebate Program. For the 24-week period ended February 13, 2022, SIR recognized government assistance through the CEWS and CRHP/THRP programs of $7,828,000 (February 14, 2021 – CEWS program of $10,740,000), the CERS and CRHP/THRP programs of $2,072,000 (February 14, 2021 – CERS program of $1,688,000) and other government subsidies of $nil (February 14, 2021 – other subsidies of $287,000). Of these amounts, $9,420,000 (February 14, 2021 - $9,946,000) was recognized as a reduction to costs of corporate restaurant operations and $480,000 (February 14, 2021 - $2,769,000) was recognized as a reduction to corporate costs,
- 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.

The potential for reduced services and/or restaurant closures will continue to create risk of material declines to sales at SIR restaurants. These circumstances indicate the existence of a material uncertainty that may cast significant doubt on the Fund's ability to continue as a going concern. These unaudited condensed interim 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 condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34, Interim Financial Reporting. The disclosures contained in these interim consolidated financial statements do not include all requirements of IFRS for annual consolidated financial statements and should be read in conjunction with the 2021 audited 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 2021 annual financial statements.

3 Loan receivable from SIR Corp.

	Three-month period ended March 31, 2021 $	Year ended December 31, 2021 $
Balance - Beginning of year	21,750,000	21,750,000
Interest received	(750,000)	(1,750,000)
Interest deferred	-	(1,250,000)
Change in estimated fair value of the SIR Loan	(500,000)	3,000,000
Balance - End of period	20,500,000	21,750,000

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 recognized during the three-month period ended March 31, 2022 (three-month period ended March 31, 2021 – $750,000). Interest of $750,000 was received during the three-month period ended March 31, 2022 (three-month period ended March 31, 2021 – $nil). Interest of $250,000 is outstanding and receivable from SIR Corp. at March 31, 2022.

SIR has continued to repay, the previously agreed upon, monthly installments of $350,000 towards the deferred interest on the SIR Loan to the Fund. These deferred amounts are targeted, absent any defaults occurring, to be fully repaid by the Credit Facility maturity date of July 6, 2022. Deferred interest of $1,050,000 was received during the three-month period ended March 31, 2022 (three-month period ended March 31, 2021 – $nil).

Pursuant to the SIR Loan agreement, interest owing on the SIR Loan is charged an additional penalty of 2.0% plus the base interest of 7.5% per month, non-compounding (see note 8). Interest of $1,300,000 and additional interest on the deferred interest owing on the SIR Loan of $4,373 is outstanding and receivable from SIR for the three-month period ended March 31, 2022 (three-month period ended March 31, 2021 – $nil). Additional interest paid during the three-month period ended was $41,266 (three-month period ended March 31, 2021 – $nil)

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 15.30% as at March 31, 2022

(December 31, 2021 – 14.45%) 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 and July 6, 2018, April 1, 2020, June 30, 2020, September 30, 2020, December 31, 2020, March 31, 2021 and May 31, 2021 with a Schedule I Canadian chartered bank (the Lender). The Credit Agreement between SIR and the Lender provides for a maximum principal amount of $48,606,000 consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), a $16,106,000 revolving term loan (Credit Facility 2), a $6,250,000 guaranteed facility with Export Development Canada ("EDC") through the guaranteed Business Credit Availability Program ("BCAP") (EDC-Guaranteed Facility) and a $6,250,000 Business Development Bank of Canada ("BDC") guaranteed Highly Affected Sectors Credit Availability Program ("HASCAP") facility (the "BDC-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, 2022. 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, 2022.

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. A standby fee of 0.90% is charged on the undrawn balance of this facility.

The BDC-Guaranteed Facility bears interest at a fixed rate of 4%. The BDC-Guaranteed Facility is a 10 year revolving-term credit facility, with a one year principal payment moratorium and can be extended at the Lender's sole discretion by a further 12 months.

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 were 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. Through a series of amending agreements (Fourth through to Eighth), SIR's Management continued to work closely with its Lender for guidance and support during the 52-week period ended August 29, 2021 and to date.

On May 31, 2021, SIR and its Lender entered into the most recent, Eighth Amending Agreement to its Credit Agreement. The Eighth 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, 2022 (the "Eighth Amending Agreement Waiver Period"),
- waiving, for the Eighth Amending Agreement Waiver Period which now extends to the July 6, 2022 Maturity Date, the financial covenants in the Credit Agreement,
- during the Eighth Amending Agreement Waiver Period which now extends to the Maturity Date, the two financial covenants in the Credit Agreement are replaced by a Cumulative Minimum EBITDA Covenant,
- SIR will be allowed to miss quarterly projections by up to $3,500,000 cumulatively prior to July 6, 2022,
- waiver of the minimum quarterly EBITDA covenant amount for SIR's fiscal 2021 third quarter,
- the definition of EBITDA has been amended back to the definition in the original credit agreement,
- royalty payments on current sales to the Partnership and Interest on the SIR Loan are to recommence effective July 7, 2021, and
- SIR will be entitled to begin repaying deferred royalty payments to the Partnership and interest on the SIR Loan to the Fund under the condition that at least 25 restaurants have, for six consecutive weeks, been allowed the use of at least 50 indoor dining seats and the use of their patios (with social distancing). Having met the conditions stipulated by SIR's Lender on August 27, 2021, SIR has begun its repayment of deferred royalties to the Partnership and interest on the SIR Loan to the Fund commencing September 15, 2021. The repayments of the deferred interest on the SIR Loan, which on a net basis amount to approximately $3,500,000 as of August 31, 2021, are expected to be made in 10 equal monthly

installments of $350,000 such that the deferred amounts are targeted, absent any defaults occurring, to be fully repaid by the Credit Facility maturity date of July 6, 2022. The repayments of the deferred royalties, which on a net basis amount to approximately $5,303,295 as of August 31, 2021, are expected to be made in 10 equal monthly installments of $530,330 such that the deferred amounts are targeted, absent any defaults occurring, to be fully repaid by the Credit Facility maturity date of July 6, 2022.

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

On May 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 Eighth Amending Agreement, and
- 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.

On May 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 Eighth 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 July 6, 2021 to July 6, 2022,
- 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, 2022, and
- as a result of the Acknowledgment Agreement, the Lender consented to the resumption of regular payments by SIR to the Fund and the Partnership.

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

- SIR's ability to remain operating at full capacity in the near future,
- Canadian economic conditions affecting bars and restaurants that are fully open,
- the ability for SIR to obtain necessary financing through renewal of its Credit Agreement which expires on July 6, 2022,
- the availability of credit under SIR's current Credit Agreement or other financing sources,
- SIR's eligibility for continued government assistance through the Canada Recovery Hiring Program ("CRHP") including the additional stream of the support via the Tourism and Hospitality Recovery Program ("THRP") and the Ontario Business Costs Rebate Program,
- 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.

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, 2022, the Fund's interest in the residual earnings of the Partnership was 86.6% (December 31, 2021 – 80.9%). Generally, the Partnership units have no voting rights, except in certain specified conditions.

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

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

	Three-month period ended March 31, 2022 $	Three-month period ended March 31, 2021 $
Balance - Beginning of period	21,858,327	21,858,327
Equity income (loss)	1,941,806	(85,830)
Distributions declared	(1,941,806)	-
Balance - End of period	21,858,327	21,772,497

The summarized financial information of the Partnership is as follows:

	As at March 31, 2022 $	As at December 31, 2021 $
Cash	487,757	40,684
Other current assets	5,920,027	6,836,832
Intangible assets	46,699,990	46,699,990
Total assets	53,107,774	53,577,506
Current liabilities and total liabilities	6,616,802	7,086,534
Partners' Interest		
SIR Royalty Income Fund	6,490,962	6,490,962
SIR Corp.	40,000,010	40,000,010
Total partners' interest	46,490,972	46,490,972

	Three-month period ended March 31, 2022 $	Three-month period ended March 31, 2021 $
Revenue	2,354,092	938,152
Net earnings and comprehensive income of the Partnership	3,082,701	664,170

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

	As at March 31, 2022 $	As at December 31, 2021 $
Investment in the Partnership	21,858,327	21,858,327
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)
SIR Royalty Income Fund's interest in the Partnership	6,490,962	6,490,962

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

	Three-month period ended March 31, 2022 $	Three-month period ended March 31, 2021 $
Net earnings and comprehensive income of the Partnership	3,082,701	664,170
Priority income allocated to SIR Corp. (Class C GP and Class B GP units)	(750,003)	(750,003)
Residual earnings (loss)	2,332,698	(85,833)
SIR Corp.'s share	(390,892)	3
Equity income (loss)	1,941,806	(85,830)

The Partnership reviews the SIR Rights for impairment annually or whenever events or circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use (being the present value of the expected future cash flows of the asset, as determined by management). Impairment is recognized when the recoverable amount of the SIR Rights is lower than the carrying value. In assessing the intangible assets for impairment at March 31, 2022, 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 March 31, 2022	As at December 31, 2021
Revenue growth rates	0.0% to 3.0%	0.0% to 3.0%
Terminal growth rate	3.0%	3.0%
Discount rate	22.5% to 26.3%	22.5% to 26.3%

The revenue growth rates of 0.0% to 3.0% are for periods beyond the large declines due to pandemic related closures and the large offsetting growth rates as sales are projected to recover in 2022.

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, 2022 $		As at December 31, 2021 $	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Distributions receivable	3,586,771	3,586,771	2,920,472	2,920,472
Advances payable	(3,844,737)	(3,844,737)	(3,671,844)	(3,671,844)
Amounts due (to) from related parties	(257,966)	(257,966)	(751,372)	(751,372)
Investment in SIR Royalty Limited Partnership	21,858,327	21,858,327	21,858,327	21,858,327
Total	21,600,361	21,600,361	21,106,955	21,106,955

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, 2022 and December 31, 2021 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, 2022 $	As at December 31, 2021 $
Cash	Financial assets at amortized cost	639,605	1,413,130
Amounts due from related parties	Financial assets at amortized cost	4,448,894	4,416,969
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	97,839	131,472
Amounts due to related parties	Financial liabilities at amortized cost	3,848,888	3,675,995

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, is estimated to be $20,500,000 (December 31, 2021 - $21,750,000). The fair value was estimated by discounting the expected cash flows using a current market interest rate adjusted for SIR's credit risk. The estimate of fair value is within level 3 of the fair value hierarchy. Changes in the estimated fair value of the SIR Loan are recorded in the condensed interim 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, 2022, management adjusted the discount rate from 14.45% at December 31, 2021 to 15.30% at March 31, 2022. The adjustment consists of an estimated increase in the corporate bond rate of 0.33% and an increase of 0.52% 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.

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, 2022, there are 8,375,567 (December 31, 2021 – 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, 2022, the Fund declared and paid distributions of $0.09 per unit in the months of January to March 2022. Subsequent to March 31, 2022, distributions of $0.09 per unit were declared and paid in the month of April 2022.

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

7 Earnings per Fund unit

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

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

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

		Basic		Adjustment for conversion of Class A GP Units		Diluted
Net earnings for the three-month period ended March 31, 2022	$	1,055,415	$	N/A	$	1,055,415
Net earnings per Fund unit for the three-month period ended March 31, 2022	$	0.13			$	0.13
Weighted average number of Fund units outstanding for the three-month period ended March 31, 2022		8,375,567		N/A		8,375,567
Net loss for the three-month period ended March 31, 2021	$	(822,637)	$	N/A	$	(822,637)
Net earnings per Fund unit for the three-month period ended March 31, 2021	$	(0.10)			$	(0.10)
Weighted average number of Fund units outstanding for the three-month period ended March 31, 2021		8,375,567		N/A		8,375,567

For the three-month periods ended March 31, 2022 and March 31, 2021, 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, 2022, the Fund recorded equity income of $1,941,806 (three – month period ended March 31, 2021 - equity loss of $85,830) and received distributions of $1,275,508 (three-month period ended March 31, 2021 - $nil) 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. 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 Unit 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, 2022, no new SIR Restaurants were added (January 1, 2021 – one new SIR Restaurant was added) to Royalty Pooled Restaurants in accordance with the Partnership Agreement. There was a Second Incremental Adjustment done for one new SIR restaurant added to the Royalty Pooled Restaurants on January 1, 2021 (January 1, 2020 – one) on January 1, 2022. As consideration for this adjustment, 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 reconversion of Class A GP units into Class B GP units for the permanent closure of five (January 1, 2021 – one) SIR restaurants during 2021. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR converted 679,934 Class A GP units into 679,934 Class B GP units (January 1, 2021 – SIR converted 153,201 Class B GP units into 153,201 Class A GP units) on January 1, 2022 with $nil impact on the value of SIR rights as the Class A and B GP Units have a $nil value (January 1, 2021 – $nil impact on the value of SIR rights).

In addition, the revenues of the one (January 1, 2020 – one) new SIR Restaurant added to the Royalty Pooled Restaurants on January 1, 2021 were greater than 80% of the Initial Adjustment's estimated revenue (January 1, 2020 – revenue of one SIR Restaurant was less than 80% of the Initial Adjustment's estimated revenue) and, as a result, a special conversion distribution of $71,780 was declared on the Class B GP Units in December 2021 and paid in January 2022 (distributions of Class A GP units were reduced by a special conversion refund of $8,858 in December 2020 and paid in January 2021).

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, 2022, the Partnership provided these services to the Fund and the Trust for consideration of $6,000 (three-month ended March 31, 2021 - $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, 2022 $	As at December 31, 2021 $
Interest receivable from SIR Corp.	780,000	1,410,000
Advances receivable from SIR Corp.	82,123	86,495
Distributions receivable from SIR Royalty Limited Partnership	3,586,771	2,920,474
Amounts due from related parties	4,448,894	4,416,969
Advances payable to SIR Corp.	4,151	4,151
Advances payable to SIR Royalty Limited Partnership	3,844,737	3,671,844
Amounts due to related parties	3,848,888	3,675,995

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.

Pursuant to the Eighth Amendment of the Credit Agreement, the Fund continues to receive current payments of interest on the SIR Loan while continuing to defer the collection of previously interest payments, 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, in order to provide SIR with financial support. SIR has continued to repay the deferred interest outstanding, via the stipulated monthly installments of $350,000, to meet the repayment date of July 6, 2022. For the three-month period ended March 31, 2022, the Fund has recognized a cumulative impairment recovery on the interest receivable from SIR of $420,000 (December 31, 2021 - $60,000) based on the repayment of deferred interest and the continuation of current interest payments during the three-month period ended March 31, 2022. A rate of approximately 40% was applied to the interest receivable.

	As at March 31, 2022 $
Interest receivable from SIR Corp.	1,300,000
Provision for impairment	520,000
Amounts due from related parties	780,000

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

Pursuant to the SIR Loan agreement, interest owing on the SIR Loan is charged an additional penalty of 2.0% plus the base interest of 7.5% per month, non-compounding. Additional interest on the interest outstanding and receivable from SIR for the three-month period ended March 31, 2022 is $36,894 (three-month period ended March 31, 2021 - $nil). The additional interest receivable from SIR Corp. is presented as other income within net earnings (loss) and comprehensive income (loss).

9 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Three-month period ended March 31, 2022 $	Three-month period ended March 31, 2022 $
Prepaid expenses and other assets	(8,886)	1,750
Amounts due from related parties	4,372	-
Accounts payable and accrued liabilities	(33,633)	19,542
Amounts due to related parties	172,893	74,125
	134,746	95,417

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, 2022 $	Three-month period ended March 31, 2021 $
Current	645,256	312,349
Deferred - Other	41,000	29,000
	686,256	341,349

The Fund's income not distributed to its unitholders is taxable at a rate of 53.53% (2021 – 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, 2022 (three-month period ended March 31, 2021 – 26.5%).