# SIR Royalty Limited Partnership

Financial Statements
**December 31, 2022 and 2021**

# Independent auditor's report

To the Partners of SIR Royalty Limited Partnership

## Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SIR Royalty Limited Partnership (the Partnership) as at December 31, 2022 and 2021, 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 Partnership's financial statements comprise:

- the statements of financial position as at December 31, 2022 and 2021;
- the statements of earnings and comprehensive income for the years then ended;
- the statements of partners' interest for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the 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 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 Partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

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

In preparing the financial statements, management is responsible for assessing the Partnership'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 Partnership or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Partnership'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 Partnership'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 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 Partnership to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
March 16, 2023

# SIR Royalty Limited Partnership

Statements of Financial Position

As at December 31, 2022 and 2021

| | December 31, 2022 $ | December 31, 2021 $ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | 115,125 | 40,684 |
| Prepaid expenses and other assets | 30,192 | 21,124 |
| Amounts due from related parties (note 7) | 4,325,965 | 6,815,708 |
| | 4,471,282 | 6,877,516 |
| **Intangible assets** (note 4) | 92,151,695 | 46,699,990 |
| | 96,622,977 | 53,577,506 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | 430,038 | 305,867 |
| Amounts due to related parties (note 7) | 4,041,234 | 6,780,667 |
| | 4,471,272 | 7,086,534 |
| **Partners' Interest** (note 5) | 92,151,705 | 46,490,972 |
| | 96,622,977 | 53,577,506 |

**Approved by the Directors of SIR GP**

(Signed) Stephen Dewis
Stephen Dewis, Director

(Signed) Norm Mayr
Norm Mayr, Director

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

# SIR Royalty Limited Partnership

Statements of Earnings and Comprehensive Income

**For the years ended December 31, 2022 and 2021**

| | Year ended December 31, 2022 $ | Year ended December 31, 2021 $ |
|---|---|---|
| **Revenues** | | |
| Royalty income (notes 1 and 7) | 14,440,939 | 8,216,223 |
| Other income | - | 68,463 |
| Administration fee (note 7) | 24,000 | 24,000 |
| | 14,464,939 | 8,308,686 |
| **Expenses** | | |
| General and administrative | 130,405 | 172,454 |
| Recovery of impairment on SIR Rights and financial assets (notes 4 and 7) | (55,973,127) | (99,193) |
| **Net earnings and comprehensive income for the year** | 70,307,661 | 8,235,425 |

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

# SIR Royalty Limited Partnership

Statements of Partners' Interest

**For the years ended December 31, 2022 and 2021**

| | Number of units (note 5) | Balance - January 1, 2022 $ | Units (returned) issued $ (note 5) | Net Earnings for the year $ | Distributions declared $ | Balance – December 31, 2022 $ |
|---|---|---|---|---|---|---|
| Ordinary LP units | 5,356,667 | - | - | 13,512,502 | (5,878,932) | 7,633,570 |
| Class A LP units | 3,018,900 | 6,490,912 | - | 26,449,339 | (4,956,876) | 27,983,375 |
| Ordinary GP units | 100 | 50 | - | 21 | (60) | 11 |
| Class A GP units | 1,291,618 | - | (8,773,843) | 27,345,796 | (2,037,205) | 16,534,748 |
| Class B GP units | 96,284,667 | 10 | - | 3 | (12) | 1 |
| Class C GP units | 4,000,000 | 40,000,000 | - | 3,000,000 | (3,000,000) | 40,000,000 |
| | | 46,490,972 | (8,773,843) | 70,307,661 | (15,873,085) | 92,151,705 |

| | Number of units (note 5) | Balance - January 1, 2021 $ | Units (returned) issued $ (note 5) | Net earnings for the year $ | Distributions declared $ | Balance – December 31, 2021 $ |
|---|---|---|---|---|---|---|
| Ordinary LP units | 5,356,667 | - | - | 1,334,655 | (1,334,655) | - |
| Class A LP units | 3,018,900 | 6,490,912 | - | 2,381,823 | (2,381,823) | 6,490,912 |
| Ordinary GP units | 100 | 50 | - | 60 | (60) | 50 |
| Class A GP units | 1,971,552 | - | - | 1,518,875 | (1,518,875) | - |
| Class B GP units | 95,604,733 | 10 | - | 12 | (12) | 10 |
| Class C GP units | 4,000,000 | 40,000,000 | - | 3,000,000 | (3,000,000) | 40,000,000 |
| | | 46,490,972 | - | 8,235,425 | (8,235,425) | 46,490,972 |

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

# SIR Royalty Limited Partnership

Statements of Cash Flows

**For the years ended December 31, 2022 and 2021**

| | Year ended December 31, 2022 $ | Year ended December 31, 2021 $ |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net earnings for the year | 70,307,661 | 8,235,425 |
| Adjustments for non-cash items | | |
| Net change in non-cash working capital items (note 10) | 4,352,425 | 346,199 |
| Recovery of impairment of SIR Rights and financial assets | (55,973,127) | (99,193) |
| | 18,686,959 | 8,482,431 |
| **Financing activities** | | |
| Distributions paid | (18,612,518) | (8,444,291) |
| **Change in cash during the year** | 74,441 | 38,140 |
| **Cash - Beginning of year** | 40,684 | 2,544 |
| **Cash - End of year** | 115,125 | 40,684 |

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

## 1 Nature of operations and seasonality

### Nature of operations

SIR Royalty Limited Partnership (the Partnership) is a limited partnership formed under the laws of the Province of Ontario, Canada.

On October 1, 2004, SIR Royalty Income Fund (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 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 address of the Partnership's registered office is 5360 South Service Road, Suite 200, Burlington, Ontario. The financial statements were approved by the Board of Directors of SIR GP Inc. on March 16, 2023.

### 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, royalty income recognized by the Partnership will vary in conjunction with the seasonality in revenues experienced by SIR.

### Coronavirus (COVID-19) pandemic

The COVID-19 pandemic had a negative impact on the global economic activity and consumer spending in Canada, including restaurant sales. All operational restrictions were lifted as of mid-March 2022 across provinces where SIR operates its restaurants, except for masking in the province of Quebec which was lifted in mid-May 2022.

SIR continued to receive government assistance through the now superseded Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") and the newly enacted Canada Recovery Hiring Program ("CRHP") including the additional stream of support via the Tourism and Hospitality Recovery Program ("THRP") as well as the Ontario Business Costs Rebate Program. For the 52-week period ended August 28, 2022, SIR recognized government assistance through the CEWS and CRHP/THRP programs of $12,347,000 (August 29, 2021 – CEWS program of $22,171,000), the CERS and CRHP/THRP programs of $2,102,000 (August 29, 2021 – CERS program of $4,974,000) and other government subsidies of $750,000 (August 29, 2021 - $4,202,000). Of these amounts, $14,674,000 (August 29, 2021 - $24,109,000) was recognized as a reduction to costs of corporate restaurant operations, $525,000 (August 29, 2021 - $3,256,000) was recognized as a reduction to corporate costs and $nil (August 29, 2021 - $3,982,000) was recognized as other expense (income).

## 2 Basis of presentation

The Partnership prepares its financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

## 3 Summary of significant accounting policies

The accounting policies applied in these financial statements are as follows:

**Basis of measurement**

The financial statements have been prepared under the historical cost convention.

**Use of estimates**

The preparation of these 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 financial statements. Actual results could differ materially from those estimates in the near term.

**Revenue recognition**

Revenues include Royalty income equal to 6% of revenue of SIR's restaurants in Canada that are subject to the Licence and Royalty Agreement and are recognized on an accrual basis.

**Financial instruments**

Financial assets and liabilities are recognized when the Partnership 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 Partnership has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the statement 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.

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 Partnership 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.

iii) 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 Partnership assesses whether there is objective evidence that a financial asset at amortized cost is impaired. If such evidence exists, the Partnership 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.

**Bank overdraft**

Bank overdraft arises when uncashed cheques issued exceed the cash balances and are an integral part of the Partnership's cash management policies. Accordingly, for the purpose of the statement of cash flows, bank overdraft is included in the movement of cash.

**Distributions**

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

**Intangible assets**

The SIR Rights are intangible assets with indefinite lives. In accordance with the requirements of International Accounting Standard (IAS) 38, Intangible Assets, the SIR Rights are an indefinite life intangible asset and are not amortized. 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 intangible assets is lower than the carrying value.

The Partnership evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

**Income taxes**

The Partnership is not required to pay tax on its earnings as its taxable income is allocated to the partners based on the provisions of the Partnership Agreement. The partners will be liable for income taxes, if any; accordingly, no provision for income taxes has been recorded in these financial statements.

## 4 Intangible assets

| | Year ended December 31, 2022 $ | Year ended December 31, 2021 $ |
|---|---|---|
| SIR Rights – Beginning of year | 46,699,990 | 46,699,990 |
| Adjustment to Royalty Pooled Restaurants | (8,773,843) | - |
| Reversal of provision for impairment | 54,225,548 | - |
| SIR Rights – End of year | 92,151,695 | 46,699,990 |

The Partnership reviews the SIR Rights for impairment or whether there is any indication that an impairment loss recognised in prior periods, for an asset other than goodwill, may no longer exist or may have decreased. If any such indication exists, the Partnership shall estimate the recoverable amount of the SIR Rights to determine whether the carrying amount of the assets may be adjusted. 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). A reversal of previous impairment losses is recognized when the recoverable amount of the SIR Rights is higher than the carrying value. In assessing the intangible assets for impairment at December 31, 2022 and December 31, 2021, 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 impairment reversal was a result of sustained and continued improvements to the revenue associated with the SIR Rights that were previously impaired.

A reversal of the previous impairments to the investment in the SIR Rights was recorded to bring the asset to its historical carrying value had the impairment loss not been recognized in prior years before any adjustments to the Royalty Pooled Restaurants. During the year ended December 31, 2022, the Partnership recognized a recovery of $54,225,548 (December 31, 2021 - $nil).

The key assumptions included the following:

| | As at December 31, 2022 | As at December 31, 2021 |
|---|---|---|
| Revenue growth rates | 2.0% to 12.0% | 0.0% to 3.0% |
| Terminal growth rate | 2.0% | 3.0% |
| Discount rate | 14.2% to 14.8% | 22.5% to 26.3% |

On January 1, 2023, two (January 1, 2022 – nil) new SIR Restaurants were added to Royalty Pooled Restaurants in accordance with the Partnership Agreement (Note 5). In addition, two (January 1, 2022 – five) permanently closed SIR Restaurants were removed from Royalty Pooled Restaurants. The adjustment to Royalty Pooled Restaurants was that SIR converted 90,958 Class A GP Units into Class B GP Units (January 1, 2022 – SIR converted 679,934 Class A GP Units into Class B GP Units) on January 1, 2023, increasing the value of the SIR Rights by $1,455,725 (January 1, 2022 - $8,100,078 reduction in value of the SIR Rights). The adjustments to Royalty Pooled Restaurants from January 1, 2021 and January 1, 2022, as a result of the reversal of the previous impairment to the SIR Rights, reduced the value of SIR Rights by $8,773,843.

## 5 Partners' interest

The authorized and issued capital of the Partnership consists of the following:

| | | As at December 31, 2022 | | As at December 31, 2021 | |
|---|---|---|---|---|---|
| Class | Authorized | Issued | Amount $ | Issued | Amount $ |
| Class A LP Units | Unlimited | 3,018,900 | 27,983,375 | 3,018,900 | 6,490,912 |
| Class C LP Units | Unlimited | - | - | - | - |
| Ordinary LP Units | Unlimited | 5,356,667 | 7,633,570 | 5,356,667 | - |
| Ordinary GP Units | Unlimited | 100 | 11 | 100 | 50 |
| Class A GP Units (note 3) | Unlimited | 1,291,618 | 16,534,748 | 1,971,552 | - |
| Class B GP Units (note 3) | Unlimited | 96,284,667 | 1 | 95,604,733 | 10 |
| Class C GP Units | Unlimited | 4,000,000 | 40,000,000 | 4,000,000 | 40,000,000 |
| | | | 92,151,705 | | 46,490,972 |

Generally, the Partnership units have no voting rights, except in certain specified conditions.

**Ordinary LP Units and Ordinary GP Units**

The holders of the Ordinary LP Units are entitled to receive a pro rata share of all residual distributions.

The Ordinary GP Units have the right to receive distributions of $5 per month in aggregate.

SIR GP Inc., a direct subsidiary of the Fund, holds 99 Ordinary GP Units and is the Managing General Partner. SIR holds the remaining Ordinary GP Unit and is the General Partner. The Fund and SIR have an 80% and 20% interest in the common shares of SIR GP Inc., respectively.

SIR Holdings Trust, a direct subsidiary of the Fund, holds all of the issued Ordinary LP Units.

**Class A GP Units, Class A LP Units and Class B GP Units**

The holders of the Class A GP Units are entitled to receive a pro rata share of all residual distributions and the Class A GP Units are exchangeable into units of the Fund. The holders of the Class A LP Units are entitled to receive a pro rata share of all residual distributions.

Class B GP Units are convertible into Class A GP Units based on a conversion formula defined in the Partnership Agreement for each new restaurant opened in the previous fiscal year. On dissolution of the Partnership, the Class B GP Units are entitled to receive $10 in aggregate.

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 would be returned by SIR if the actual revenues of the new SIR Restaurants are less than 80% of the initial estimated revenues. On January 1 of each year, SIR will reconvert the Class A GP Units received to Class B GP Units for the permanent closure of a SIR Restaurant.

In December of each year, an additional distribution will be payable to the Class B GP unitholders 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, 2023, two new SIR Restaurants were added (January 1, 2022 – nil) to Royalty Pooled Restaurants in accordance with the Partnership Agreement. There were no Second Incremental Adjustments on January 1, 2023 as no new SIR Restaurants were added to Royalty Pooled Restaurants on January 1, 2022 (January 1, 2021 – one). As consideration for the additional Royalty associated with the addition of two new SIR Restaurants added (January 1, 2022 – nil) to Royalty Pooled Restaurants on January 1, 2023, SIR converted its Class B GP Units into Class A GP Units based on the formulas 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 two (January 1, 2022 – five) SIR Restaurants during 2022. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 90,958 Class A GP Units into Class B GP Units (January 1, 2022 – 679,934) on January 1, 2023, increasing the value of the SIR rights by $1,455,725 (January 1, 2022 – reducing the value of the SIR rights by $8,100,078).

In addition, there were no conversion distributions effective in December 2022 as no new SIR Restaurants were added to Royalty Pooled Restaurants on January 1, 2022 (January 1, 2022 – revenues of one new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2021 were greater 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).

Effective January 1, 2023, SIR residual interest in the Partnership is 12.54%.

Class A GP Units and Class B GP Units are held by SIR. Class A LP Units are held by SIR Holdings Trust, a direct subsidiary of the Fund.

**Class C GP Units**

The holders of Class C GP Units are entitled to receive a cumulative preferential monthly cash distribution equal to $0.063 per Class C GP Unit held, payable on the dates that distributions are paid on the units of the Fund.

SIR's Lender approved the resumption of current payments of royalties and interest on the SIR Loan on July 7, 2021 and a framework to enable SIR to catch up on deferred payments of royalties to the Partnership and interest on the SIR Loan to the Fund by July 6, 2022 (note 9). Having met the conditions stipulated by SIR's Lender, SIR began its repayment of deferred royalties and interest on the SIR Loan effective September 15, 2021. Pursuant to the Eighth Amendment under SIR's Credit Agreement, these amounts were repaid over 10 monthly installments of $530,330 and $350,000, respectively, with the final payments made on June 15, 2022. As a result, the holders of Class C GP Units were entitled to receive an additional cumulative preferential monthly cash distribution equal to $0.087 per Class C GP Unit held, payable on the dates that distributions were paid on the units of the Fund.

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.

**Class C LP Units**

The Class C LP Units have similar attributes to the Class C GP Units.

## 6 Financial instruments

### Classification

As at December 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 December 31, 2022 $ | As at December 31, 2021 $ |
| Cash | Financial assets at amortized cost | 115,125 | 40,684 |
| Amounts due from related parties | Financial assets at amortized cost | 4,325,965 | 6,815,708 |
| Accounts payable and accrued liabilities | Financial liabilities at amortized cost | 430,038 | 305,867 |
| Amounts due to related parties | Financial liabilities at amortized cost | 4,041,234 | 6,780,667 |

### Carrying and fair value

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.

## 7 Related party balances and transactions

| | As at December 31, 2022 $ | As at December 31, 2021 $ |
|---|---|---|
| Royalties receivable from SIR Corp. | 1,669,483 | 2,510,871 |
| Advances receivable from SIR Corp. | - | 632,993 |
| | 1,669,483 | 3,143,864 |
| Advances receivable from the SIR Royalty Income Fund and its subsidiaries | 2,656,482 | 3,671,844 |
| Amounts due from related parties | 4,325,965 | 6,815,708 |
| Distributions payable to SIR Corp. | 1,143,430 | 3,860,195 |
| Distributions payable to SIR Royalty Income Fund and its subsidiaries | 2,897,804 | 2,920,472 |
| Amounts due to related parties | 4,041,234 | 6,780,667 |

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

As at December 31, 2022, an impairment recovery of $1,747,579 (December 31, 2021 - $99,193) has been recorded on the royalties receivable from SIR, based on management's assessment of the SIR-specific risk.

A rate of approximately 7.5% was applied to the royalties receivable as at December 31, 2022:

| | As at December 31, 2022 $ |
|---|---|
| **SIR Corp.** | |
| Royalties receivable | 1,804,846 |
| Less: Provision for impairment | 135,363 |
| | 1,669,483 |

Impairment recovery on royalties receivable are presented as net impairment recovery within the Statement of Earnings and Comprehensive Income and within the net amounts due from related parties on the Statement of Financial Position.

During the year ended December 31, 2022, the Partnership earned royalty income of $14,440,939 from SIR (year ended December 31, 2021 - $8,216,223). The Partnership's royalty income is determined based on 6% of the revenues from certain SIR Restaurants subject to the Licence and Royalty Agreement between the Partnership and SIR. SIR makes 13 Royalty payments based on SIR's 13 four- or five-week period fiscal year and, as such, royalty payments can fluctuate depending on how the four- or five-week periods coincide with the Partnership's calendar fiscal year. 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 the conversion formula defined in the Partnership Agreement (note 4).

SIR began offering Renegade Chicken takeout and delivery services again on a trial basis as of January 27, 2022. The services were initially offered out of 21 Jack Astor's locations in Ontario, with two additional Jack Astor's locations added to the trial as of February 16, 2022. SIR has agreed to pay an amount equal to 6% of the revenues earned from the trial to the Partnership. The trial was initially scheduled to continue until March 31, 2022, at SIR's option. Effective March 29, 2022, SIR opted to extend the trial until August 28, 2022, but it has reduced the number of Jack Astor's locations supporting the trial to eight locations. On August 29, 2022 and on December 15, 2022, respectively, the Trustees of the Fund approved a further extensions of the trial, under the existing terms, until December 31, 2022 and December 31, 2023, respectively. In exchange, SIR will continue to pay 6% of the revenues arising therefrom to the Partnership. The Renegade Chicken brand offers a variety of fried chicken sandwiches, fingers and wings, paired with freshly cut in-house fries, and is capitalizing on the emergence of fried chicken growth brands in the fast casual dining space.

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, 2022, the Partnership provided these services to the Fund and the Trust for consideration of $24,000 (year ended December 31, 2021 - $24,000), which was the amount of consideration agreed to by the related parties

## 8 Capital management

The Partnership's issued capital consists of Class A LP Units, Ordinary LP Units, Ordinary GP Units, Class A GP Units, Class B GP Units and Class C GP Units. The objectives in managing the capital are to safeguard the Partnership's ability to continue as a going concern and to administer the affairs of the Fund, subject to the terms of the Partnership Agreement and the Licence and Royalty Agreement. There are no restrictions in these agreements with respect to the issuance of additional units or debt. The Partnership has no third party debt or bank lines of credit. The Partnership had no capital expenditures during the year ended December 31, 2022 and, by its nature, is not expected to have significant capital expenditures in the future.

SIR has a Credit Agreement, which requires the Partnership and the Fund to subordinate and postpone their claims against SIR to the claims of the bank if a default or event of default were to occur (Note 9).

## 9 Economic dependence

The Partnership earns substantially all of its revenues from SIR; accordingly, the Partnership is economically dependent on SIR.

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 21, 2020, March 31, 2021, May 31, 2021 and June 16, 2022 with a Schedule I Canadian chartered bank (the Lender). The Credit Agreement between SIR and the Lender provides for a maximum principal amount of $45,032,000 consisting of $20,000,000 revolving term credit facility (Credit Facility 1), a $12,995,000 revolving term loan (Credit Facility 2), a $6,250,000 guaranteed facility with Economic Development Canada ("EDC") through the guaranteed Business Credit Availability Program ("BCAP") (EDC-Guaranteed Facility) and a $5,787,000 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, including capital spending on new and renovated restaurants, 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, 2023. 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. As at August 28, 2022, Credit Facility 1 was undrawn.

Credit Facility 2 bears interest at the prime rate plus 3.25% and/or the bankers' acceptance rate plus 4.25%. Each advance under Credit Facility 2 is repayable in equal quarterly instalments based on a seven year amortization, with the remaining outstanding balance due on July 6, 2023.

As at August 28, 2022, the Company had drawn $7,530,000 on Credit Facility 1 and Credit Facility 2, net of cash excluding the cash balance of the Partnership (August 29, 2021 - $9,877,000).

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 y a further 12 months beyond the current expiration date of July 6, 2023. A standby fee of 0.90% is charged on the undrawn balance of this facility. For the 52-week period ended August 28, 2022, SIR had drawn $6,250,000 on this facility.

The BDC-Guaranteed Facility is a 10-year revolving term credit facility, with one year principal payment moratorium, bearing a fixed rate interest of 4%. The moratorium has elapsed and SIR has commenced repayment on this facility. For the 52-week period ended August 28, 2022, SIR repaid $289,000 and drew $5,961,000 on this facility. The facility was also extended until July 6, 2023.

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 any 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 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 until the filing of the most recent Ninth Amending Agreement.

On June 16, 2022, SIR and its Lender entered into the Ninth Amending Agreement ("Ninth Amendment") to its Credit Agreement. The Agreement provides for the following:

- extension of the Maturity Date from July 6, 2022 to July 6, 2023 of Credit Facilities 1 and 2,
- the Cumulative Minimum EBITDA financial covenant has been replaced by the two original, pre-pandemic financial covenants in the Credit Agreement, which are the Fixed Charge Coverage Ratio and the Senior Leverage Ratio, and
- extension of the $6.25 million guaranteed facility with Export Development Canada ("EDC") through the guaranteed Business Credit Availability Program ("BCAP") ("EDC-Guaranteed Facility") to the Maturity Date of the Credit Agreement – the EDC-Guaranteed Facility can be extended at the Lender's sole discretion by a further 12 months.

This extension is intended to address SIR's financial requirements, at least until the Maturity Date of July 6, 2023. There can be no assurance that borrowings will be available to SIR, or available on acceptable terms, beyond the Maturity Date, in an amount sufficient to fund SIR's needs.

On June 16, 2022, as part of the Ninth Amendment, the Fund and the Partnership entered into an acknowledgement agreement with the Lender acknowledging, among other things:

- receipt of a copy of the Ninth Amendment, and
- that none of: entering the agreement, borrowing under the agreement, or performing any if 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 the Company.

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.

## 10 Net change in non-cash working capital items

| | Year ended December 31, 2022 $ | Year ended December 31, 2021 $ |
|---|---|---|
| Prepaid expenses and other assets | (9,068) | 654 |
| Amounts due from related parties | 4,237,322 | 155,520 |
| Accounts payable and accrued liabilities | 124,171 | 190,025 |
| | 4,352,425 | 346,199 |